

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 excluded, 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)	31/12/2017		31/12/2016	
	Total Book value	Impact (%)	Total Book value	Impact (%)
Equity instruments	18,403	4.6%	17,701	4.5%
Available for sale financial assets	16,735	4.2%	15,942	4.0%
Financial assets at fair value through profit or loss	1,668	0.4%	1,758	0.4%
Fixed income instruments	347,834	87.1%	348,729	88.1%
Bonds	317,484	79.5%	317,427	80.2%
Other fixed income instruments	30,350	7.6%	31,302	7.9%
Held to maturity investments	2,267	0.6%	2,168	0.5%
Loans	36,543	9.2%	42,090	10.6%
Available for sale financial assets	301,264	75.5%	294,951	74.5%
Financial assets at fair value through profit or loss	7,759	1.9%	9,520	2.4%
Real estate investments	15,018	3.8%	14,489	3.7%
Other investments	4,487	1.1%	3,735	0.9%
Investments in subsidiaries, associated companies and joint ventures	1,171	0.3%	1,194	0.3%
Derivatives	1,043	0.3%	197	0.0%
Receivables from banks or customers	1,561	0.4%	1,703	0.4%
Other investments	711	0.2%	640	0.2%
Cash and similar instruments	13,390	3.4%	11,099	2.8%
Total	399,130	100.0%	395,752	100.0%
Investments back to unit and index-linked policies	75,372		78,317	
Total investments	474,502		474,069	

7 Held to maturity investments

Held to maturity investments

(€ million)	31/12/2017	31/12/2016
Quoted bonds	2,267	2,168
Other held to maturity investments	0	0
Total	2,267	2,168

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 € 2,319 million.

8 Loans and receivables

Loans and receivables

(€ million)	31/12/2017	31/12/2016
Loans	38,701	42,475
Unquoted bonds	24,189	28,850
Deposits under reinsurance business accepted	766	782
Other loans and receivables	13,746	12,843
Mortgage loans	6,600	6,548
Policy loans	2,186	2,458
Term deposits with credit institutions	785	1,215
Other loans	4,175	2,622
Receivables from banks or customers	1,561	1,703
Receivables from banks	174	223
Receivables from customers	1,387	1,480
Total	40,262	44,178

This category mainly consisted of unquoted bonds and mortgage loans, which represent 62.5% and 17.1% 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 net sales made during the year, in particular a decrease in debt securities was only partially offset by reverse repurchase agreements whose increase is the result of the hedging operations on foreign exchange risk exposure carried out by some Group entities.

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

Receivables from banks or customers are mainly short-term.

The fair value of total loans amounted to € 44,340 million, of which € 27,842 million related to bonds.

9 Available for sale financial assets

Available for sale financial assets

(€ million)	31/12/2017	31/12/2016
Unquoted equities at cost	13	43
Equities at fair value	10,051	9,149
quoted	7,794	6,676
unquoted	2,256	2,473
Bonds	286,293	280,903
quoted	283,121	277,617
unquoted	3,172	3,287
Investment fund units	20,205	20,409
Other available for sale financial assets	4,080	3,429
Total	320,641	313,933

This category accounted for 67.6% of the total investments. The increase compared 31 December 2016 was mainly attributable to net acquisition in the period, particularly of government bonds, only partially offset by the decline in value of the bond securities and by the change in perimeter.

The item Available for sale assets includes, in particular, 90.2% of total bonds with a rating higher or equal to BBB, class assigned to the Italian government bonds.

As already mentioned, available for sale financial assets are measured at fair value and unrealized gains and losses on these assets are accounted for in shareholders' equity in an appropriate reserve. The amortized cost of the available for sale financial assets amounted to € 290,581 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 31/12/2017

(€ 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 - unrealised gains and losses 31/12/2016

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

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

(€ million)	Realized gains	Realized losses	Net impairment losses
Equities	448	-131	-71
Bonds	1,569	-247	-214
Investment fund units	349	-113	-93
Other available for sale financial assets	18	-55	-25
Total	2,385	-546	-402

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

(€ million)	Realized gains	Realized losses	Net impairment losses
Equities	541	-194	-457
Bonds	1,285	-156	-379
Investment fund units	232	-68	-192
Other available for sale financial assets	29	-6	-71
Total	2,088	-424	-1,099

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	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Equities	1	6	87	51	88	57
Quoted	1	6	41	14	42	19
Unquoted	0	0	46	37	46	37
Bonds	50	38	4,685	5,467	4,735	5,505
Quoted	48	34	3,555	4,271	3,603	4,306
Unquoted	2	3	1,130	1,196	1,132	1,199
Investment fund units	0	2	11,294	9,109	11,294	9,111
Derivatives	1,910	1,444	0	0	1,910	1,444
Hedging derivatives	0	0	355	367	355	367
Investments back to policies where the investment risk is borne by the policyholders and back to pension funds	0	0	75,372	78,317	75,372	78,317
Other financial investments	0	0	144	314	144	314
Total	1,961	1,489	91,937	93,625	93,897	95,114

This category accounted for 19.8% of total investments. In detail, these investments were mainly allocated in the life segment (€ 92,319 million, which accounted for 98.3% of this category) whereas the residual part referred to the non-life segment (€ 1,070 million which accounted for 1.1% of this category) and in the financial segment (€ 508 million, which accounted for 0.5% of this category).

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

The decrease compared to 31 December 2016 was mainly due to change in perimeter, only partially offset from the positive inflow of policies where the investment risk is borne by the policyholders as well as from the positive trend of the financial market.

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	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Assets	73,643	76,614	1,729	1,703	75,372	78,317
Total assets	73,643	76,614	1,729	1,703	75,372	78,317
Financial liabilities	6,094	16,220	1,266	1,184	7,360	17,404
Insurance provisions (*)	67,994	60,616	0	40	67,994	60,657
Total liabilities	74,088	76,837	1,266	1,224	75,354	78,061

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

The item 'Financial liabilities' decreased compared to 31 December 2016 due to the change in perimeter.

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

(€ million)	31/12/2017	31/12/2016
Gross book value as at 31 December previous year	15,074	14,366
Accumulated depreciation and impairment as at 31 December previous year	-2,490	-2,254
Carrying amount as at 31 December previous year	12,584	12,112
Foreign currency translation effects	-94	-16
Acquisition of the period	613	426
Capitalized expenses	81	57
Changes in consolidation scope	33	261
Reclassifications	233	163
Sales of the period	-300	-292
Depreciation of the period	-184	-173
Impairment loss of the period	-27	-46
Reversal of impairment of the period	54	93
Carrying amount as at the end of the period	12,993	12,584
Accumulated depreciation and impairment as at the end of the period	2,516	2,490
Gross book value as at the end of the period	15,509	15,074
Fair value	19,763	18,522

If 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)	31/12/2017	31/12/2016
Cash and cash equivalents	113	649
Cash and balances with central banks	593	606
Cash at bank and short-term securities	6,143	6,279
Total	6,849	7,533

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 financial assets	Financial assets at fair value through profit	Held to maturity investments	Loans	Total
AAA	20,051	323	45	6,174	26,594
AA	68,597	462	292	5,549	74,899
A	55,048	841	707	3,561	60,156
BBB	131,386	2,456	1,120	7,827	142,789
Non investment grade	10,490	559	99	566	11,715
Not Rated	720	94	5	512	1,330
Total	286,293	4,735	2,267	24,189	317,484

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	7,769	411	203	2,249	10,632
From 1 to 5 years	61,497	1,233	823	6,198	69,751
From 5 to 10 years	86,780	646	876	6,154	94,456
More than 10 years	128,539	2,400	365	9,540	140,844
Perpetual	1,709	45	0	48	1,801
Total	286,293	4,735	2,267	24,189	317,484

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

Bond investments totalled € 317,484 million at the end of the period. The portfolio was composed for € 180,905 million by government bonds, while corporate bonds amounted to € 136,579 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

Government bonds (€ million)	31/12/2017	
	Total book value	Impact (%)
Government bonds	180,905	
Italy	64,250	35.5%
France	35,364	19.5%
Germany	4,880	2.7%
Central and Eastern Europe	19,950	11.0%
Rest of Europe	37,677	20.8%
Spain	15,172	8.4%
Austria	4,646	2.6%
Belgium	9,371	5.2%
Others	8,487	4.7%
Rest of world	4,667	2.6%
Supranational	14,117	7.8%

The government bonds portfolio amounted to € 180,905 million at the end of the period, with the 57.7% of the portfolio represented by Italian, French and German debt instruments. The exposure to individual sovereign bonds is mainly allocated to their respective countries of operation.

Government bonds: breakdown by rating

Government bonds (€ million)	31/12/2017		31/12/2016	
	Total book value	Impact (%)	Total book value	Impact (%)
Government bonds	180,905		174,364	
AAA	13,238	7.3%	17,471	10.0%
AA	59,632	33.0%	54,372	31.2%
A	21,130	11.7%	15,651	9.0%
BBB	85,267	47.1%	84,794	48.6%
Not investment grade	1,521	0.8%	2,016	1.2%
Not rated	117	0.1%	60	0.0%

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

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

Corporate bonds: breakdown by sector

(€ million)	31/12/2017	
	Total book value	Impact (%)
Corporate bonds	136,579	
Financial	33,561	24.6%
Covered Bonds	24,354	17.8%
Utilities	21,022	15.4%
Industrial	11,437	8.4%
Consumer	12,927	9.5%
Telecommunication services	8,507	6.2%
Energy	6,059	4.4%
Other	18,712	13.7%

Corporate bonds: breakdown by rating

(€ million)	31/12/2017		31/12/2016	
	Total book value	Impact (%)	Total book value	Impact (%)
Corporate bonds	136,579		143,063	
AAA	13,357	9.8%	14,832	10.4%
AA	15,266	11.2%	15,831	11.1%
A	39,026	28.6%	41,459	29.0%
BBB	57,523	42.1%	56,835	39.7%
Non investment grade	10,194	7.5%	12,295	8.6%
Not Rated	1,213	0.9%	1,810	1.3%

The investments in corporate bonds totalled € 136,579 million at the end of the period. The portfolio was composed for 57.6% by non-financial corporate bonds and for 42.4% 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)	31/12/2017	
	Total fair value	Impact (%)
Equity instruments	18,403	
Financial	3,391	18.4%
Consumer	1,316	7.2%
Utilities	1,442	7.8%
Industrial	1,013	5.5%
Other	2,989	16.2%
Alternative investments	4,243	23.1%
Asset allocation funds	4,009	21.8%

Direct equity investments: breakdown by country of risk

(€ million)	31/12/2017	
	Total fair value	Impact (%)
Direct equity investments	10,151	
Italy	1,818	17.9%
France	2,985	29.4%
Germany	1,594	15.7%
Central and Eastern Europe	324	3.2%
Rest of Europe	2,493	24.6%
Spain	342	3.4%
Austria	184	1.8%
Switzerland	138	1.4%
The Netherlands	651	6.4%
United Kingdom	247	2.4%
Others	931	9.2%
Rest of world	937	9.2%

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)	31/12/2017		31/12/2017	
	Investment properties		Self-used real estates	
	Total fair value	Impact (%)	Total fair value	Impact (%)
Direct Real-estate investments	19,763		3,304	
Italy	5,378	27.2%	1,674	50.7%
France	6,225	31.5%	358	10.8%
Germany	3,199	16.2%	834	25.2%
Central and Eastern Europe	602	3.0%	78	2.4%
Rest of Europe	4,117	20.8%	244	7.4%
Spain	742	3.8%	85	2.6%
Austria	1,530	7.7%	130	3.9%
Switzerland	1,117	5.7%	4	0.1%
Others	728	3.7%	25	0.8%
Rest of world	242	1.2%	116	3.5%

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 2017, after sales and pay backs made up till the balance sheet date, the stock of these reclassified financial instruments amounted to € 1,238 million.

Given the limited amount of the reclassified financial assets - equal to 0.3% of the Group's total investments - and the consequent lack of materiality of the information in terms of impact on the Group's income statement and equity, the Group does not provide the detailed table and the related Annex published up to the financial statements as at 31 December 2016.

Assets transferred that do not qualify for derecognition

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

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

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

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

At 31 December 2017, the Group has retained substantially all risks and rewards arising from the ownership of the transferred assets and there are no transfers of financial assets which have been completely or partially derecognised on which the Group continues to control. In particular, the Group continues to recognise approximately € 10,700 million of financial assets linked to various contracts such as, securities lending transactions, mainly in France for € 5,447 million, repurchase agreements for € 1,981 and assets pledged

as collateral for € 3,221 million (please refer to the paragraph *Contingent liabilities, commitments, guarantees, pledged assets and collaterals* in section *Additional Information*).

Derivative financial instruments

The Group's exposure to derivative instruments is mainly associated with economic hedging transactions of financial assets or liabilities, in line with strategies aiming at mitigating financial and currency risks. The total exposure amounts to € 823 million for a corresponding notional amount of € 36,628 million. The notional exposure is presented in absolute amounts, including positions with both positive and negative balances, and it arises for an amount of € 7,421 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 € -221 million.

- Fair value hedge

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

- Cash flow hedge

The cash flow hedging relationships mainly relate to cross currency swaps hedging subordinated liabilities issued by the Group in British pound and to micro-hedge and reinvestment 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 and Czech crowns.

Other derivative instruments

The recognised amounts in the financial statements for these exposures at 31 December 2017 amounted to € 1,043 million for a corresponding notional amount of € 29,207 million, which mainly relates to over-the-counter positions. The exposure is mainly associated with operations relating to interest rates hedges and foreign exchange rates hedges, with particular reference to the US dollar. Furthermore during the year the Group has renewed the macro hedge strategy aimed at protecting the capital from the risk of a significant reduction in share prices.

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

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

Details on exposure in derivative instruments

Maturity distribution by nominal amount	Maturity distribution by nominal amount			Total notional	Positive fair value	Negative fair value	Net fair value
	Within 1 year	Between 1 and 5 years	More than 5 years				
Total equity/index contracts	1,443	821	0	2,264	99	-1	99
Total interest rate contracts	1,072	4,799	8,852	14,723	1,313	-645	668
Total foreign exchange contracts	17,295	1,073	1,273	19,641	853	-797	56
Total	19,809	6,693	10,125	36,628	2,265	-1,443	823

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.