

Investments

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

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

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

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

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

Investments

(€ million)	31/12/2018		31/12/2017	
	Total Book value	Impact (%)	Total Book value	Impact (%)
Equity instruments	19,807	5.7%	18,403	4.6%
Available for sale financial assets	18,171	5.2%	16,735	4.2%
Financial assets at fair value through profit or loss	1,636	0.5%	1,668	0.4%
Fixed income instruments	299,736	85.6%	347,834	87.1%
Bonds	271,448	77.5%	317,484	79.5%
Other fixed income instruments	28,288	8.1%	30,350	7.6%
Held to maturity investments	2,171	0.6%	2,267	0.6%
Loans	27,996	8.0%	36,543	9.2%
Available for sale financial assets	263,391	75.2%	301,264	75.5%
Financial assets at fair value through profit or loss	6,178	1.8%	7,759	1.9%
Real estate investments	15,258	4.4%	15,018	3.8%
Other investments	4,290	1.2%	4,487	1.1%
Investments in subsidiaries, associated companies and joint ventures	1,320	0.4%	1,171	0.3%
Derivatives	593	0.2%	1,043	0.3%
Receivables from banks or customers	1,673	0.5%	1,561	0.4%
Other investments	704	0.2%	711	0.2%
Cash and similar instruments	11,114	3.2%	13,390	3.4%
Total	350,205	100.0%	399,130	100.0%
Investments back to unit and index-linked policies	65,789		75,372	
Total investments	415,994		474,502	

7 Held to maturity investments

Held to maturity investments

(€ million)	31/12/2018	31/12/2017
Quoted bonds	2,171	2,267
Other held to maturity investments	0	0
Total	2,171	2,267

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

Debt securities in this category are almost entirely investment grade.

The fair value of the held to maturity investments amounted to € 2.202 million.

8 Loans and receivables

Loans and receivables

(€ million)	31/12/2018	31/12/2017
Loans	30,142	38,701
Unquoted bonds	16,564	24,189
Deposits under reinsurance business accepted	734	766
Other loans and receivables	12,845	13,746
Mortgage loans	5,692	6,600
Policy loans	1,868	2,186
Term deposits with credit institutions	914	785
Other loans	4,371	4,175
Receivables from banks or customers	1,673	1,561
Receivables from banks	212	174
Receivables from customers	1,460	1,387
Total	31,815	40,262

This category mainly consisted of unquoted bonds and mortgage loans, which represent 55% and 18.9% of total loans, respectively. Debt securities, mainly of long-term average, account for more than 92% represented by fixed-rate securities.

The decline was mainly due to change in perimeter in particular with reference to the activities in Germany, amounting to € 7,093 million, and to maturities and sales made during the year, showing in particular a decrease in corporate bonds.

The debt securities of this category are almost entirely investment grade and more than 59% of the class boasts a rating greater or equal to A.

Receivables from banks or customers are mainly short-term.

The fair value of total loans and receivables amounted to € 34,146 million, of which € 18,521 million related to bonds.

9 Available for sale financial assets

Available for sale financial assets

(€ million)	31/12/2018	31/12/2017
Unquoted equities at cost	13	13
Equities at fair value	10,366	10,051
quoted	8,521	7,794
unquoted	1,844	2,256
Bonds	249,315	286,293
quoted	246,866	283,121
unquoted	2,449	3,172
Investment fund units	22,830	20,205
Other available for sale financial assets	1,249	4,080
Total	283,773	320,641

This category accounted for 68.2% of the total investments. The decrease compared 31 December 2017 was mainly attributable to change in perimeter for € 36.590 million, with reference mainly to the activities in Germany and Belgium, and to decline in value of both bonds and equities, almost entirely offset by net acquisitions of the period.

The item Available for sale assets consists of bonds for 87.9%, of which with a rating higher or equal to BBB, class assigned to the Italian government bonds.

As already mentioned, available for sale financial assets are measured at fair value and unrealized gains and losses on these assets are accounted for in shareholders' equity in an appropriate reserve. The amortized cost of the available for sale financial assets amounted to € 268,319 million.

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

Available for sale financial assets - unrealised gains and losses 31/12/2018

(€ million)	Fair value	Unrealized gains / losses	Amortized cost
Unquoted equities at cost	13	0	13
Equities at fair value	10,366	171	10,195
Bonds	249,315	14,254	235,061
Investment fund units	22,830	851	21,979
Other available for sale financial assets	1,249	178	1,071
Total	283,773	15,454	268,319

Available for sale financial assets - unrealised gains and losses 31/12/2017

(€ million)	Fair value	Unrealized gains / losses	Amortized cost
Unquoted equities at cost	13	0	13
Equities at fair value	10,051	1,469	8,581
Bonds	286,293	26,810	259,483
Investment fund units	20,205	1,068	19,137
Other available for sale financial assets	4,080	713	3,367
Total	320,641	30,061	290,581

Available for sale financial assets: gains and losses at profit or loss 31/12/2018

(€ million)	Realized gains	Realized losses	Net impairment losses
Equities	738	-245	-805
Bonds	919	-201	-25
Investment fund units	293	-194	-390
Other available for sale financial assets	41	-14	-9
Total	1,990	-654	-1,229

Available for sale financial assets: gains and losses at profit or loss 31/12/2017

(€ million)	Realized gains	Realized losses	Net impairment losses
Equities	445	-131	-70
Bonds	1,283	-197	-214
Investment fund units	280	-112	-90
Other available for sale financial assets	18	-55	-25
Total	2,026	-495	-398

10 Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss

(€ million)	Financial assets held for trading		Financial assets designated as at fair value through profit or loss		Total financial assets at fair value through profit or loss	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Equities	0	1	87	87	87	88
Quoted	0	1	44	41	45	42
Unquoted	0	0	43	46	43	46
Bonds	34	50	3,364	4,685	3,398	4,735
Quoted	32	48	2,627	3,555	2,660	3,603
Unquoted	2	2	737	1,130	739	1,132
Investment fund units	0	0	8,457	11,294	8,457	11,294
Derivatives	1,261	1,910	0	0	1,261	1,910
Hedging derivatives	0	0	363	355	363	355
Investments back to policies where the investment risk is borne by the policyholders and back to pension funds	0	0	65,789	75,372	65,789	75,372
Other financial investments	0	0	144	144	144	144
Total	1,295	1,961	78,204	91,937	79,500	93,897

This category accounted for 19.1% of total investments. In detail, these investments were mainly allocated in the life segment (€ 78,187 million, which accounted for 98.3% of this category) whereas the residual part referred to the non-life segment (€ 956 million which accounted for 1.2% of this category).

The decrease compared to 31 December 2017 was mainly due to change in perimeter for € 10,183 million with reference mainly to the activities in Germany and Guernsey, and to decline in value only partially offset by net acquisitions of the period.

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

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

(€ million)	Policies where the investment risk is borne by the policyholders		Pension funds		Total	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Assets	64,103	73,643	1,686	1,729	65,789	75,372
Total assets	64,103	73,643	1,686	1,729	65,789	75,372
Financial liabilities	1,515	6,094	1,239	1,266	2,754	7,360
Insurance provisions (*)	63,146	67,994	0	0	63,146	67,994
Total liabilities	64,662	74,088	1,239	1,266	65,900	75,354

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

The item 'Financial liabilities' decreased compared to 31 December 2017 due to the change in perimeter mainly with reference to activities in Guernsey and, to a lesser extent, in Belgium.

11 Land and buildings (investment properties)

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

Investment properties

(in milioni euro)	31/12/2018	31/12/2017
Gross book value as at 31 December previous year	15,509	15,074
Accumulated depreciation and impairment as at 31 December previous year	-2,516	-2,490
Carrying amount as at 31 December previous year	12,993	12,584
Foreign currency translation effects	31	-94
Acquisition of the period	2,341	613
Capitalized expenses	100	81
Changes in consolidation scope	-1,008	33
Reclassifications	118	233
Sales of the period	-757	-300
Depreciation of the period	-177	-184
Impairment loss of the period	-19	-27
Reversal of impairment of the period	26	54
Carrying amount as at the end of the period	13,650	12,993
Accumulated depreciation and impairment as at the end of the period	2,149	2,516
Gross book value as at the end of the period	15,799	15,509
Fair value	20,631	19,763

Fair value of land and buildings (investment properties) at the end of the reporting period is mainly based on external appraisals.

12 Cash and cash equivalents

Cash and cash equivalents

(€ million)	31/12/2018	31/12/2017
Cash and cash equivalents	115	113
Cash and balances with central banks	1,029	593
Cash at bank and short-term securities	5,553	6,143
Total	6,697	6,849

Details on investments

Bonds

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

Bonds: breakdown by rating

(€ million)	Available for sale fin. assets	Financial assets at fair value through profit	Held to maturity investments	Loans	Total
AAA	14,828	18	15	3,961	18,822
AA	60,366	201	311	3,405	64,283
A	53,316	2,103	693	2,374	58,486
BBB	112,300	660	1,015	6,258	120,232
Non investment grade	7,736	390	131	331	8,588
Not Rated	769	26	5	234	1,035
Total	249,315	3,398	2,171	16,564	271,448

Bonds: breakdown by maturity

(€ million)	Available for sale financial assets	Financial assets at fair value through profit or loss	Held to maturity investments	Loans	Total
Until 1 year	10,086	268	183	1,421	11,957
From 1 to 5 years	58,317	639	787	4,822	64,565
From 5 to 10 years	76,938	565	741	3,986	82,230
More than 10 years	102,426	1,890	460	6,332	111,107
Perpetual	1,549	37		2	1,588
Total	249,315	3,398	2,171	16,564	271,448

The incidence of maturities of debt securities by asset classes remains substantially in line with that of the previous year.

Bond investments totalled € 271,448 million at the end of the period. The portfolio was composed for € 159,431 million by government bonds, while corporate bonds amounted to € 112,017 million.

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

Government bonds: breakdown by country

(€ million)	31/12/2018	
	Total book value	Impact (%)
Government bonds	159,431	
Italy	58,736	36.8%
France	31,846	20.0%
Germany	3,716	2.3%
Central and Eastern Europe	17,987	11.3%
Rest of Europe	34,981	21.9%
Spain	17,199	10.8%
Austria	3,180	2.0%
Belgium	6,316	4.0%
Others	8,286	5.2%
Rest of world	3,974	2.5%
Supranational	8,191	5.1%

The government bonds portfolio amounted to € 159,431 million at the end of the period, with the 59.1% of the portfolio represented by Italian, French and German debt

instruments. The exposure to individual sovereign bonds is mainly allocated to their respective countries of operation.

Government bonds: detail by rating

(€ million)	31/12/2018		31/12/2017	
	Total book value	Impact (%)	Total book value	Impact (%)
Government bonds	159,431		180,905	
AAA	8,835	5.5%	13,238	7.3%
AA	52,414	32.9%	59,632	33.0%
A	30,123	18.9%	21,130	11.7%
BBB	66,518	41.7%	85,267	47.1%
Not investment grade	1,487	0.9%	1,521	0.8%
Not rated	55	0.0%	117	0.1%

In terms of exposure to different rating classes, the Class AAA credit rating includes German, Dutch and some supranational issuances. Class AA includes French, Bel-

gian, Czech and Austrian government bonds while the class BBB mainly includes Italian bonds.

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

Corporate bonds: breakdown by sector

(€ million)	31/12/2018	
	Total book value	Impact (%)
Corporate bonds	112,017	
Financial	26,045	23.3%
Covered Bonds	17,497	15.6%
Utilities	17,910	16.0%
Industrial	9,895	8.8%
Consumer	9,302	8.3%
Telecommunication services	8,918	8.0%
Energy	4,980	4.4%
Other	17,471	15.6%

Corporate bonds: breakdown by rating

(€ million)	31/12/2018		31/12/2017	
	Total book value	Impact (%)	Total book value	Impact (%)
Corporate bonds	112,017		136,579	
AAA	9,987	8.9%	13,357	9.8%
AA	11,869	10.6%	15,266	11.2%
A	28,364	25.3%	39,026	28.6%
BBB	53,715	48.0%	57,522	42.1%
Non investment grade	7,101	6.3%	10,194	7.5%
Not Rated	980	0.9%	1,213	0.9%

The investments in corporate bonds totalled € 112,017 million at the end of the period. The portfolio was composed for 61.1% by non-financial corporate bonds and for 38.9% by financial corporate bonds.

Equities

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

Equity investments: breakdown by sector

(€ million)	31/12/2018	
	Total fair value	Impact (%)
Equity instruments	19,807	
Financial	3,222	16.3%
Consumer	1,369	6.9%
Utilities	1,351	6.8%
Industrial	1,080	5.5%
Other	3,444	17.4%
Alternative investments	5,584	28.2%
Asset allocation funds	3,758	19.0%

Direct equity investments: breakdown by country of risk

(€ million)	31/12/2018	
	Total fair value	Impact (%)
Direct equity investments	10,466	
Italy	1,209	11.6%
France	3,458	33.0%
Germany	1,811	17.3%
Central and Eastern Europe	311	3.0%
Rest of Europe	2,997	28.6%
Spain	651	6.2%
Austria	197	1.9%
Switzerland	121	1.2%
The Netherlands	724	6.9%
United Kingdom	443	4.2%
Others	861	8.2%
Rest of world	679	6.5%

Real estate investments

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

Direct real estate investments: breakdown by country of location

(€ million)	31/12/2018		31/12/2018	
	Investment properties		Self-used real estates	
	Total fair value	Impact (%)	Total fair value	Impact (%)
Direct Real-estate investments	20,631		3,349	
Italy	5,577	27.0%	1,835	54.8%
France	7,801	37.8%	383	11.4%
Germany	1,880	9.1%	698	20.8%
Central and Eastern Europe	782	3.8%	84	2.5%
Rest of Europe	4,441	21.5%	226	6.8%
Spain	899	4.4%	77	2.3%
Austria	1,692	8.2%	120	3.6%
Switzerland	1,211	5.9%	4	0.1%
Others	639	3.1%	24	0.7%
Rest of world	150	0.7%	123	3.7%

Further information on reclassified financial instruments

As of 1st January 2009 the Group transferred to the loans and receivables category € 14,658 million of corporate bonds, according to the IAS 39 reclassification option. At 31 December 2018, after sales and pay backs made up till the balance sheet date, the stock of these reclassified financial instruments amounted to € 1,360 million.

Assets transferred that do not qualify for derecognition

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

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

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

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

As at 31 December 2018, the Group has retained substantially all risks and rewards arising from the ownership of the transferred assets and there are no transfers of financial assets which have been completely or partially derecognised on which the Group continues to control. In particular, the Group continues to recognize, in terms of market value, approximately € 12,058 million of financial assets linked to various contracts such as, securities lending transactions, mainly in France for € 6,969 million, repurchase agreements for € 2,331 and assets pledged as collateral for € 2,758 million (please refer to the paragraph Contingent liabilities, commitments, guarantees, pledged assets and collaterals in section Additional Information).

Derivative financial instruments

The Group's balance sheet exposure to derivative instruments is mainly associated with economic hedging transactions of financial assets or liabilities, in line with strategies aiming at mitigating financial and currency risks. The total exposure amounts to € 409 million for a corresponding notional amount of € 39,430 million. The notional exposure is presented in absolute amounts, including positions with both positive and negative balances, and it arises for an amount of € 8,172 million from instruments for which a hedge accounting relationship has been formally designated, in accordance with the international accounting standard IAS 39. The remaining notional amount is attributable to derivative instruments for which, notwithstanding their purpose as economic hedging instruments, a formal hedge accounting relationship has not been activated.

Derivative instruments designated for hedge accounting

The exposure in terms of amounts recognised in the financial statements amounts to € -185 million.

– Fair value hedge

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

– Cash flow hedge

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

– Hedge of net investment in foreign operations

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

Other derivative instruments

The recognised amounts in the financial statements for these exposures at 31 December 2018 amounted to € 593 million for a corresponding notional amount of € 31,257 million, which mainly relates to over-the-counter positions. The exposure is mainly associated with operations relating to interest rates hedges and foreign exchange rates hedges. Furthermore the Group undertakes macro hedge strategies aimed at protecting the capital and the income statement from the risk of a significant reduction in share prices.

In general, in order to mitigate the credit risk arising from over-the-counter transactions, the Group collateralises most of them. Furthermore, a list of selected authorised counterparties is identified for the opening of new derivative transactions.

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

Details on exposure in derivative instruments

(€ million)	Maturity distribution by nominal amount			Total notional	Positive fair value	Negative fair value	Net fair value
	Within 1 year	Between 1 and 5 years	More than 5 years				
Total equity/index contracts	2,241	131	0	2,372	207	-14	193
Total interest rate contracts	1,202	14,500	9,938	25,639	1,192	-598	594
Total foreign exchange contracts	6,797	1,431	3,189	11,418	226	-604	-379
Total	10,240	16,062	13,128	39,430	1,625	-1,216	409

Sensitivity analysis to market and credit risks

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