Annual Report 2016

Generali CEE Holding B.V.

generalicee.com

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Table of Contents

Letter from the Chairman and CEO


Valter Trevisani


Luciano Cirinà

In 2016 we have overcome a lot of challenges and difficulties despite the fundamental changes that have occured in the insurance industry. A few months ago the Generali Group presented excellent financial results for the full year 2016, the best in the company's history, which confirms our financial stability and solid roots.

Generali CEE Holding, as key part of the Generali Group, is one of the biggest insurers in the Central and Eastern European market with a track record of profitability and leading positions in many of the 10 countries where it operates – Bulgaria, Croatia, Czech Republic, Hungary, Poland, Romania, Serbia and Montenegro, Slovakia and Slovenia.

2016 was a good year for the insurance markets in the CEE region: the total business volumes increased thanks to the positive development of the Non-Life segment observed throughout the region, driven also by double-digit growth reported in almost all of the countries in the new cars registrations. On the other hand, Life premiums decreased mainly as a consequence of the pressure on Single premiums products in big markets like the Czech Republic and Poland. We observed an important turn-around in the Polish Motor market, where the average premium started to rise again after a long period, and this trend also gives a positive outlook in terms of profitability. Despite the persistent turmoil in the financial markets, we have managed to increase our regional profitability thanks to the focus on our core business, further improving our technical performances.

Generali Group operations in the CEE region are led by Generali CEE Holding and rank second in the Czech Republic, Hungary and Serbia, third in Slovakia and among the top ten in the other countries. In line with the Group's global simplification project we have managed to successfully finalize the domestication of Proama – old Polish branch of Česká pojišťovna acquired from Groupama in 2013 – into the Polish operations (Generali Towarzystwo Ubezpiec.) and to streamline our operations in Bulgaria.

In 2016 we contributed significantly to the successful performance of the Group with an operating result of €461 million which is 10% of the Generali Group's result. These outstanding results were supported by positive development in the Non-life business (mainly thanks to better performance reported in the MTPL business in Poland) with a combined ratio below 90% again (89.5%, the best for the Group worldwide). Life gross written premiums in the CEE countries reached almost €1 billion and in the Non-life segment we managed to grow by 5.8% to €2,047 million.

In the next three years, we will focus on simplifying our business model and processes, giving priority to digitalization. Business model optimization includes the simplification of products and systems as well as starting the next generation of the customer journey and processes (e.g. paperless programs, workflows automation, self-service). We will keep the positive momentum in innovation and focus on improving the customer experience. We have an incredibly skilled network of agents and distributors and we are devoted to understanding and supporting the communities around us. Our aim is to be the first choice for insurance solutions.

Generali wants to focus on markets where we have the relevant size, profitability and prospects, and Central & Eastern Europe is definitely a region with high potential for further growth.

With the full support of our employees and partners we feel well prepared for the future and to further fulfil our clients' expectations and needs by improving our products and services through smart and innovative solutions.

Valter Trevisani
Chairman, Generali CEE Holding B.V.
Chief Insurance Officer,
Generali Group

Luciano Cirinà
Chief Executive Officer,
Generali CEE Holding B.V.

Economic and Insurance Market Development

General economic situation in 2016

The global economy continued with moderate growth in 2016. Advanced economies reported real GDP growth most frequently at around +2%. Eurozone decelerated slightly from 2.0 to 1.7%. Similarly, the United States achieved a growth of 1.6%, which represents a slow-down compared to previous year.

The European economy has proven resilient to a number of challenges. Last year saw an unusual string of economic, political and security events that could have dented the recovery. Nonetheless, EU GDP growth rose towards the end of last year and looks to have maintained its momentum into this year. This resilience has been supported by a number of well-known favourable factors, including the relatively low oil price, the past depreciation of the euro, accommodative monetary policies and a broadly neutral fiscal policy stance. The implementation of structural reforms in some Member States has also helped to underpin the recovery, particularly in the labour market. Private consumption has remained the main growth driver while investment has continued to disappoint. The European economy is expected to continue growing at a pace above potential this year and next, driven mainly by domestic demand.

The CEE region continued with above average growth (+3.1%). Although GDP growth decelerated in some CEE countries in 2016 due to a temporary decline in investment expenditures, household consumption grew strongly as the labour market situation improves. Inflation starts to recover mainly thanks to commodity prices and also due to growing core inflationary pressures that reflect the decline of free capacity in the economy and faster wage growth. Inflation should nevertheless remain below inflation target in most cases, which implies no need to tighten monetary policy.

The Czech economy continued to perform well. The slowdown in annual GDP growth, seen in 2016, was caused by the lower inflow of funds from the EU budget against 2015, which leads to a temporary fall in investment expenditures. The inflow of EU funds should recover in 2017, which will be reflected by the recovery in investment spending.

The Polish economy also felt the impact of weaker inflow from EU funds in 2016, which led to a decline in investment expenditure. On top of that, domestic political uncertainty caused by a change of the government might also have a negative impact on the investment activity. The GDP growth should reach 3% in the upcoming years, as investments should recover, and household consumption will remain strong thanks to the labour market developments and fiscal measures.

Hungary‘s GDP lagged behind expectations in 2016. While the year-on-year decline in the inflow from the EU funds was pointing to a weaker investment spending, the actual impact of this factor on the overall activity was more severe than expected.

The Slovak economy continued to expand (+3.4%). Net exports were the main engine of the growth accompanied by rising domestic consumption while a sharp drop in investment activity lowered growth. Key labour market indicators improved – the unemployment rate declined below 10 % (from 11.5% to 9.9%).

In Romania, economic expansion reached its peak (+5.0%). The growth is above its regional peers, and is fuelled mainly by domestic demand thanks to numerous government stimuli e.g. tax cuts and wages hikes. These factors won’t persist and GDP should continue to ease and structure should change towards investments.

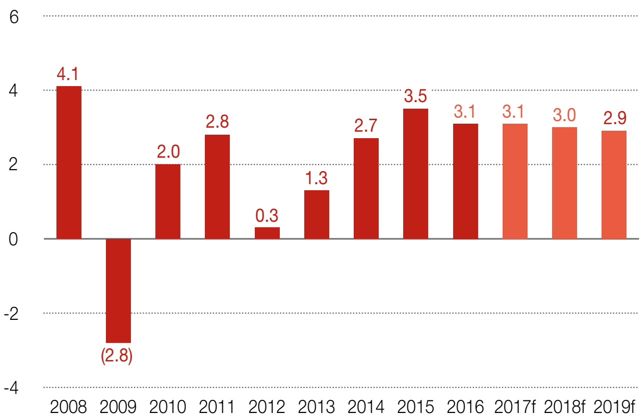
Bulgarian economic growth remains stable, achieving 3% since early 2015. Better labour market conditions encourage households to increase their spending which compensated for the slump in investments.

The smaller Balkan countries experienced moderate economic growth in 2016. Economic recovery is gaining ground in Croatia and Serbia, Slovenia keeps fair growth, surpassing expectations and Montenegro achieved record growth (+5.1%; its highest rate since 2008).

Economic conditions

All in all, the GDP growth of the CEE region (in that area where Generali CEE Holding is present) decreased slightly from 3.5% to 3.1%. All countries grew by at least 2% (with only Croatia slightly below this level).

Real GDP grow in CEE region (%)

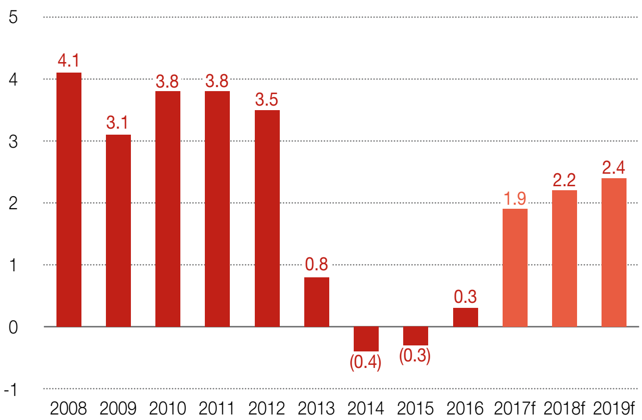


Note: Countries included are Bulgaria, Croatia, Czech Republic, Hungary, Montenegro, Poland, Romania, Serbia, Slovakia, Slovenia
Source: IMF

Real GDP growth (%)	2014	2015	2016	2017f	2018f	2019f
CEE overall	2.7	3.5	3.1	3.1	3.0	2.9
Czech Republic	2.7	4.5	2.5	2.7	2.4	2.2
Hungary	3.7	2.9	2.0	2.5	2.4	2.2
Poland	3.3	3.7	3.1	3.4	3.3	3.1
Slovakia	2.5	3.6	3.4	3.3	3.7	3.8
Romania	3.0	3.8	5.0	3.8	3.3	3.3
Serbia	(1.8)	0.7	2.5	2.8	3.5	3.5
Bulgaria	1.5	3.0	3.0	2.8	2.5	2.5
Slovenia	3.1	2.3	2.3	1.8	1.6	1.6
Croatia	(0.4)	1.6	1.9	2.1	2.2	2.3
Montenegro	1.8	3.2	5.1	3.6	2.4	3.9

Inflation in CEE remained very low in 2016, and deflation pressures got weaker in comparison to the previous two years.

Inflation in CEE region (%)



Note: Countries included are Bulgaria, Croatia, Czech Republic, Hungary, Montenegro, Poland, Romania, Serbia, Slovakia, Slovenia
Source: IMF

Inflation (%)	2014	2015	2016	2017f	2018f	2019f
CEE overall	(0.4)	(0.3)	0.3	1.9	2.2	2.4
Czech Republic	0.1	0.1	1.1	2.2	2.0	2.0
Hungary	(0.7)	0.5	0.8	2.6	3.0	3.0
Poland	(1.0)	(0.5)	0.2	1.5	2.2	2.5
Slovakia	(0.1)	(0.5)	0.3	1.4	1.2	1.3
Romania	0.8	(0.9)	(0.3)	2.7	2.7	2.7
Serbia	1.8	1.6	2.0	3.5	3.5	4.0
Bulgaria	(2.0)	(0.9)	(0.8)	1.4	1.8	2.0
Slovenia	0.1	(0.4)	0.3	0.8	2.0	2.0
Croatia	(0.5)	(0.1)	(0.1)	1.2	1.8	1.9
Montenegro	(0.3)	1.4	1.0	1.4	1.6	1.8

Solid economic development in the central European region was also reflected by falling unemployment and stable exchange rates. Unemployment rates decreased in all countries, most notably in Slovakia, Poland and Bulgaria.

Public indebtedness remains rather stabilized in the region (apart from Montenegro which reported quite a high budget deficit in 2016). The Czech Republic, Slovakia, Slovenia and Serbia managed to decrease the ratio of public debt to GDP slightly.

The exchange rates of CEE countries (in those where Generali CEE Holding is present) were stable over the last year with only minor fluctuations. The Czech Crown (the main operating currency of Generali CEE Holding) has been kept at 27/EUR through interventions made by the CNB.

CEE Insurance market development

Over the last seven years, insurance markets in the CEE region have been showing steady development with no significant declines or increases in insurance premiums. The trend of the previous year, when overall CEE growth rate returned to growth after two years of reaching a negative rate, also continued in 2016.

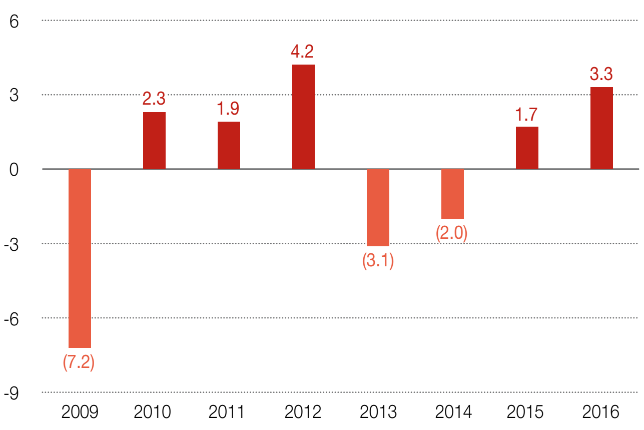
For the first time since the financial recession in 2008 positive growth has been recognised on all CEE markets. This was thanks to fair macroeconomic development with a particularly strong contribution coming from new cars market. Accordingly, the Non-Life segment turned to growth in all countries. Whilst Life insurance turnover decreased in some CEE countries the overall insurance premiums trend stayed on the positive side in each country.

Romania, Serbia and Bulgaria were the most growing CEE markets in 2016. Bulgaria and Serbia remain positive surprises and the markets have been growing at fair rate. In Motor Bulgaria has shown fair growth in both, Motor Third Party Liability insurance (MTPL) and Motor Own Damage insurance (MOD). For the second year in a row Serbia achieved strong growth in Life insurance with the great contribution of the introduction of new Single Life products. Motor Third Party Liability insurance, as the main insurance line, has also been growing fairly in Serbia. Romanian insurance market growth is attributable to the motor market (significant increase in MTPL prices and remarkable increase in car sales).

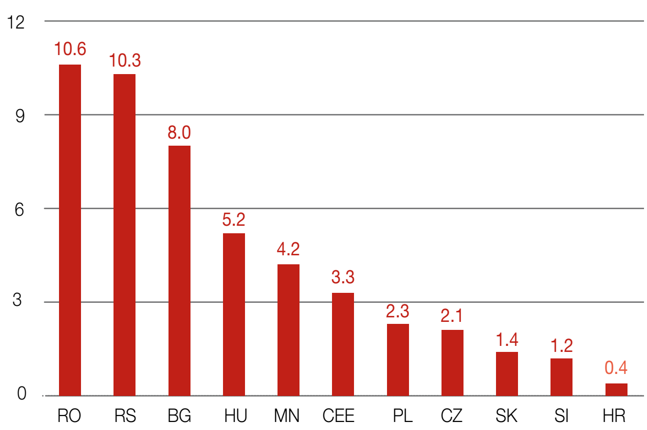
On the other hand, the markets which were facing negative conditions relating to newly introduced regulations were Slovakia (new levy on insurance premium) and Poland (new asset tax and restrictions on upfront commission). Another market which for a long period has been suffering from the decline of Life premiums is the Czech Republic, where the drop is attributable to the tightened supervision of the central bank together with the decline of new business.

All in all the entire CEE insurance market reached €29.9 billion in 2016 (considering the countries with the presence of Generali CEE Holding) of which Non-Life segment represents 60% and Life segment represents 40%.

CEE insurance market growth (%)



Insurance market growth in 2016 (%)

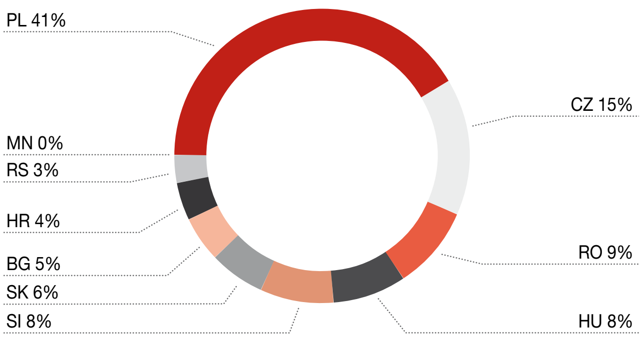


Note: Growth of Gross Written Premiums (P&C and Life) in local currencies (weighted average for CEE).
Note: Countries included are Bulgaria, Croatia, Czech Republic, Hungary, Montenegro, Poland, Romania, Serbia, Slovakia, Slovenia
Source: National Insurance Markets Associations/Regulators, Generali CEE Research

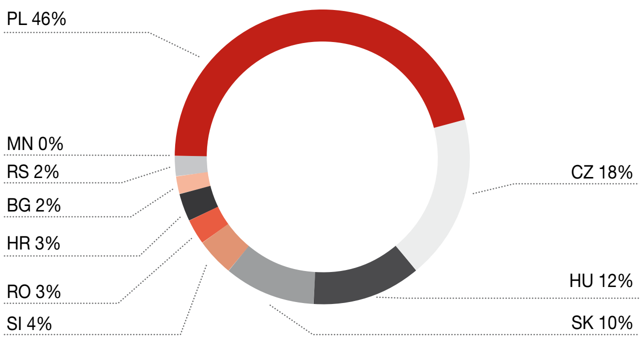
CEE insurance market development by segment

The CEE Region is economically dominated by Central European countries. The biggest market is Poland which represents 41% of Non-Life premium volume and even 46% of the Life premium volume.

CEE Non-life market structure (2016)



CEE Life market structure (2016)



Note: Countries included are Bulgaria (BG), Croatia (HR), Czech Republic (CZ), Hungary (HU), Montenegro (MN), Poland (PL), Romania (RO), Serbia (RS), Slovakia (SK), Slovenia (SI)
Source: National Insurance Markets Associations/Regulators, Generali CEE Research

The Non-Life market experienced an exceptionally strong year with solid growth (+10.6%) which reflects positive improvement in all countries. Even Slovenia and Croatia overcame the continuous decrease in premiums, reported for several years and started to grow slightly thanks to an improved situation in MOD. In general, Motor insurance has been recovering since 2014 when a five year continuous decrease in premiums stopped. Motor premiums stabilized and have kept growing ever since, mostly as a result of increasing prices in several countries together with a greater than expected positive trend in new car sales. In particular, MTPL in CEE switched from stagnation to a positive track with the great contribution of Poland and Romania, where prices increased rapidly during the last year. Thus, MTPL prices in Romania were restricted by government with further development remaining under discussion. The Non-Motor segment (Property, Commercial, Accident, Health and other insurance) grew fairly in most of the CEE countries with the only exception of the Romanian market, which is still affected by tough period of economic difficulties for some insurers.

The Life market in CEE decreased by -6.6%. This segment is mainly influenced by the continuous decline of Single Life premiums in the Czech Republic and Poland. In Poland, the decreasing trend is a result of changes in leading regulations such as a cap on the maximum non-interest costs of credit and asset tax with an impact on Single Unit Linked profitability. Another burden on Life segments continue to be the trend of lowering surrender fees for life policies with capital funds. Life premiums are declining on most CEE markets. The markets which are not following the predominant trend and instead growing significantly are Serbia, Bulgaria, Hungary and Montenegro.

Outlook for 2017

In spite of the challenging environment, the situation in the CEE region remained on a positive track in 2016. Last year was comparable to the already successful previous one in terms of the lasting positive trends such as improved economic indicators and a positive trend in car sales. Economic conditions in the Central European region are reaping the benefits of global developments which occured during 2015 such as the declining oil price. On the other hand, an unfavourable situation in Life insurance on some markets also seems to have a rather persistent tendency. Therefore, the main driver of the growing total premiums on all CEE insurance markets became mainly the Non Life segment which remains strongly linked to GDP. Unlike the global economic outlook, which is currently uncertain due to numerous challenges and political tensions, insurance markets in the CEE region are expected to continue with a stable development and to achieve moderate growth in 2017 and the coming years.

The Holding's Management

Board of Directors

Valter Trevisani
Chairman

Luciano Cirinà

Gregor Pilgram

Mario Greco
(until 8 February 2016)

Nikhil Srinivasan
(until 8 January 2017)

Luigi Lubelli
(appointed on 14 March 2017)

Martin Sturzlbaum
(appointed on 14 March 2017)

Executive Committee

Luciano Cirinà
Chief Executive Officer

Josef Beneš
Chief Investment Officer
(appointed on 19 July 2016)

Gianluca Colocci
Mergers & Acquisitions

Mark Dassui
Chief Insurance Officer
(appointed on 1 December 2016)

Milan Novotný
Chief Risk Officer
(appointed on 19 July 2016)

Gregor Pilgram
Chief Financial Officer

Harald Steirer
Chief Operations Officer
(previously Chief Insurance Officer, appointed as Chief Operations officer on 1 December 2016)

Klára Starková
Chief Operations Officer
(until 31 July 2016)

Luciano Cirinà
Chief Executive Officer

Luciano Ciriná has been based in Prague since March 2013, and is responsible of the Group's business in Central and Eastern Europe. He is a member of the Generali Group Management Committee from May 2016.
In 2007, he was appointed CEO of Generali Versicherung AG in Austria before becoming Head of Generali Holding Vienna. From 2005 to 2006 he was Area Manager at the Company Head Office in Trieste, overseeing activities in Austria, Central and Eastern Europe, Greece, Tunisia and the Middle East. Prior to that, he served as Head of the Corporate Risks Division for Austria and CEE countries in Vienna from 1996 to 2004.
Luciano began his career in 1989 with Deutscher Lloyd (Generali Group) in Munich as an Underwriter and later as Chief-Underwriter with responsibility of the Industrial Fire Underwriting Department.
He graduated in Business Administration from the University of Trieste in 1988.
Luciano was elected President of the Austrian Insurance Association in 2012.

Josef Beneš

Josef Beneš became Chief Investment Officer of Generali CEE Holding and CEO of Generali Investments CEE in 2014. At the same time, he was appointed Regional CIO for CEE of the Generali Group. He joined the Executive Committee of Generali CEE Holding in July 2016. He gathered vast experience in the financial industry in the Czech Republic and abroad.
Josef Beneš holds Master Degrees from the University of Economics Prague and the Columbia University New York.

Gianluca Colocci

He started his professional career as a Management Consultant in the financial services industry within a worldwide consultancy firm.
He joined Generali Group in 1995 as a analyst within the Treasury Dept. and since then has held a growing range of responsibilities over his tenure becoming Head of Investor Relations (1998), Head of Corporate Finance (2003), Head of Group Mergers & Acquisitions (2007).
In 2008 following the establishment of Generali PPF Holding, Joint venture for the insurance activities in CEE based in Prague, he was appointed member of the Executive Committee with responsibility for Mergers & Acquisitions and Country Manager for Insurance Operations.
He returned to the Group Head Office in Italy, in 2013 he was Head of the Business Coordination Unit Growth Options and International Business coordinating operations in CEE, Asia, Generali Employee Benefits and Corporate & Commercial.

Mark Dassui

Mark Dassui has been appointed as Chief Insurance Officer for the CEE region in December 2016.
He started his career in the insurance industry in 1985. In 1993 he joined the Generali Group as an expert for the retail Non-Life Non-Motor business of AachenerMuenchener Insurance and taking over various leadership positions in the following years. In 2011, he moved to Generali Poland as Member of the Management Board. In May 2014, he joined Generali CEE Holding in Prague/Czech Republic as Head of non-life segment Non-Motor. Only a few months later, additionally, he took over the position as Head of Product Management Non-Life Motor and Retail Non-Motor of the Group's Czech companies. In July 2015, Mark was asked to join the Group Head Office in Trieste as Head of Non-Life Non-Motor.
As of December 1st, 2016, he was appointed member of the Executive Committee of Generali CEE Holding as Chief Insurance Officer for the CEE region.

Milan Novotný

Milan Novotný was appointed Chief Risk Officer of Generali CEE Holding in 2013. Prior to this appointment, he was working as Group Solvency Coordinator for two years. He joined the Group in 2002 as Senior Actuary in the life actuarial department of Česká pojišťovna and since then he has held several managerial responsibilities in Česká pojišťovna and Generali CEE holding. He became member of the Executive Committee of Generali CEE Holding in July 2016. Milan Novotný started his career in the insurance industry in 2000 after his studies of Statistics/Actuarial Science and Monetary Economy/Banking at the University of Economics in Prague.

Gregor Pilgram

Gregor Pilgram has been based in Prague since July 2013, and is as Chief Financial Officer responsible for Consolidation, Controlling, Actuarial, Bancassurance and Reinsurance.
He started his career as an expert in the Controlling Department of the Slovenian Generali company in 1999 and worked as Head of Internal Audit and CFO during the following years. In 2008 he was appointed CEO of the company. Gregor Pilgram was appointed Chief Financial Officer and member of the Executive Committee of Generali CEE Holding as of July 2013. He is also Chairman of the Supervisory Board of the Croatian and Serbian Generali company as well as Supervisory Board member in number of the companies in the CEE region.
Gregor Pilgram graduated in 2001 from Vienna University with a degree in business administration.

Harald Steirer

Harald Steirer has been based in Prague since May 2015 and is responsible for IT, procurement, facility management and processes as well as for customer & distribution.
He has been working for the Generali Group since 2004, holding international roles within the Group's companies. From 2004 to 2007 he served as CEO of Generali Osiguranje, Croatia. At the same time he was the responsible Area Manager responsible for the CEE countries for customer and distribution at Generali Holding Vienna. In 2008 he was appointed as a Board Member of Generali Holding Vienna, being responsible for marketing and sales. In March 2012, he took over the responsibility for life insurance as well. In May 2015, he joined the Executive Committee of Generali CEE Holding as Chief Insurance Officer and from December 2016 as Chief Operations Officer for the CEE region.
Harald Steirer graduated in Business Administration.

Financial Section

CONTENT

I. Board of Directors Report

A. Profile

Generali CEE Holding is the parent company of a group of leading insurance companies in Central and Eastern Europe. It provides know-how and a professional and operational base for its insurance companies in 10 countries – Bulgaria, Croatia, the Czech Republic, Hungary, Montenegro, Poland, Romania, Serbia, Slovakia and Slovenia.

The Group's companies in these countries take care of more than 11 million clients and hold total assets of almost €17 billion.

Generali CEE Holding is a key part of the Generali Group. Assicurazioni Generali, founded in 1831 in Trieste, is the Group's parent and principal operating company. Characterized from the very outset by a strong international outlook and now present in more than 60 countries, with almost 74,000 employees, Generali Group is a major player in the global insurance industry – a strategic and highly important sector for the growth, development and welfare of modern societies. With 2016 operating results of €4,830 million driven by the good development in the non-life segment and the solid result of the Life segment, and total gross written premiums exceeded €70,500 million, the Generali Group achieved the best results in the past years in terms of profitability.

The region of Central and Eastern Europe again contributed significantly to the performance of Generali Group. In 2016 Life gross written premiums of the CEE countries amounted to €986 million. The Non-life segment premiums increased and amounted to €2,047 million, up by 5.8% with respect to 2015 result and contributed by 9.8% to Generali Group's Non-life total GWP. In terms of profitability the Generali CEE Holding's combined ratio decreased below 90% (89.5%, the best for Generali Group worldwide). The operating result has grown by 3.5% to €461 million.

The companies of Generali CEE Holding offer insurance and financial products ranging from savings and family protection policies to unit-linked policies and complex plans for multinationals. In the non-life segment its portfolio ranges from mass-market coverage such as motor, home, accident & health, to sophisticated commercial and industrial risk coverage. Generali aims to be a leader in the retail segment but it is also strengthening its commercial and corporate business focusing on medium and large companies at international level leveraging the Group's global reach and its strong ties with international brokers. In addition Generali CEE is proud to be one of the world's major players in the field of assistance, through the Europ Assistance Group, which provides worldwide services in the motor, travel and health, home and family lines of business also in the CEE region.

Generali CEE Holding and its companies employ more than 12,000 people (of which more than 2,100 are sales representatives) and cooperate with almost 11,000 tied agents.

B. Financial performance

At the end of 2016, the consolidated shareholder's equity of Generali CEE Holding amounted to €5 billion and total assets amounted to almost €17 billion. The bulk of assets is comprised of financial investments (78.6%).

The consolidated profit of the Group attributable to the equity holders of the parent amounted to €314 million, showing a 19% increase compared to 2015, and hence confirming the extremely good level of profitability of the Group in its core business and markets.

The total number of employees was 12,058 as at 31 December 2016. There were 12,586 employees at the same time in the previous year.

C. Risk management

The Group has implemented a risk management system that aims at identifying, evaluating and monitoring the most important risks to which the Group is exposed, i.e. risks whose consequences could affect the solvency of the Group or of any single business unit, or hamper the achievement of any Group goals.

The main objectives of the Group's risk management processes are to maintain identified risks below an acceptable level, optimise capital allocation, and improve the risk-adjusted performance for the Group as well as for each individual company.

The risk management processes apply to the whole Group, to all the countries where it operates, and to each business unit. However, the degree of integration and depth varies with the complexity of the underlying risks. The integration of processes within the Group is fundamental to ensure an efficient system of risk management and capital allocation for every business unit.

The risk management system is based on three main pillars:
a) Risk measurement process: Assessing the solvency of the Group and all individual units
b) Risk governance process: Defining and controlling managerial decisions in relation to relevant risks
c) Risk management culture: Increasing value creation.

The Group is exposed to various risks as a result of its activities: insurance risk, liquidity risk, market risks (interest rate risk, equity price risk, and currency risk), credit risk, and operational risk. For detailed information on risk management, see Section E of the consolidated financial statements.

From the point of view of liquidity and solvency, the Group is well-positioned with its plentiful capital surplus. Attesting to the Group's standing is the high rating of its biggest subsidiary (Česká pojišťovna a.s.). See Section E of the consolidated financial statements for more details on solvency position.

D. Overview of operations, by country and subsidiary

BULGARIA

Generali Bulgaria
With more than 450 employees in Bulgaria and the 8.7% Non-Life market share Generali Bulgaria is one of the major international insurers in Bulgaria.

Its operations include Generali Insurance AD (non-life insurance) and Generali Zakrila Medical and Dental Centre – an outpatient medical facility.

The company has more than 187 offices throughout the country. For better service of the liquidation process and convenience for the clients, the company has 15 specialized claims centres in the bigger cities of the country.

The insurance products of Generali Bulgaria are offered by more than 1,241 agents and 300 brokers.

In 2016, the merger of Generali Bulgaria and VICTORIA ZAD has been successfully completed. The merger combined strengths of both companies and created financial synergies that serve as a basis for achieving sustained profitability and provide an opportunity to focus in moving ahead to the 5th position on the insurance market.

In 2016, Generali Bulgaria recorded gross written premiums of €73 million.

GP Reinsurance
GP Reinsurance EAD is a captive reinsurer based in Sofia, fully owned by Generali CEE Holding B.V. It provides non-life reinsurance solutions within the Group.

The activity of GP Reinsurance EAD in 2016 continues to be managed in compliance with the strategic plan for development and goals, for which it was granted a license by the Financial Supervision Commission for performing reinsurance activity. The Company provides reinsurance services to companies from all countries of Generali CEE Holding.

GP Reinsurance recorded gross written premium of €731 million and profit after tax amounted to €126 million in 2016.

CROATIA

Generali osiguranje
Since its establishment in Croatia, Generali osiguranje has continuously been among the insurance companies with the highest growth rates on the market. Moreover, Generali osiguranje is the only insurance company on the market that records a premium growth for 8th year in a row, despite the challenging economic environment.

Furthermore, Generali osiguranje is also one of the leaders in bancassurance. 588 employees gathered in the network of more than 80 offices throughout the country are taking care of the company's clients. As a result investments into the MTPL liberalization process and the cooperation of insurance representative agencies, Generali expanded its sales network and enhanced product distribution.

Generali gained a market share of 5.7% which is result of growth in both segments. Due to this, gross written premiums recorded a total increase by 4.1% to €66 million.

CZECH REPUBLIC

Česká pojišťovna

Česká pojišťovna is the market leader in the Czech insurance market. As a composite insurance company with a wide range of both Life and Non-life insurance products the company's insurance portfolio includes almost 7 million policies.

In 2016, the total market share of Česká pojišťovna measured the methodology of the Czech Insurers Association (ČAP) reached 22.6%, in Life insurance it was 18.8% and in Non-life insurance 24.8%. The position of Česka pojištovna as the local insurance market leader was confirmed by the company's financial results for the last year, when premium written exceeded €1,031 billion.

Gross written premiums in Non-life insurance for 2016 amounted to €706 million. Premiums written in Life insurance reached €325 million.

Česká pojišťovna ZDRAVÍ

Česká pojišťovna ZDRAVÍ is the largest insurer in private health insurance in the Czech Republic.

Penzijní společnost České pojišťovny

The Pension Company of Česká pojišťovna is the leading provider of pension insurance in the Czech Republic.

Generali Investments CEE

Generali Investments CEE offers comprehensive products and services to individual investors and institutions in the area of collective investment and investment management. The company manages Czech mutual funds maintained in Czech crowns and Irish investment funds offered in CZK, EUR and PLN. The major institutional clients include insurance and reinsurance companies and pension funds within the Generali CEE Holding B.V. According to information provided by the Czech Capital Market Association, Generali Investments CEE is the largest investment company and the biggest asset manager operating in the Czech market, with assets under management amounting to €10.7 million (as at 31 December 2016), representing a market share of 22.7%.

Generali Pojišťovna

Generali pojišťovna is the fourth largest insurance company on the Czech market with a market share of 7.1%.

Total GWP reached €322 million thanks to the following contributions by segment: €116 million in Life and €206 million (+1.6%) in the Non-life segment.

HUNGARY

Generali Biztosító

With a market share of 14.4% in 2016 and based on gross written premium, the Hungarian Generali Group – including Generali Biztosító, Genertel and European Travel Insurer – is number 1 on the Hungarian insurance market. Due to its innovative business attitude and responsible financial management, the company boasts the trust of more than 870,000 clients. Generali operates with approximately 1,700 employees and around 1,700 tied agents.

The Hungarian Generali Group confirmed its stability while achieving growth both in Life and in the Non-life insurance segments. The group realised 4.8% growth of gross written premiums amounting to €427 million in total. In the Non-life segment GWP amounted to €283 million (+4.5%) and in Life to €144 million (+5.5%).

MONTENEGRO

Generali Osiguranje Montenegro

Generali Osiguranje Montenegro is the 3rd largest insurance company among Non-Life companies operating in Montenegro, with a full range of Non-life insurance products including motor insurance, property, accident, travel, health and aviation. The company is offering its services with 128 employees and 70 agents at more than 75 points of sale throughout the country.

In 2016, Generali's market share in Non-life was 16.5% and the gross premiums written reached almost €11 million (+6.7 %).

POLAND

Generali and Generali Życie
Generali Group has been present in Poland since 1998. It provides insurance products in 3 key areas: Life, Non-life and Pension funds. Generali conducts its business activity in Poland through 4 specialized companies: Generali Towarzystwo Ubezpieczeń S.A., Generali Życie Towarzystwo Ubezpieczeń S.A., Generali Powszechne Towarzystwo Emerytalne S.A., Generali Finance Sp. z o.o. and two brands: Generali and Proama. Generali aims at long-term cooperation with clients, which entails providing comprehensive protection of their assets at every stage of their lives. Generali Poland reported €498 million GWP in 2016 with 1,400 employees.

In 2016, the company focused its activities on improving profitability and balancing product mix. In the Non-life sector Generali Poland reported €325 million of Gross Written Premiums, expanding its presence in non-motor insurance. Life premiums amounted to €173 million. The Life segment is focused on protection products with a gradual decrease of the UL share in the portfolio.

ROMANIA

Generali Romania Asigurare Reasigurare
Given the long history on the local market, between 1835 and 1948, the Generali Group returned to Romania in 1993 and, since then, has been recognised as one of the most reliable insurers in the country. Benefitting from the strong international background and the expertise of the group and with the help of its 460 employees and approximately 1,500 sales representatives, Generali Romania ranks among the top 10 local insurance companies in terms of GWP.

The company's portfolio consists of a wide range of life and non-life products tailored to meet the current protection needs of retail and corporate customers. Generali Romania values its ability to identify the local consumers' needs and to provide coverage at an adequate price, while always providing services of the highest quality. Total GWP reached €143 million in 2016, representing an increase 33% compared to 2015.

SERBIA

Generali Osiguranje Srbija
Generali Osiguranje Srbija is the largest privately-owned insurance company in Serbia. The company is the market leader in Life and Health insurance and one of the foremost Serbian insurance companies in terms of Non-life, agriculture, travel and motor vehicle insurance.

Headquartered in Belgrade, the company network consists of 60 branches spread in 3 regional centres across Serbia, with 1,200 points of sale and over 2,000 employees. In 2016 Generali Osiguranje Srbija continued its growth and development achieving record results in terms of growth and profitability.

In 2016, gross written premiums amounted to €161 million. Life insurance premiums increased by 5.7% to €57 million and Non-life premiums by 6.9% to €104 million.

SLOVAKIA

Generali Poisťovňa
Generali Poisťovňa, the third biggest insurance company in Slovakia, provides prompt and professional services thanks to its 632 employees and 558 internal sales representatives. There are 120 points of sale all over Slovakia.

As of January 2015, the branches of the foreign insurance companies, Genertel and Europäische Reiseversicherung, became part of Generali Poisťovňa, a. s.

Gross written premiums experienced an increase in both main insurance segments. In Non-life it grew by remarkable 9.7% to €121 million and in Life insurance by 4.7% to €88 million. Total GWP then amounted to €209 million. Generali kept the third position on the market with a share of 9.3%.

SLOVENIA

Generali zavarovalnica
Generali is one of the largest insurance companies in Slovenia, with a broad range of products in Non-life as well as in Life insurance and the biggest international insurance company in the country. It has more than 191,000 clients and 444 employees with a sales network throughout the entire country. Generali's products are also available through significant Slovenian banks and numerous partners.

Total volume of gross written premiums recorded €92 million which means a 2.7% increase with significant growth in Life insurance (+6.6%). With a market share that reached 4.8%, the company holds the fifth position on the Slovenian insurance market.

E. Sustainability

Generali CEE Holding and its companies are fully aware of the importance of sustainability and therefore strive to integrate it into their daily business.

The importance of implementing sustainability in our core business is clear: the integration of policies and commitments concerning sustainability issues contributes to positive long-term financial and economic growth.

Sustainability includes a number of social, environmental, and corporate governance issues that Generali has identified and prioritized in its materiality matrix: for example, they range from Quality of the customer experience, Business innovation for the digital customer, Employee engagement and promotion of a common culture, to Diversity, inclusion and equal opportunities, Demographic and social change, Climate Change and natural disasters.

Among the environmental aspects, one of the company's aim is to raise employee awareness of the necessity of conserving energy, reducing paper consumption (for example, by making double-sided printing the standard), promoting recycling and sorting waste for recycling or disposal.

Environmental-related policies are continuously updated in line with new developments which offer possibilities for improving these policies. Protecting the environment as a primary asset is one of the Generali Group's guiding values, as stated in the Group Policy for the Environment and Climate.

Addressing social issues by developing new products (e.g. sick leave, disability and unemployment) is another way in which we try to take responsibility for the well-being of our society.

Companies of Generali CEE Holding are also active towards the local societies; they support a wide scope of various preventive projects for children's education, help for children and other people in need, they participate in sport and cultural events or struggle for better environmental development, for example also through our focus on mobility.

Various insurance companies in the CEE region organise specific events oriented to road safety, often in cooperation with local police offices and institutions.

All of the companies of Generali CEE Holding are included in the Generali Group Sustainability Report, where some of the best practices are described, with information provided and which is updated annually. Moreover, all companies are committed to implementing the objectives included in the Charter of Sustainability Commitments of the Generali Group, which consist of a wide range of environmental, social and governance topics to be addressed and monitored through specific KPIs.

The Sustainability Report 2016 and the Charter of Sustainability Commitments are available on **www.generali.com** website.

F. Outlook for operations

The macroeconomic environment across the world is expected to confirm the economic recovery experienced during 2016; the International Monetary Fund forecasts GDP to grow by 3.4% in 2017, compared to 3.1% in 2016. This development will be driven by an accelleration of US economy and by the exit from recession of Russia and Brazil, whereas the Eurozone, United Kingdom and China are expected to slow down their growth; in the Eurozone in particular the decline will be driven primarly by a weaker economic performance in Germany and Spain. Inflation in the Eurozone is rising but considering the context of economic weakness, the ECB will maintain an accomodating position, altough towards the end of the year speculation will rise on the exit of the Central Bank from its quantitative easing program.

The macro economic outlook for the CEE region is positive, with GDP growth forecast in line with the development of 2016; such growth will be more visible in the larger countries such as Poland, Czech Republic and Hungary, which also represent the most important markets for the Group. Concerning the exchange rate markets, an increased volatility of the Czech Crown is expected, after the CNB in April 2017 ended its intervention to keep its value pegged to the Euro.

Concerning the insurance markets, the CEE insurance markets shall register a moderate growth in 2017 which will be driven by the Non-Life segment, whose volumes are strongly connected to the GDP development; on the other side the trend in Life segment is expected to be stagnating, mainly as a result of the declining trend in single premiums.

Concerning Group results, the overall premium volume will present a moderate growth compared to 2016; such development will be driven by the Non-Life segment, whereas Life premiums will be flat or slightly declining, as a consequence of a reduction in single premiums.

With regards to the expected development of the results of the Group, the profit after taxes is expected to be in line with the results of 2016, confirming the high level of profitability experienced in last year. The Group investment policy will continue to be based on an asset allocation strategy aimed at consolidationg current returns and safeguarding consistency with liabilities towards the policyholders.

Prague, 10 May 2017

The Board of Directors

II. Consolidated Financial Statements for the Year Ended 31 December 2016

Acronyms:

Acronym	
ABS	Asset backed securities
AFS	Available for sale
ALM	Asset-liability management
CASCO	Casualty and collision car insurance
CCS	Cross currency swap
CDO	Credit default option
CDS	Credit default swap
DAC	Deferred acquisition costs
D&O	Directors and officers liability
DPF	Discretionary participation features
DPL	Deferred Policyholder Liability
ECL	Expected credit loss
FVH	Fair value hierarchy
FVO	Fair value option
FVOCI	Fair value through other comprehensive income
FVTPL	Financial assets at fair value through profit or loss
GWP	Gross written premium
IBNR	Incurred but not reported
IFRIC	Interpretation of International Financial Reporting Interpretations Committee
IRS	Interest rate swap
ISDA	International Swaps and Derivatives Association
LAT	Liability adequacy test
LTI	Long-term incentive
MTPL	Motor Third Party Liability
OCI	Other comprehensive income
PPE	Property, plant and equipment
PVFP	Present value of future profit
RBNS	Reported but not settled
ROE	Return on Equity
RORC	Return on Risk Capital
S&P	Standard & Poor‘s
TC	Total cycle cost
TSR	Total Shareholders‘ Return
WHT	Withholding tax

Consolidated Financial Statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December

The statement of financial position was prepared prior to profit appropriation.

(€ million)	Note	2016	2015
Total assets	**F**	**16,673**	**15,902**
Intangible assets	**F.1**	**2,234**	**2,301**
Goodwill	F.1.1	1,371	1,378
Other intangible assets	F.1.2	863	923
Tangible assets	**F.2**	**76**	**80**
Land and buildings (own use)	F.2.1	58	60
Other tangible assets	F.2.2	18	20
Investments	**F.3**	**13,101**	**12,331**
Investment properties	F.3.1	362	312
Investments in associated companies and joint ventures	F.3.2	28	15
Held to maturity financial assets	F.3.3	67	67
Loans and receivables	F.3.4	766	638
Available for sale financial assets	F.3.5	9,817	9,339
Financial assets at fair value through profit or loss	F.3.6	2,061	1,960
of which financial assets relating to unit-linked policies	F.3.6	1,937	1,841
Reinsurance assets	**F.4**	**255**	**268**
Receivables	**F.5**	**396**	**379**
Receivables arising out of direct insurance operations		210	217
Receivables arising out of reinsurance operations		41	33
Trade and other receivables		133	116
Current income tax receivables		12	13
Other assets	**F.6**	**232**	**211**
Deferred acquisition costs	F.6.1	171	162
Deferred tax assets	F.25.1	28	14
Assets – other		33	35
Cash and cash equivalents	**F.7**	**379**	**332**

(€ million)	Note	2016	2015
Total Shareholder's equity and liabilities		**16,673**	**15,902**
Shareholder's equity	**F.8**	**4,777**	**4,699**
Shareholder's equity attributable to the Group		**4,773**	**4,672**
Share capital		–	–
Other reserves		4,773	4,672
Shareholder's equity attributable to non-controlling interests		**4**	**27**
Other provisions	**F.9**	**52**	**50**
Insurance liabilities	**F.10**	**6,894**	**6,693**
Financial liabilities	**F.11**	**4,233**	**3,751**
Financial liabilities through profit or loss		434	388
Financial liabilities at amortised cost		3,799	3,363
Payables	**F.12**	**376**	**357**
Payables arising out of direct insurance operations		197	185
Payables arising out of reinsurance operations		46	47
Current income tax payables		13	20
Other payables		120	105
Other liabilities	**F.13**	**341**	**352**
Deferred tax liabilities	F.25.1	161	174
Liabilities – other		180	178

The notes on pages 32 to 134 are an integral part of these financial statements.

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December

(€ million)	Note	2016	2015 restated
Total income		**3,343**	**3,208**
Net earned premiums revenue	**F.14**	**2,779**	**2,740**
Insurance premiums revenue		2,988	2,954
Insurance premiums ceded to reinsurers		(209)	(214)
Fee and commission income and income from financial service activities	**F.15**	**40**	**42**
Net income/(losses) from financial instruments at fair value through profit or loss	**F.16**	**70**	**(10)**
of which net income from financial investments relating to unit-linked policies		74	2
Share of results of associates and joint ventures accounted for using the equity method	**F.17**	**3**	**2**
Income from other financial instruments and investment properties	**F.18**	**385**	**358**
Interest income		252	261
Income – other		36	34
Realised gains		83	54
Unrealised gains		11	2
Reversal of impairment losses		3	7
Other income	**F.19**	**66**	**76**
Total expenses		**(2,983)**	**(2,892)**
Net insurance benefits and claims	**F.20**	**(1,772)**	**(1,669)**
Claims paid and change in insurance provisions		(1,847)	(1,745)
Reinsurers' share		75	76
Fee and commission expenses and expenses from financial service activities	**F.21**	**(8)**	**(9)**
Expenses from other financial instruments and investment properties	**F.22**	**(108)**	**(109)**
Interest expense		(34)	(43)
Expense – other		(11)	(7)
Realised losses		(21)	(16)
Unrealised losses		(5)	(13)
Impairment losses		(37)	(30)
Acquisition and administration costs	**F.23**	**(808)**	**(828)**
Commissions and other acquisition costs		(590)	(608)
Investment management expenses		(3)	(5)
Other administration costs		(215)	(215)
Other expenses	**F.24**	**(287)**	**(277)**
Change in net assets attributable to unit holders of investment funds		**–**	**–**
EARNINGS BEFORE TAXES		**360**	**316**
Income taxes	F.25	(44)	(51)
Profit/(loss) from discontinued operations after tax		**–**	**–**
NET PROFIT OF THE YEAR		**316**	**265**
Result of the period attributable to the equity holders of the Parent Company		314	264
Result of the period attributable to non-controlling interests		2	1

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December

(€ million)	Note	2016	2015
Net profit of the year		**316**	**265**
Other comprehensive income items that may be reclassified to profit or loss in future periods			
Available for sale financial assets' revaluation in equity	F.8	103	101
Available for sale financial assets' revaluation in income statement	F.18, F.22	(63)	(38)
Available for sale impairment losses	F.22	24	19
Available for sale change in deferred policyholders liabilities/assets	F.8	(28)	(16)
Currency translation differences	F.8	–	89
Changes in cash flow hedge reserve	F.8	–	2
Other changes		–	(2)
Total gains and losses recognised directly in equity		**36**	**155**
Tax on items taken directly to or transferred into equity		(4)	(8)
Tax on items taken directly to or transferred into equity – AFS	F.8	(4)	(7)
Tax on items taken directly to or transferred into equity – CF hedge reserve	F.8	–	(1)
Other comprehensive income, net of tax		**32**	**147**
Total comprehensive income		**348**	**412**
Attributable to:			
– equity holders of the Parent Company		346	411
– non-controlling interests		2	1

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2015

(€ million)	Note	Share capital and additional paid-in capital	Revaluation – financial assets AFS	Other capital reserves	Translation reserve	Cash flow hedge reserve/ (deficit)	Retained earnings	Attributable to equity holders of the parent	Attributable to non-controlling interests	Total
Balance as at beginning of reporting period		**3,602**	**315**	**162**	**(211)**	**(4)**	**471**	**4,335**	**4**	**4,339**
Net profit for the year							264	**264**	**1**	**265**
Available for sale financial assets' revaluation in equity	F.8		101					**101**		**101**
Available for sale financial assets' revaluation in income statement	F.8		(38)					**(38)**		**(38)**
Available for sale impairment losses	F.8		19					**19**		**19**
Available for sale change in deferred policyholders liabilities (assets)	F.8		(16)					**(16)**		**(16)**
Currency translation differences					89			**89**		**89**
Changes in cash flow hedge reserve	F.8					2		**2**		**2**
Other changes							(2)	**(2)**		**(2)**
Tax on items of other compehensive income	F.8		(7)			(1)		**(8)**		**(8)**
Total comprehensive income		**–**	**59**	**–**	**89**	**1**	**262**	**411**	**1**	**412**
Acquisition of subsidiary from entity under common control	C.1			2				**2**	**22**	**24**
Acquisition of insurance portfolio	C.1						(2)	**(2)**		**(2)**
Allocation to reserve for share-based payments							2	**2**		**2**
Dividends to shareholders	F.8.1						(76)	**(76)**	**–**	**(76)**
Balance as at end of reporting period		**3,602**	**374**	**164**	**(122)**	**(3)**	**657**	**4,672**	**27**	**4,699**

For the year ended 31 December 2016

(€ million)	Note	Share capital and additional paid-in capital	Revaluation – financial assets AFS	Other capital reserves	Translation reserve	Cash flow hedge reserve/ (deficit)	Retained earnings	Attributable to equity holders of the parent	Attributable to non-controlling interests	Total
Balance as at beginning of reporting period		**3,602**	**374**	**164**	**(122)**	**(3)**	**657**	**4,672**	**27**	**4,699**
Net profit for the year							314	**314**	**2**	**316**
Available for sale financial assets' revaluation in equity	F.8		103					**103**		**103**
Available for sale financial assets' revaluation in income statement	F.8		(63)					**(63)**		**(63)**
Available for sale impairment losses	F.8		24					**24**		**24**
Available for sale change in deferred policyholders liabilities (assets)	F.8		(28)					**(28)**		**(28)**
Currency translation differences								**–**		**–**
Tax on items of other compehensive income	F.8		(4)					**(4)**		**(4)**
Total comprehensive income		**–**	**32**	**–**	**–**	**–**	**314**	**346**	**2**	**348**
Acquisition of subsidiary from entity under common control	C.1		2	(21)				**(19)**	**(25)**	**(44)**
Allocation to reserve for share-based payments							4	**4**		**4**
Dividends to shareholders	F.8.1						(230)	**(230)**	**–**	**(230)**
Balance as at end of reporting period		**3,602**	**408**	**143**	**(122)**	**(3)**	**745**	**4,773**	**4**	**4,777**

CONSOLIDATED STATEMENT OF CASH FLOWS (indirect method)

For the period from 1 January to 31 December

(€ million)	Note	2016	2015
Cash flow from operating activities			
Earnings before taxes		**360**	**316**
Adjustments for:			
Depreciation and amortisation	F.22, F.24	37	37
Amortisation of PVFP and impairment losses on goodwill and PVFP	F.24	68	65
Impairment and reversal of impairment of current and non-current assets	F.18, F.22, F.24	33	25
Profit/Loss on disposal of PPE, intangible assets and investment property	F.19, F.24	–	(1)
Gain/loss from revaluation of financial securities, investment property and financial liabilities at FVTPL	F.16, F.18, F.22	(122)	6
Interest expense	F.22	34	43
Interest income	F.18	(252)	(260)
Dividend income	F.18	(16)	(16)
Net Interest income from financial instruments at FVTPL	F.16	(16)	5
Income/expenses not involving movements of cash		(3)	(15)
Share based payments reserve		3	2
Change in loans and receivables		4	(280)
Change in loans and advances to customers		(31)	–
Change in receivables		12	13
Change in reinsurance assets		(2)	(7)
Change in other assets, prepayments and accrued income		21	(158)
Change in payables		–	21
Change in financial liabilities for investment contract with DPF		160	214
Change in financial liabilities at FVTPL		6	24
Change in liabilities to banks		249	–
Change in deposits received from reinsurer		6	2
Change in insurance liabilities		219	107
Change in other liabilities, accruals and deferred income		3	–
Change in other provisions	F.10	2	(10)
Interest received		110	210
Dividends received	F.18	15	15
Purchase of financial assets at FVTPL		(6,794)	(10,108)
Purchase of financial assets available for sale		(2,173)	(2,218)
Proceeds from financial assets at FVTPL		6,919	10,137
Proceeds from financial assets available for sale		1,782	2,131
Proceeds from financial assets held to maturity		–	10
Cash flows arising from taxes on income		(70)	(68)
Net cash flow from operating activities		**564**	**242**
Cash flow from investing activities			
Purchase of tangible assets and intangible assets		(35)	(42)
Purchase of investment property		(60)	(36)
Net cash flow from acquisition of subsidiaries, associates and joint ventures, net of cash acquired	B.1	(43)	6

(€ million)	Note	2016	2015
Provided loans		(133)	(32)
Proceeds from disposals of tangible and intangible assets		(2)	2
Proceeds from sale of investment property		2	–
Net cash flow from investing activities		**(271)**	**(102)**
Cash flow from financing activities			
Repayment of loans		(15)	(42)
Interest paid		(1)	(2)
Dividend received		1	–
Dividends paid to shareholders	F.8.1	(230)	(76)
Net cash flow from financing activities		**(245)**	**(120)**
Net increase (decrease) in cash and cash equivalents		**48**	**20**
Cash and cash equivalents as at beginning of reporting period	**F.7**	**332**	**307**
Effect of exchange rate changes on cash and cash equivalents		(1)	5
Cash and cash equivalents as at end of reporting period	**F.7**	**379**	**332**

Notes to the Financial Statements

A. General information

A.1 Description of the Group

Generali CEE Holding B.V. ("Generali CEE Holding", "Generali CEE" or the "Company") is an insurance holding company operating via its subsidiaries. It offers a wide range of life and non-life insurance products as well as pension fund schemes in Central and Eastern Europe.

Generali CEE Holding was established under the laws of the Netherlands and as at 31 December 2016 was fully owned by Assicurazioni Generali S.p.A. ("Generali") which is the Company's ultimate parent company. Generali's financial statements are publicly available on its internet pages www.generali.com.

Although a Dutch company, incorporated on 10 July 2007 under the laws of the Netherlands, with its registered office in Diemerhof 42, 1112XN Diemen, The Netherlands, its main operations are based in the Czech Republic, where its branch is registered at Na Pankráci 121/1658, 140 21 Prague 4, Czech Republic. The Company identification number issued by the commercial register in the Netherlands is 342 75 688, the branch in the Czech Republic is registered under the identification number of 282 39 652.

The consolidated financial statements of Generali CEE Holding for the year ended 31 December 2016 comprise the Company and its subsidiaries (collectively referred to as the "Group").

See Section C of these financial statements for a listing of significant Group entities and changes to the Group structure.

The Board of Directors authorised these financial statements to be issued on 10 May 2017.

A.2 Statutory body

The Board of Directors as at the end of the reporting period consists of:
Chairman: Valter Trevisani
Members: Luciano Cirinà
Gregor Pilgram
Mario Greco (until 8 February 2016)
Nikhil Srinivasan (until 8 January 2017)
Luigi Lubelli (appointed on 14 March 2017)
Martin Sturzlbaum (appointed on 14 March 2017)

B. Basis of preparation

B.1 Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) in accordance with the IAS Regulation (EC 1606/2002). The Company financial statements have been drawn up in accordance with Section 402, Book 2, of the Dutch Civil Code.

Management has reviewed those standards and interpretations adopted by the EU as at the date of issuance of these financial statements, but which were not effective as at that date. An assessment of the expected impact of these standards and interpretations on the Group is shown in D.6.

B.2 Basis of preparation

The Group prepares these consolidated financial statements in accordance with IFRS (as adopted by the EU – see Note B.1).

These financial statements are presented in euros ("EUR"), which is the functional currency of its shareholders.

These financial statements have been prepared on a historical cost basis except for the following assets and liabilities which are stated at their fair value: derivative financial instruments, financial instruments at fair value through profit or loss and financial instruments classified as available for sale.

The preparation of these financial statements in accordance with IFRS requires that management makes judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about the carrying values of assets and liabilities that cannot readily be determined from other sources. The actual values may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision only affects that period, or in both the period of the revision and future periods if the revision affects both the current and future periods.

C. General criteria for drawing up the financial statements and the consolidation method

C.1 Group entities

The consolidated financial statements are made up of those of the Parent Company and of its directly or indirectly controlled subsidiaries. All entities satisfying the requisites of effective control are included in the consolidation. According to IFRS 10 Consolidated Financial Statements, the control exists when the following three conditions are met:
(a) power over the investee
(b) exposure, or right to variable returns
(c) the ability to affect those returns through power over the investee.

The Group consolidates all material subsidiaries and recognises, using the equity method, all material associated companies and joint ventures. Associated companies and joint ventures are summarised in table F.3.2. A list of Group entities is presented below.

For the year ended 31 December 2016

Company	Country	Functional currency	Proportion of ownership interest	Proportion of voting rights
Generali Insurance AD	Bulgaria	BGN	99.78	99.78
Generali Zakrila Medical and Dental Centre EOOD	Bulgaria	BGN	99.78	99.78
GP Reinsurance EAD	Bulgaria	CZK	100.00	100.00
Generali Osiguranje Srbija A.D.O	Serbia	RSD	100.00	100.00
Generali Reosiguranje Srbija A.D.O.	Serbia	RSD	100.00	100.00
Voluntary Pension Fund Manag – Generali Drustvo za upravljanje dobrovoljnim penzijskim fondom A.D.	Serbia	RSD	100.00	100.00
Generali Pojišťovna a.s.	Czech Republic	CZK	100.00	100.00
ČP Distribuce s.r.o. (former Generali Development, s.r.o.)	Czech Republic	CZK	100.00	100.00
Pařížská 26, s.r.o.	Czech Republic	CZK	100.00	100.00
Direct Care s.r.o.	Czech Republic	CZK	100.00	100.00
Palác Křižík a.s.	Czech Republic	CZK	100.00	100.00
IDEE s.r.o.	Czech Republic	CZK	100.00	100.00
Small GREF a.s.*	Czech Republic	CZK	100.00	100.00
Náměstí Republiky 3a, s.r.o.*	Czech Republic	CZK	100.00	100.00
Můstek Properties s.r.o.*	Czech Republic	CZK	100.00	100.00
Česká pojišťovna, a.s.	Czech Republic	CZK	100.00	100.00
Penzijní společnost CP, a.s. (including Transformed fund)	Czech Republic	CZK	100.00	100.00
Česká pojišťovna ZDRAVÍ a.s.	Czech Republic	CZK	100.00	100.00
Generali Investments CEE, Investiční Společnost, a.s. (former ČP INVEST invest.spol. a.s.)	Czech Republic	CZK	100.00	100.00
FINHAUS a.s. (former Generali Services CEE a.s.)	Czech Republic	CZK	100.00	100.00
Acredité s.r.o. (former REFICOR s.r.o.)	Czech Republic	CZK	100.00	100.00
Generali Real Estate Fund CEE a.s.	Czech Republic	CZK	100.00	100.00
City Empiria, a.s.	Czech Republic	CZK	100.00	100.00
Solitaire Real Estate, a.s.	Czech Republic	CZK	100.00	100.00
Generali Osiguranje d.d.	Croatia	HRK	100.00	100.00
Generali Biztosító Zrt.	Hungary	HUF	100.00	100.00
Europai Utazasi Biztosito R.t.	Hungary	HUF	61.00	61.00
Generali Ingatlan Kft	Hungary	HUF	100.00	100.00
Generali Alapkezelõ Rt.	Hungary	HUF	100.00	100.00

Company	Country	Functional currency	Proportion of ownership interest	Proportion of voting rights
Genertel Biztosító Zrt	Hungary	HUF	100.00	100.00
Generali CEE Oil & Energy Industry Fund	Ireland	EUR	88.27	88.27
Generali CEE New Economies Fund	Ireland	EUR	84.48	84.48
Generali CEE Emerging Europe Fond	Ireland	EUR	71.90	71.90
Generali CEE Emerging Europe bond fund	Ireland	EUR	99.74	99.74
Generali Prémiový dynamický fond*	Ireland	EUR	44.84	44.84
Generali osiguranje Montenegro	Montenegro	EUR	100.00	100.00
Generali CEE Holding B.V.	The Netherlands	CZK	0.00	0.00
CZI Holdings N.V.	The Netherlands	CZK	100.00	100.00
CP Strategic Investments N.V.	The Netherlands	EUR	100.00	100.00
Generali Towarzystwo Ubezpiec.	Poland	PLN	100.00	100.00
Generali Zycie S.A.	Poland	PLN	100.00	100.00
Generali Finance Sp. z o.o.	Poland	PLN	100.00	100.00
Generali PTE S.A.	Poland	PLN	100.00	100.00
PL Investment Jerozolimskie I SP. Z o.o.	Poland	PLN	100.00	100.00
PL Investment Jerozolimskie II SP. Z o.o.	Poland	PLN	100.00	100.00
Generali SAF Pensii Private SA	Romania	RON	100.00	100.00
SC Generali Romania Asigurare Reasigurare	Romania	RON	99.97	99.97
Generali Zavarovalnica d.d.	Slovenia	EUR	100.00	100.00
Generali Poisťovňa, a.s.	Slovakia	EUR	100.00	100.00
Green Point Offices a.s. (former Apollo Business Center IV. a.s.)	Slovakia	EUR	100.00	100.00
VUB Generali d.s.s., a.s.**	Slovakia	EUR	50.00	50.00

* Entity acquired in 2016
** Joint-venture

For the year ended 31 December 2015

Company	Country	Functional currency	Proportion of ownership interest	Proportion of voting rights
Generali Bulgaria Holding AD	Bulgaria	BGN	100.00	100.00
Generali Insurance AD	Bulgaria	BGN	34.81	34.81
Generali Life Insurance AD	Bulgaria	BGN	99.56	99.56
Generali Zakrila Medical and Dental Center EOOD	Bulgaria	BGN	34.81	34.81
GP Reinsurance EAD	Bulgaria	CZK	100.00	100.00
Generali Osiguranje Srbija A.D.O	Serbia	RSD	100.00	100.00
Generali Reosiguranje Srbija A.D.O.	Serbia	RSD	100.00	100.00
Voluntary Pension Fund Manag – Generali Drustvo za upravljanje dobrovoljnim penzijskim fondom A.D.	Serbia	RSD	100.00	100.00
Generali Pojišťovna a.s.	Czech Republic	CZK	100.00	100.00
Generali Development, s.r.o.	Czech Republic	CZK	100.00	100.00
Pařížská 26, s.r.o.	Czech Republic	CZK	100.00	100.00
Direct Care s.r.o.	Czech Republic	CZK	100.00	100.00
Palác Křižík a.s.	Czech Republic	CZK	100.00	100.00
IDEE s.r.o.*	Czech Republic	CZK	100.00	100.00
Česká pojišťovna, a.s.	Czech Republic	CZK	100.00	100.00
Penzijní společnost CP, a.s. (including Transformed fund)	Czech Republic	CZK	100.00	100.00

Company	Country	Functional currency	Proportion of ownership interest	Proportion of voting rights
Česká pojišťovna ZDRAVÍ a.s.	Czech Republic	CZK	100.00	100.00
Generali Investments CEE a.s.	Czech Republic	CZK	100.00	100.00
ČP INVEST invest.spol. a.s.	Czech Republic	CZK	100.00	100.00
Generali Services CEE a.s.	Czech Republic	CZK	100.00	100.00
REFICOR s.r.o.	Czech Republic	CZK	100.00	100.00
Generali Real Estate Fund CEE a.s.	Czech Republic	CZK	100.00	100.00
City Empiria, a.s.	Czech Republic	CZK	100.00	100.00
Solitaire Real Estate, a.s.	Czech Republic	CZK	100.00	100.00
Generali Osiguranje d.d.	Croatia	HRK	100.00	100.00
Generali Biztosító Zrt.	Hungary	HUF	100.00	100.00
Europai Utazasi Biztosito R.t.	Hungary	HUF	61.00	61.00
Generali Ingatlan Kft	Hungary	HUF	100.00	100.00
Generali Alapkezelõ Rt.	Hungary	HUF	100.00	100.00
Genertel Biztosító Zrt	Hungary	HUF	100.00	100.00
Generali CEE Oil & Energy Industry Fund	Ireland	EUR	88.66	88.66
Generali CEE New Economies Fund	Ireland	EUR	84.52	84.52
Generali CEE Commodity Fund	Ireland	EUR	82.58	82.58
Generali CEE Emerging Europe Fond	Ireland	EUR	79.68	79.68
Generali CEE Emerging Europe bond fund	Ireland	EUR	99.84	99.84
Generali osiguranje Montenegro	Montenegro	EUR	100.00	100.00
Generali CEE Holding B.V.	The Netherlands	CZK	100.00	100.00
CZI Holdings N.V.	The Netherlands	CZK	100.00	100.00
CP Strategic Investments N.V.	The Netherlands	EUR	100.00	100.00
Generali Towarzystwo Ubezpiec.	Poland	PLN	100.00	100.00
Generali Zycie S.A.	Poland	PLN	100.00	100.00
Generali Finance Sp. z o.o.	Poland	PLN	100.00	100.00
Generali PTE S.A.	Poland	PLN	100.00	100.00
PL Investment Jerozolimskie I SP. Z o.o. *	Poland	PLN	100.00	100.00
PL Investment Jerozolimskie II SP. Z o.o.*	Poland	PLN	100.00	100.00
Generali SAF Pensii Private SA	Romania	RON	100.00	100.00
SC Generali Romania Asigurare Reasigurare	Romania	RON	99.91	99.91
Generali Zavarovalnica dd	Slovenia	EUR	100.00	100.00
Generali Poisťovňa, a.s.	Slovakia	EUR	100.00	100.00
Apollo Business Center IV. a.s.	Slovakia	EUR	100.00	100.00
VÚB Generali d.s.s., a.s.**	Slovakia	EUR	50.00	50.00

* Entity acquired in 2015
** Joint-venture

The tables below present the list of investment funds that are considered associates and are reported within the financial investments using the equity method.

For the year ended 31 December 2016

Company	Country
Generali Fond nemovitostních akcií	Czech Republic

For the year ended 31 December 2015

Company	Country
Generali Fond živé planety	Czech Republic

General information about joint ventures:	VÚB Generali, Dôchodková správcovská spoločnosť, a.s.,
Registered seat:	Mlynské nivy 1, 829 90 Bratislava
Shareholders:	Generali Slovensko Poisťovňa, a.s. and VÚB, a.s.
Group's stake in registered capital:	50%
Core business:	Administration of pension funds for retirement savings scheme
Recognised:	Using equity method

C.1.1 Changes to the Group

Detailed information about significant transactions with subsidiaries of the Group for the year ended 31 December 2016 is provided below.

1. Restructuring of Group activities

In 2016, the Group continued in streamlining operations within the CEE region with the aim of rationalising its structure, and concluded the following transactions:

1.1 Transfer of Generali Insurance AD shares from Assicurazioni Generali S.p.A.

Following the merger of Bulgarian entities Generali Insurance AD and ZAD Victoria in 2015 (see below), the Group acquired 30,735,269 shares of the merged entity (representing 64.97%) previously held by Assicurazioni Generali S.p.A. The shares were transferred in November 2016 and, as a result, the Group shareholding interest in the entity amounts to 99.78%.

1.2 Liquidation of Generali Bulgaria Holding AD

With the aim of rationalising its operations and optimising the structure in Bulgaria, the Group decided to transfer all Bulgarian entities held by Generali Bulgaria Holding AD (Generali Insurance AD and Generali Life Insurance AD) to Generali CEE Holding B.V. These transactions were finalized before the year-end 2016 and Generali Bulgaria Holding AD was subsequently liquidated.

1.3 Sale of life portfolio in Bulgaria and liquidation of Generali Life Insurance AD

During first half of 2016, Generali Life Insurance AD transferred part of its portfolio of individual insurance policies (especially Accident and Illness products that are within the scope of the licence for non-life company) with all rights and obligations to Generali Insurance AD. Whereas the main part of the portfolio of the life insurance company was transferred to a third party – the Life insurance company Saglasie AD ("Saglasie"). The portfolio sold to Saglasie included insurance policies for Death and endowment insurance, Pension insurance, Unit-linked insurance and other life insurance products.

Insurance liabilities transferred to Generali Insurance AD amounted to €0.4 million and the selling price was €0.1 million. On the other hand, the total amount of insurance liabilities transferred to Saglasie amounted to €6 million for the selling price of €0.5 million. A corresponding amount of assets in the form of insurance receivables and bonds was transferred to both Generali Insurance AD and Saglasie.

Following the transfer of the portfolio and termination of the remaining insurance policies, Generali Life Insurance AD was liquidated in December 2016.

1.4 Merger of Czech investment entities

In January 2016, the Group completed the combination of its two investment entities in the Czech Republic – ČP Invest investiční společnost, a.s., an existing distributor of open-ended mutual funds, has joined forces with its own asset manager, Generali Investments CEE, a.s. After the merger, ČP Invest was renamed to Generali Investments CEE, investiční společnost, a.s.

Both companies have been successfully cooperating with each other for many years. ČP INVEST served as a provider of open-ended mutual funds to retail investors. The assets of these funds were under Generali Investments CEE's management.

Through the merger, the Group aims to increase its flexibility and to acquire new opportunities to increase its market share. Having acquired the extended license for an investment company enabling the asset management, Generali Investments CEE, investiční společnost, a.s. will be able to provide a more efficient fund management for retail investors, pension companies and insurance companies belonging to the Generali Group, effective immediately. The Group will continue to focus on retail clients; however, its business will be developed to start serving corporations and public institutions as well. The combination will give rise to the leading investment company in the Czech market, managing assets exceeding €9 billion.

2. Acquisition of real estate assets in Prague

The Group acquired two real estate properties in downtown Prague, in 2016.

Mustek properties, s.r.o.

In June 2016, the Group completed a transaction whereby it acquired an entity owning a historical building located in the commercial heart of Prague – 28. října street in the lower part of Wenceslas square – with approximately 1,800 sqm of gross lettable area. The property usage reflects the need for top tourist and retail destination and includes premises with mixed usage – ground floor high street retail area (20% of total area) and a boutique hotel premises the ground floors.

The transaction is regarded as an acquisition of a group of assets, as the transferred set of activities and assets does not meet the definition of IFRS 3 for a business.

Banking House – Náměstí republiky

In March 2016, the Group acquired an office building – UniCredit Banking House – located at Náměstí republiky in Prague, next to the well known office and retail complex Palladium. The building was completed in the late 90's under the pen of architect Bernhard Winking and SIAL architects providing its neofunctionalist shape, and refurbished in 2011. It provides gross lettable area of 4,575 sqm split as follows: 82% office, 12% retail and 6% of storage used as banking facility.

Upon the transfer of the ownership, the Group concluded a long-term lease agreement with Unicredit Bank, the prior owner of the property. This transaction underlines the Group focus on investment properties located in prime locations with high potential of stable income generation underlined by high occupancy.

Detailed information about significant transactions with subsidiaries of the Group for the year ended 31 December 2015 is provided below.

1. Merger of Generali Insurance AD and ZAD Victoria

With the aim of consolidating the structure and non-life activities in Bulgaria, Assicurazioni Generali S.p.A. took the decision to combine two entities belonging to the Generali Group – Generali Insurance AD and ZAD Victoria. Prior to the merger, both companies were controlled by Assicurazioni Generali S.p.A. – ZAD Victoria was owned directly, whereas Generali Insurance AD indirectly through Generali CEE Holding B.V. The procedure was formally started in May 2015 by the adoption of a resolution by the management and supervisory bodies of both companies. On 18 December 2015, the merger was registered in the Bulgarian Commercial Register and became effective as of the same day.

All of the assets and liabilities of ZAD Victoria were transferred to Generali Insurance AD which is the legal successor of the merged entities. In exchange for the net assets of ZAD Victoria, Generali Insurance AD issued 30,735,380 new shares which were entirely subscribed by former ZAD Victoria shareholders (Assicurazioni Generali S.p.A. and one minority shareholder). The shares exchange ratio as well as the equivalent number of newly issued shares were based on fair value of the net assets of the combining entities. The valuation was provided by independent external advisor. No cash consideration was paid in addition to the issue of new shares.

The shareholders structure prior to the merger was as follows:

Generali Insurance AD	%
GENERALI CEE Holding BV Group	99.36775
Other minority shareholders	0.63225

ZAD Victoria	%
Assicurazioni Generali S.p.A	99.99964

As a result of the merger, Assicurazioni Generali S.p.A. became the majority shareholder of Generali Insurance AD, with 64.97% participation, and Generali CEE Holding B.V. holds 34.81% (the remaining interest is held by minority shareholders). The shares currently held by Assicurazioni Generali S.p.A. are planned to be transferred to Generali CEE Holding B.V. in 2016. Despite holding less than 50%, the Group retains control over the merged entity as it has the right to appoint and remove the majority of the members of the entity's governing body.

The transaction has been treated as a combination of entities under common control in the Group consolidated financial statements. The Group applies the pooling of interest method with a prospective application to the business combinations under common control. The carrying amounts of assets and liabilities existing in the financial statements of ZAD Victoria prior to the business combination were used. The consolidation differences were reflected in consolidated equity in other capital reserve, no goodwill was recognised.

At the acquisition date, the carrying amount of transferred assets and liabilities were as follows:

(€ million)	Amounts acquired
Assets	**81**
Tangible assets	5
Investments	51
Reinsurance assets	8
Receivables	13
Other assets	1
Cash and cash equivalents	3
Liabilities	**57**
Insurance provisions	51
Other liabilities	6
Net assets acquired	**24**

2. Transfer of insurance activities in Slovakia

As of 1 January 2015, the Slovak branch of insurance company Europäische Reiseversicherung (ERV), Vienna, became enterprise branch of Generali Poisťovňa, a. s., a Group subsidiary. ERV transferred to Generali Poisťovňa its insurance activities in Slovakia and related rights and obligations, including insurance portfolio, brand, assets, liabilities and employees.

ERV is a non-life insurance company specialising in travel insurance and is part of the Generali Group. The aim of the transfer was to combine insurance activities of Generali Group in Slovakia under one single management in order to seek for synergies resulting from the merger.

The acquisition price paid by the Group amounts to €1 million. The transaction has been treated as a combination of entities under common control in the Group consolidated financial statements. The transaction has been accounted for using the pooling of interest method with prospective application – the carrying amounts of assets and liabilities existing in the financial statements of ERV prior to the business combination were used. The difference between consideration paid and the net value of acquired assets was reflected in consolidated equity, no goodwill was recognised.

At the acquisition date, the carrying amount of transferred assets and liabilities were as follows:

(€ million)	Amounts acquired
Assets	**4**
Cash and cash equivalents	3
Other assets	1
Liabilities	**5**
Insurance provisions	3
Other liabilities	2
Net assets acquired	**(1)**

3. Acquisition of IDEE s.r.o.
On 30 January 2015, the Group signed a binding agreement regarding the purchase of the company IDEE, s.r.o. a real estate entity owning mixed-use property located in the centre of Prague, Jungmannovo náměstí. The transaction was finalised on 30 April 2015 when the 100% ownership was transferred to the Group in exchange for a total consideration of €13.3 million. In addition, the Group paid €1 million to the seller in January 2016 after meeting conditions defined in the purchase agreement. The amount was recognised in liabilities of the Group as a contingent consideration as of 31 December 2015.

The transaction is regarded as an acquisition of a group of assets, as the transferred set of activities and assets does not meet the definition of IFRS 3 for a business.

4. Acquisition of real estate assets in Warsaw (PL)
In December 2015, the Group completed a transaction whereby it acquired an office building in Warsaw with approximately 9,380 sqm of gross leasable area. The building is situated to the Wlochy district, an established secondary office location facing Jerozolimskie avenue. The acquisition of the asset follows the Group strategy of extending its investment portfolio and to target on prime locations in Central Europe. The purchase price amounts to €20.9 million net of VAT.

5. Restructuring of Group activities within CEE region
With the aim of rationalising its operations and optimising the structure within the Central and Eastern Europe region, the Group performed the following transactions during 2015, which include subsidiaries of the Group.

5.1 Merger of activities in Poland – transfer of Proama portfolio
As part of Generali CEE Group strategy aimed at the simplification of the governance structure and geographic and market priorities, supported by other regulatory topics such as the introduction of Solvency II, the Group bodies decided to domesticate the Polish operations of Česká pojišťovna, a.s., currently operating under the Proama brand, and to transfer its insurance portfolio and all related business activities to Poland. From regulatory, operational, financial and capital management reasons, the portfolio was transferred to another Group entity operating in Poland – Generali Towarzystwo Ubezpieczeń S.A.

All the regulatory approvals were received in the second half of 2015 and the sale was completed in December 2015. The decision to transfer the operations of the branch to Poland, through the sale of the part of the company, is one of the steps leading to the fulfilment of the GCEE Group strategy.

5.2 Sale of ČP INVEST investiční společnost, a.s.
On 15 April 2015, Česká pojišťovna, a.s. signed an agreement with CZI Holdings N. V. to transfer 100% shares it held in ČP Invest investiční společnost, a.s. The purchase price amounts to CZK 1 billion. On 1 January 2016, the company merged with Generali Investments CEE, a.s. and was renamed to Generali Investments CEE, investiční společnost, a.s.

5.3 Merger of Generali Care s.r.o., ČP DIRECT, a.s. and Univerzální správa majetku a.s.
On 30 April 2015, the representatives of Generali Care s.r.o., ČP Direct, a.s. and Univerzální správa majetku a.s. signed a Merger project. The merger was approved by Česká pojišťovna, a.s. and Generali Pojišťovna, a.s., being the shareholders of the involved entities, on 29 June 2015. The successor company is Generali Care s.r.o., the other two companies were dissolved. The effective date of the merger was 1 January 2015.

On 11 August 2015, the successor company was renamed to Direct Care s.r.o.

5.4 Merger of REFICOR s.r.o., Pankrác services s.r.o. and Generali Servis s.r.o.
On 5 May 2015 the representatives of REFICOR s.r.o., Pankrác services s.r.o. and Generali Servis s.r.o. signed a Merger project whereby the companies Pankrác services s.r.o. and Generali Servis s.r.o. merged into REFICOR s.r.o. The merger was approved by Česká pojišťovna, a.s. and Generali Pojišťovna, a.s., being the shareholders of the involved entities, on 29 June 2015. The effective date of the merger was 1 January 2015.

C.2 Consolidation methods and accounting for associates and joint ventures

Investments in subsidiaries are consolidated line by line, whereas investments in associated companies and joint ventures are accounted for using the equity method.

Reorganisations and mergers involving companies under common control are accounted for using predecessor amounts, and consequently no adjustment is made to the carrying amounts in the Group's consolidated accounts and no goodwill arises on such transactions.

Translation from functional to presentation currency

The statements of the financial position in functional currencies different from the presentation currency of the Group were translated into EUR based on the exchange rates as at the end of the year.

The income statements were translated based on the average exchange rates of the year. They reasonably approximate the exchange rates as at the dates of the transactions.

The exchange rate differences arising from the translation were accounted for in other comprehensive income in a translation reserve and recognised in the income statement only at the time of the disposal of the investments.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as the foreign entity's assets and liabilities and are translated at the closing rate.

The exchange rates used for the translation of the main foreign currencies for the Group into EUR ("€") are those published by the ultimate parent Assicurazioni Generali.

C.2.1 Consolidation procedures
The subsidiaries where the requisites of control are applicable are consolidated.

The standard IFRS 10 defines a single control model for all entities. Under the guidance, control is the sole basis for consolidation. The structure of the investee is not relevant. An investor is required to consolidate an investee if it has all of the following:
- Power over the investee
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power to affect the amount of the investor's returns.

The consolidation of a subsidiary ceases commencing from the date when the Parent Company loses control.
If the Group loses control over a subsidiary, it:

- derecognises the assets (including goodwill) and liabilities of the subsidiary;
- derecognises the carrying amount of any non-controlling interest;
- derecognises the cumulative translation differences recorded in equity;
- recognises the fair value of the consideration received;
- recognises the fair value of any investment retained;
- recognises any surplus or deficit in profit or loss;
- reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

In preparing the consolidated financial statements:

- the financial statements of the Group and its subsidiaries are consolidated. The financial year-end date of each subsidiary is identical with that of the Group, 31 December of each financial year;
- the carrying amount of the Group's investment in each subsidiary and the Group's portion of equity of each subsidiary are eliminated as at the date of acquisition;
- non-controlling shareholder's interests are shown as separate items of equity; and
- intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are recognised as expenses in the period in which they are incurred. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values as at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated income statement.

Changes to contingent consideration classified as a liability as at the acquisition date are recognised in the consolidated income statement.

Accounting for business combinations under IFRS 3 only applies if it is considered that a business has been acquired. Under IFRS 3, 'Business combinations', a business is defined as an integrated set of activities and assets conducted and managed for the purpose of providing a return to investors or lower costs or other economic benefits directly and proportionately to policyholders or participants. A business generally consists of inputs, processes applied to those inputs, and resulting outputs that are, or will be, used to generate revenues. In the absence of such criteria, a group of assets is deemed to have been acquired. If goodwill is present in a transferred set of activities and assets, the transferred set is presumed to be a business. For acquisitions meeting the definition of a business, the purchase method of accounting is used.

For acquisitions not meeting the definition of a business, the Group allocates the cost between the individual identifiable assets and liabilities in the Group based on their relative fair values as at the date of acquisition. Such transactions or events do not give rise to goodwill.

Transactions with non-controlling interests

The Group is treating the transactions with non-controlling interests as equity transactions not affecting profit or loss. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Non-controlling interests are shown in the consolidated statement of financial position as a separate component of equity, which is distinct from the Group's Shareholder's equity. The net income attributable to non-controlling interests is separately disclosed on the face of the consolidated income statement and statement of comprehensive income.

Reorganisations and mergers involving companies under common control are accounted for using consolidated net book values, consequently no adjustments are made to carrying amounts in the consolidated accounts and no goodwill arises on such transactions.

C.2.2 Using the equity method

Associated companies

IAS 28 defines an associate as 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.

Under the equity method, the investment in an associate is initially recognised at cost (including goodwill) and the carrying amount is increased or reduced to recognise the change in the investor’s share of the equity of the investee after the date of acquisition. The Group’s share of the profit or loss of the investee, net of dividends, is recognised in its consolidated income statement.

Unrealised gains on transactions between the Group and its associated companies are eliminated to the extent of the Group’s interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The accounting policies of associates have been changed where necessary in order to ensure consistency with the policies adopted by the Group.

Joint ventures

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Joint control is the contractually agreed sharing of control over an economic activity. Investments in joint ventures are accounted for by the equity method of accounting and are initially recognised at cost. The Group’s investment in joint ventures includes goodwill identified on acquisition.

The Group’s share of its joint ventures’ post-acquisition profit or loss is recognised in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in reserves. When the Group’s share of losses in the joint-venture equals or exceeds its interest in the joint venture, including other unsecured receivables, the Group does not recognise further losses unless it has incurred obligations or made payments on behalf of the joint venture.

Unrealised gains on transaction between the Group and its joint ventures are eliminated to the extent of the Group’s interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Joint venture accounting policies have been changed where necessary in order to ensure consistency with the policies adopted by the Group.

C.2.3 Consolidation of investment funds

The Group manages open-ended investment funds through the management companies Generali Investments CEE, investiční společnost, a.s. and Generali Invest CEE Plc. The Group invests the assets related to unit-linked products in these investment funds as well as its own direct investments.

For each of the fund the Group considers if the power over that investment fund exists and if 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.

Based on the assessment, control over the investment fund exists and the fund is consolidated in case that the direct interests held by the Group in the investment fund are more than 40%. Unit-linked products where the financial risk related to the investment is borne by the policyholders should not be taken into consideration since the exposure to variable returns and ability to affect those returns through power over the investee is only limited or do not exist.

The non-controlling interests in open investment funds are reported within financial liabilities, because of their puttable nature. The non-controlling interests in the funds where the puttable nature is limited or does not exist are shown in the consolidated statement of financial position as a separate component of equity, which is distinct from the Group’s Shareholder’s equity.

The Funds where the Group‘s control does not exist but the direct share interests add up to significant influence are considered Associates and are reported within the financial investments using the equity method (see note C.1).

D. Significant accounting policies and assumptions

D.1 Significant accounting policies

The accounting standards adopted in preparing the consolidated financial statements, and the contents of the items in the consolidated financial statements are presented in this section.

D.1.1 Intangible assets

In accordance with IAS 38, an intangible asset is recognised if, and only if, it is identifiable and controllable, it is probable that the expected future economic benefits attributable to the asset will flow to the Group and the cost of the asset can be measured reliably.

This category includes goodwill and other intangible assets, such as software and purchased insurance portfolio.

The Group owns no software with indefinite useful life.

Gains or losses arising from derecognition 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 consolidated income statement when the asset is derecognised.

Goodwill

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill.

After initial recognition, goodwill is measured at cost less any impairment losses and it is not amortised. Goodwill is tested at least annually in order to identify any impairment losses.

The purpose of the impairment test of goodwill is to identify the existence of any impairment losses on the carrying amount presented as an intangible asset. In this context, cash-generating units to which the goodwill is allocated are identified and tested for impairment. The impairment loss is equal to the difference, if negative, between the recoverable amount and carrying amount. The former is the higher of the fair value less costs of disposal 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 cash-generating unit is determined on the basis of current market quotations or commonly used valuation techniques. The value in use is based on the present value of future cash inflows and outflows, considering projections on budgets/forecasts approved by management and covering a maximum period of five years. Should any previous impairment losses allocated to goodwill no longer exist, they cannot be reversed.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

Present value of future profits

On acquisition of a portfolio of long-term insurance contracts or investment contracts, either directly, or through the acquisition of an enterprise, the net present value of the shareholder's interest in the expected cash flows of the portfolio acquired is capitalised as an asset. This asset, which is referred to as the Present Value of Future Profits (PVFP), is calculated on the basis of an actuarial computation taking into account assumptions for future premiums income, contributions, mortality, morbidity, lapses and returns on investments. PVFP is recognised separately for insurance segments and particular companies.

The PVFP is amortised over the average effective life of the contracts acquired, by using an amortisation pattern reflecting the expected future profit recognition. Assumptions used in the development of the PVFP amortisation pattern are consistent with the ones applied in its initial measurement. The amortisation pattern is reviewed on a yearly basis to assess its reliability and to verify its consistency with the assumptions used in the valuation of the corresponding insurance provisions. The amortisation period varies from 5 to 30 years for individual portfolios from the date of acquisition.

For the life portfolio, the recoverable amount of the in-force business acquired is determined annually through the liability adequacy test (LAT) of the insurance provisions – mentioned in note D.3.3 – taking into account, if any, the deferred acquisition costs recognised in the consolidated statement of financial position. If any, the impairment losses are recognised in the consolidated income statement.

The amortisation and the potential impairment of present value of future profits are recognised in the consolidated income statement under the item “Other expenses”. For further details, see Note F.1.2.

Where there is any indication that an impairment loss recognised for PVFP in prior years no longer exists, the carrying amount of PVFP is increased to its estimated recoverable amount. The increased carrying amount of PVFP, due to the reversal of impairment loss, cannot exceed the carrying amount that would be determined if no impairment loss had been recognised for PVFP in prior years, net of any amortisation accounted for in the meantime.

Other intangible assets
Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses.

Intangible assets with finite useful lives are amortised on a straight-line basis over an average period of 3 – 5 years. The amortisation methods, useful lives and residual values, if not insignificant, are reassessed annually. If a material additional investment is made to an asset during the year, its useful life and residual value are reassessed at the time the cost of the investment is added to the carrying amount of the asset.

The brand can only be recognised when acquired from a third party and it is measured at the acquisition cost less impairment losses. Acquisition cost for this purpose is the asset’s fair value for assets acquired in business combinations – e.g., the relief-from-royalty method which is based on revenues attributable to the brand and appropriate royalty rate.

The amortisation and potential impairment of other intangible assets are recognised in the consolidated income statement under the item “Other expenses”. For further details, see Note F.1.2.

Where there is any indication that an impairment loss recognised for an asset in prior years no longer exists, the carrying amount of the asset is increased to its estimated recoverable amount. The increased carrying amount of the asset due to the reversal of impairment loss cannot exceed the carrying amount that would be determined if no impairment loss had been recognised for the asset in prior years, net of any depreciation or amortisation accounted for in the meantime.

D.1.2 Investment property
Investment properties are those held either to earn rental income, for capital appreciation or both. A property owned by the Group is treated as an investment property if it is not occupied by the Group or it occupies only an insignificant proportion of the property.

Property that is being constructed or developed for future use as an investment property is classified as investment property.

To measure the value of investment properties, the 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 property and equipment (D.1.3) for information about the criteria used by the Group and finance leases of land and buildings. Rental income from investment property is accounted for on a straight-line basis over the term of the lease.

Investment properties are derecognised either when they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the consolidated income statement in the period of derecognition.

D.1.3 Property and equipment
Property and equipment are measured at the purchase price or production cost, less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditures that are directly attributable to the acquisition of the items.

Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All repairs and maintenance are charged to the consolidated income statement during the financial period in which they are incurred.

Depreciation is provided on a straight-line basis using the following rates:

Item	Annual depreciation rate (%)
Buildings	1.72–10.00
Other tangible assets and equipment	5.88–33.33

The leasehold improvements (technical appreciation) performed on a leased asset are depreciated over the rental period.

Component parts of an asset, which have different useful lives or provide benefits in a different pattern, are recognised as separate assets with different depreciation rates.

The depreciation methods, useful lives and residual values, if not insignificant, are reassessed annually. If a material additional investment is made to an asset during the year, its useful life and residual value are reassessed at the time the cost of the investment is added to the carrying amount of the asset.

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Property and equipment acquired by means of finance leasing are stated at an amount equal to the lower of the fair value and the present value of the minimum lease payments at the inception of the lease, less accumulated depreciation and impairment losses. Financial leases of property and equipment are not material for the Group.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount. These are included in the consolidated income statement under the items “Other income” or “Other expenses”.

D.1.4 Financial assets

Financial assets include financial assets at fair value through profit or loss (including derivatives), financial assets available for sale, financial assets held to maturity, loans and receivables, cash and cash equivalents.

Financial assets are recognised in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument. For standard purchases and sales of financial assets, the Group’s policy is to recognise them using settlement-date accounting. Any change in the fair value of an asset to be received or disposed of during the period between the trade date and the settlement date is accounted for in the same way as if the Group used trade-date accounting. Financial instruments are measured initially at fair value plus transaction costs directly attributable to the acquisition or issue of the financial instrument, with the exception of financial instruments at fair value through profit or loss.

A financial asset is derecognised when the Group transfers the risk and rewards of ownership of the financial assets or loses control over the contractual rights that comprise that asset. This occurs when the rights are realised, expired or surrendered.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than classified at fair value through profit or loss or classified as available for sale.

After initial recognition at fair value, loans and receivables are measured at amortised cost using the effective interest method, less provision for impairment.

Financial assets held to maturity

Held-to-maturity assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that are quoted in an active market and the Group has the positive intent and ability to hold to maturity, other than those:

- that the Group upon initial recognition designates as at fair value through profit or loss;
- that the Group designates as available for sale;
- that meet the definition of loans and receivables.

Financial assets held to maturity are measured at amortised cost using the effective interest rate method less any impairment losses. The amortisation of premiums and discounts is recorded as interest income or expense.
The fair value of an individual security within the held to maturity portfolio can temporarily fall below its carrying value, but, provided there is no risk resulting from significant financial difficulties of the issuer, the security is not considered to be impaired.

Financial assets available for sale

Available for sale financial assets are those non-derivative financial assets not classified as loans and receivables, held to maturity financial assets, or financial assets at fair value through profit or loss.

After initial recognition, the Group measures financial assets available for sale at their fair values, without any deduction for transaction costs that it may incur upon sale or other disposal. Exceptions are instruments that do not have a quoted market price on an active market and whose fair value cannot be reliably measured which are stated at cost, including transaction costs, less impairment losses.

Any revaluation gain or loss on a financial asset available for sale is recognised in other comprehensive income with the exception of impairment losses (see note D.1.28) and, in the case of monetary items such as debt securities, foreign exchange gains and losses.

When available for sale assets are derecognised, the cumulative gain or loss previously recognised in other comprehensive income is recognised in the consolidated income statement. Where these instruments are interest-bearing, interest calculated using the effective interest rate method is recognised in the consolidated income statement. Dividend income is recognised in the consolidated income statement under the "Other investment income" – see note D.1.21.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held-for-trading and non-trading financial assets which are designated upon initial recognition at fair value through profit or loss.

Financial assets held-for-trading are acquired or incurred principally for the purpose of generating a profit from short-term fluctuations in the price or dealer's margin. Financial assets are classified as held-for-trading if, regardless of the reason they were acquired, they are part of a portfolio for which there is evidence of a recent actual pattern of short-term profit taking.

Financial assets held-for-trading include investments and derivative contracts that are not designated as effective hedging instruments. All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as trading assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as financial liabilities at fair value through profit or loss.

If a financial asset is no longer held for the purpose of selling or repurchasing it in the near term (notwithstanding that it may have been acquired or incurred principally for this purpose), the financial assets can be reclassified out of the fair value through the profit or loss category in rare circumstances.

The Group designates non-trading financial assets according to its investment strategy as financial assets at fair value through profit or loss, if there is an active market and the fair value can be reliably measured.

The fair value option is only applied when:

- it results in more relevant information, because it significantly reduces a measurement or recognition inconsistency ("accounting mismatch") of securities covering unit-linked policies;
- a group of financial assets is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, with information being provided to key management personnel on this basis.
- a contract contains one or more substantive embedded derivatives, unless the embedded derivative does not significantly modify the cash flows that otherwise would be required by the contract or it is clear that separation of an embedded derivative is prohibited.

Subsequent to initial recognition, all financial assets at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair values of financial assets at fair value through profit or loss are recognised in the income statement as "Other income"/"Other expenses" (FX derivatives other than unit-link investments derivatives) or as "Net income/loss from financial instruments at fair value through profit or loss".

Swaps

Swaps are over-the-counter agreements between the Group and other parties to exchange future cash flows based upon agreed notional amounts. Swaps most commonly used by the Group are interest rate and cross-currency interest rate swaps. Under interest rate swaps, the Group agrees with other parties to exchange, at specified intervals, the difference between fixed-rate and floating-rate interest amounts calculated by reference to an agreed notional amount. Cross-currency interest rate swaps require an exchange of interest payment flows and capital amounts in different currencies. The Group is subject to credit risk arising from default of the respective counter parties.

Market risk arises from potentially unfavourable movements in interest rates relative to the contractual rates of the contract or from movements in foreign exchange rates. Credit default swaps are also used by the Group. Under the credit default swap agreement, a credit risk is transferred from a protection buyer to a protection seller.

Futures and forwards

Forward contracts are commitments to either purchase or sell a designated financial instrument, currency, commodity or an index at a specified future date for a specified price and may be settled in cash or another financial asset. Forward contracts result in credit exposure to the counter party and exposure to market risk based on changes in market prices relative to the contracted amounts.

A futures contract is a standardised contract, traded on a futures exchange, to buy or sell a standardised quantity of a specified commodity of standardised quality at a certain date in the future, at a price determined by the instantaneous equilibrium between the forces of supply and demand among competing buy and sell orders on the exchange at the time of the purchase or sale of the contract. Futures contracts bear considerably lower credit risk than forwards and, as forwards, result in exposure to market risk based on changes in market prices relative to the contracted amounts.

Options

Options are derivative financial instruments that give the buyer, in exchange for a premium payment, the right, but not the obligation, to either purchase from (call option) or sell to (put option) the writer a specified underlying instrument at a specified price on or before a specified date. The Group enters into interest rate options, foreign exchange options, equity and index options and credit failure options (swaps). Interest rate options, including caps and floors, may be used as hedges against a rise or fall in interest rates. They provide protection against changes in the interest rates of floating rate instruments above or below a specified level. Foreign currency options may also be used (commensurate with the type of option) to hedge against rising or falling currency rates.

The Group as a buyer of over-the-counter options is subject to market risk and credit risk since the counter party is obliged to make payments under the terms of the contract if the Group exercises the option. As the writer of over-the-counter options, the Group is subject to market risk, as it is obliged to make payments if the option is exercised by the counterparty or credit risk from a premium due from a counterparty.

D.1.5 Reinsurance assets

Reinsurance assets comprise the actual or estimated amounts, which, under contractual reinsurance arrangements, are recoverable from reinsurers in respect of technical provisions.

Reinsurance assets relating to technical provisions are established based on the terms of reinsurance contracts and valued on the same basis as the related reinsured liabilities. The Group records an allowance for estimated irrecoverable reinsurance assets, if any.

D.1.6 Receivables

This item includes receivables arising out of direct insurance and reinsurance operations and other receivables.

Insurance receivables

Receivables on premiums written in the course of collection and receivables from intermediates, co-insurers and reinsurers are included in this item. They are initially recognised at fair value and then at their presumed recoverable amounts, if lower.

Other receivables

Other receivables include all other receivables other than of an insurance or tax nature. They are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less a provision for impairment.

Cash-flow hedge
For some of the expected foreign currency receivables, the cash-flow hedge by foreign currency loan is applied in the Group to minimise its exposure to changes in cash-flows denominated in foreign currencies.

The effective portion of the gains and losses on the hedging instrument is recognised in other comprehensive income and is recognised in the consolidated income statement only in periods during which the hedged forecasted transaction affects profit or loss.

The gain or loss relating to the ineffective portion is recognised immediately in the consolidated income statement and reported within the lines “Other income” or “Other expenses”.

At the inception of the transaction, the Group documents the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of the hedging effectiveness.

D.1.7 Cash and cash equivalents
Cash consists of cash on hand, demand deposits with banks and other financial institutions and term deposits due within 15 days. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

D.1.8 Lease transactions
Property and equipment holdings used by the Group under operating leases, whereby the risks and benefits relating to ownership of the assets remain with the lessor, are not recorded on the Group’s consolidated statement of financial position. Payments made under operating leases to the lessor are charged to the consolidated income statement on a straight-line basis over the lease term. Lease incentives received are recognised as an integral part of the total lease expense.

The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement at the inception date and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset (or assets) and the arrangement conveys a right to use the asset (or assets), even if that asset is (or those assets are) not explicitly specified in an arrangement.

D.1.9 Non-current assets held-for-sale and discontinued operations
Non-current assets are classified as held-for-sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition, subject to terms that are usual and customary for sales of such assets.

Management must be committed to the sale and must actively market the property for sale at a price that is reasonable in relation to the current fair value. The sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Immediately before being classified as held-for-sale, the assets (or components of a disposal group) are measured in accordance with the applicable IFRS. Thereafter, generally, the assets (or disposal group) are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group is allocated to assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets and investment property, which continue to be measured in accordance with the Company’s accounting policies. Impairment losses on initial classification as held-for-sale and subsequent gains or losses on re-measurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

D.1.10 Equity

Share capital
Shares are classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds, net of tax.

Additional paid-in capital
Excess contributed by an investor to the Company over the par-value price of a share issue is recognised in additional paid in capital.

Retained earnings
This item comprises retained earnings or losses adjusted for the effects arising from the first time application of IFRS, equalisation or catastrophe provisions not recognised as insurance provisions according to IFRS 4 and statutory reserve funds. Equalisation and catastrophe provisions and statutory reserve funds are not available for distribution.

Other capital reserves
Other capital reserves arose when the Group was formed as a result of reorganisation of Generali CEE operations.

Translation reserve
The item comprises the exchange differences recognised in other comprehensive income in accordance with IAS 21, which arise from translating the balances and transactions from functional to presentation currency.

Revaluation – financial assets AFS
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 presented net of the related deferred taxes and deferred policyholder liabilities.

Cash flow hedge reserve/(deficit)
This item includes the effective portion of gains or losses arising from changes in exchange rates and interest rates on the instruments used for cash-flow hedges. The amounts are presented net of the related deferred taxes.

Results of the period
The item refers to the Group consolidated earnings after taxes for the period. Dividend payments are accounted for after the approval of the shareholders' general meeting.

Shareholder's equity attributable to non-controlling interest
The item comprises equity instruments of non-controlling interests. It also includes the reserve for unrealised gains and losses on available for sale investments attributable to non-controlling interests.

Dividends
Dividends are recognised as a liability provided they are declared before the end of the reporting period. Dividends declared after the end of the reporting period are not recognised as a liability but are disclosed in the notes.

D.1.11 Insurance classification

Insurance contracts
In accordance with IFRS 4, policies are classified as insurance contracts or investment contracts based on the significance of the underlying insurance risk. As a general guideline, the Group defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event that are at least 5% more than the benefits payable if the insured event did not occur.

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
- determination of classification in accordance with IFRS 4.

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 the case of death significantly higher than the value of the fund) are recognised in the consolidated income statement.

Investment contracts with a discretionary participation feature (DPF)
DPF represents a contractual right to receive, as a supplement to guaranteed benefits, additional benefits that constitute a significant portion of the total contractual benefits, whose amount or timing is at the discretion of the Group and are based on the performance of pooled assets, profit or loss of the Group or investment returns.

As the amount of the bonus to be allocated to policyholders was irrevocably fixed as at the end of the reporting period, the amount is presented as a guaranteed liability in the financial statements, i.e. within the life insurance provision in the case of insurance contracts or within the guaranteed liability for investment contracts with DPF in the case of investment contracts.

Premiums, payments and change in the guaranteed liability of investment contracts with discretionary participation feature (e.g., policies linked to segregated funds, contracts with additional benefits that are contractually based on the result of the company) are recognised in the consolidated income statement with the exception of investment contracts with DPF issued by the Czech pension company including its Transformed fund (see paragraph below).

Investment contracts with DPF issued by the Czech pension company including the Transformed fund
Investment contracts with DPF issued by the Group relate primarily to pension insurance policies written by its Czech subsidiary Penzijní společnost České pojišťovny including the Transformed fund. Under these investment contracts, the policyholders are entitled to receive gains generated by the Transformed fund based on Czech GAAP decreased by asset management and performance fees. The DPF for these contracts is represented by the possibility of giving up a portion of fees under Czech GAAP and increasing the profit to be distributed to policyholders. This is subject to the decision of the Board of Directors.

These pension insurance contracts are classified as investment contracts with DPF but – in contrast to the general rule described in paragraph "Investment contracts with a discretionary participation feature (DPF)" – no premiums, payments and change in liabilities are recognised in the consolidated income statement. Such products are accounted for under the deposit accounting, which foresee that the financial liabilities are credited in the equal amount of the clients' cash received.

Such an exemption is given since IFRS 4.35 gives the option – but not the obligation – to treat Investment contracts with DPF as insurance contracts, and also since the Group has taken the advantage of exemption available under IFRS 4.25(c) to continue using non-uniform accounting policies for insurance contracts (and investment contracts with DPF) of subsidiaries (see note D.2).

Shadow accounting
In order to mitigate the valuation mismatch between financial investments carried at fair value according to IAS 39 and insurance provisions that are carried at amortised cost, shadow accounting is applied to insurance contracts and investments contracts with DPF. This accounting practice is to attribute to the policyholders part of the temporary difference between IFRS measurement of the basis on which the profit sharing is determined and valuation which is used to determine the profit sharing actually paid.

The Group's accounting policies are set in such a way that a recognised but unrealised gain/loss on an asset affects measurement in the same way that a realised gain or loss does. The related adjustment to the insurance liability (including DPF liability/asset) shall be recognised in other comprehensive income if, and only if, the unrealised gains or losses are recognised in other comprehensive income.

The percentage for policyholder participation is based on statutory or contractual regulation, since 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 Group applies shadow accounting in respect of unrealised gain/loss both on bonds and equities. The accounting item arising from the shadow accounting application is included in the carrying amount of insurance liabilities for the purposes of the liability adequacy test (LAT) in accordance with IFRS 4 (see note D.3.3). As a result, the accounting treatment should not result in measurements falling short of the requirements of the LAT.

Investment contracts without DPF

Investment contracts without DPF mainly include some unit-/index-linked policies and pure capitalisation 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 are fair valued through profit or loss, while pure capitalisation policies are generally valued at amortised cost;
- fee and commission income and the incremental costs of pure capitalisation contracts without DPF (other than administration costs and other non-incremental costs) are included in the initial carrying amount of the financial liability and recognised as an adjustment to the effective interest rate;
- the risk component of linked products is unbundled, if possible, and accounted for as insurance contract.

D.1.12 Insurance liabilities

Provision for unearned premiums

The provision for unearned premiums comprises that part of gross premiums written attributable to the following financial year or to subsequent financial years, calculated separately for each insurance contract using the pro rata temporise method, adjusted to reflect any variation in the incidence of risk during the period covered by the contract. The provision for unearned premiums is created for both life insurance and non-life insurance.

Mathematical provision

The mathematical provision comprises the actuarially estimated value of the Group's liabilities under life insurance contracts. The amount of the life insurance provision is calculated by a prospective net premium valuation, taking account of all future liabilities as determined by the policy conditions for each existing contract and including all guaranteed benefits, bonuses already declared and proposed, expenses and after deducting the actuarial value of future premiums.

The mathematical provision is initially measured using the assumptions used for calculating the corresponding premiums and remains unchanged except where a liability inadequacy occurs. At the end of each reporting period the LAT is performed by the Group's actuaries using current estimates of future cash flows under its insurance contracts. If those estimates show that the carrying amount of the provision (net of present value of future profit capitalized and related deferred acquisition costs) is insufficient in the light of estimated future cash flows, the difference is recognised in the consolidated income statement with a corresponding increase to the other life insurance technical provision.

Claims provision

The provision for outstanding claims represents the total estimated ultimate cost of settling all claims arising from events that have occurred up to the end of the financial year, whether reported or not, less amounts already paid in respect of such claims, including the related internal and external claims settlement expenses as estimated based on historical experience and specific assumptions about future economic conditions.

The provision includes claims reported by policyholders but not settled (RBNS) and claims incurred but not reported (IBNR).

Where benefits resulting from a claim are paid in the form of an annuity, the provision is calculated by recognised actuarial methods, mainly by the application of discounting techniques and assumptions (mortality).

With the exception of annuities, the Group does not discount its provisions for outstanding claims.

Where applicable, provisions are disclosed net of the prudent estimates for salvage and subrogation recoveries.

The provision for outstanding claims in respect of life insurance policies is included within the life insurance provision.

Whilst the Board of Directors considers that the gross provision for claims and the related reinsurance recoveries are fairly stated, the ultimate liability may differ as a result of subsequent information and events and may result in significant adjustments to the amounts provided. Adjustments to the amounts of provisions are reflected in the consolidated financial statements for the period in which the adjustments are made. The methods used and the estimates made are reviewed regularly.

Other insurance liabilities
Other insurance liabilities contain any other insurance technical provision that is not mentioned above, such as the provision for unexpired risks in non-life insurance, the ageing provision in health insurance and provision for contractual non-discretionary bonuses in non-life business.

The provision for contractual non-discretionary bonuses in non-life business covers future benefits in the form of additional payments to policyholders or a reduction of policyholder payments, which are a result of past performance. This provision is not recognised for those contracts, where future premiums are reduced by bonuses resulting from favourable past policy claim experiences and such bonuses being granted irrespective of whether the past claim experience was with the reporting entity. In such a situation, the reduction of the premium reflects the expected lower future claims, rather than a distribution of past surpluses.

D.1.13 Other provisions
A provision is recognised in the statement of financial position when the Group has a legal or constructive obligation as a result of past events, it is probable that an outflow of economic benefits will be required to settle the obligation and a reasonable estimate can be made of the amount of the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

D.1.14 Bonds issued
Bonds issued are recognised initially at fair value, net of transaction costs incurred and subsequently carried at amortised cost. Amortisation of a discount or premium and interest are recognised in interest expense using the effective interest method.

D.1.15 Financial liabilities to banks and non-banks
Financial liabilities to banks and non-banks are recognised initially at fair value, net of transaction costs incurred and subsequently measured at their amortised cost. The amortised cost of a financial liability is the amount at which the financial liability was measured upon initial recognition, minus principal repayments, plus or minus the cumulative amortisation of any difference between that initial amount and the maturity amount.

D.1.16 Financial liabilities at fair value through profit or loss
Financial liabilities at fair value through profit or loss are liabilities classified as held-for-trading, including derivative liabilities, and designated as fair value through profit or loss. Related transaction costs are immediately expensed. Financial liabilities at fair value through profit or loss are measured at fair value and the relevant gains and losses from this revaluation are included in the consolidated income statement. Financial liabilities are removed from the consolidated statement of financial position when, and only when, they are extinguished – i.e. when the obligation specified in the contract is discharged, cancelled or expires.

D.1.17 Payables
Accounts payable are when the Group has a contractual obligation to deliver cash or another financial asset. Accounts payable are measured at amortised cost, which will normally equal their nominal or repayment value.

D.1.18 Net insurance premiums revenue

Net insurance premiums revenue includes gross earned premiums from direct insurance business and assumed (inwards) reinsurance business, net of premiums ceded to reinsurers, which arise on insurance contracts and investment contracts with DPF with the exception of those issued by Czech pension fund subsidiaries (see below).

The above amounts do not include the amounts of taxes or charges levied with premiums.

Written premiums are recognised by each subsidiary of the Group following the treatment prescribed by their respective local accounting standards, as under IFRS 4 it is possible to continue using local existing accounting standards for insurance contracts and investment contracts with DPF.

Premiums are recognised as earned on a pro-rata basis over the term of the related policy coverage via the provision for unearned premiums.

For investment contracts without DPF and investment contracts with DPF issued by Czech pension funds subsidiaries no premiums are recorded and amounts collected from policyholders under these contracts are recorded as deposits.

D.1.19 Net insurance claims and benefits

Insurance technical charges include claims (benefit) expenses, the change in technical provisions and rebates and profit sharing.

Claims (benefits) expenses are represented by benefits and surrenders, net of reinsurance (life) and claims paid net of reinsurance (non-life). Benefits and claims comprise all payments made in respect of the financial year. These amounts include annuities, surrenders, entries and withdrawals of loss provisions to and from ceding insurance enterprises and reinsurers, and external and internal claims management costs. Sums recovered on the basis of subrogation or salvage are deducted. Claims paid are recognised at the moment that the claim is approved for settlement.

The change in technical provisions represent changes in provisions for claims reported by policyholders, changes in the provision for IBNR, changes in mathematical and unit linked provisions and changes in other technical provisions.

Bonuses comprise all amounts chargeable for the financial year representing an allocation of surplus or profit arising on business as a whole or from a section of business, after the deduction of amounts provided in previous years which are no longer required. Rebates comprise such amounts to the extent that they represent a partial refund of premiums resulting from the experience of individual contracts.

D.1.20 Interest and similar income and interest and similar expense

Interest income and interest expense are recognised in the consolidated income statement on an accrual basis, taking into account the effective yield of the asset or liability, or an applicable floating rate. Interest income and interest expense include the amortisation of any discount or premium or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated using the effective interest method.

Interest on financial assets measured at fair-value through profit or loss is reported as a part of “Net income from financial instruments at fair value through profit or loss”. Interest income and interest expense on other assets or liabilities are reported as Interest and other investment income or as Interest expense in the consolidated income statement.

D.1.21 Other income and expense from financial assets

Other income and expenses from financial assets comprise realised and unrealised gains/losses, dividends, impairment losses and net trading income.

A realised gain/loss arises on de-recognition of financial assets other than financial assets at fair value through profit or loss. The amount of the realised gain/loss represents the difference between the carrying value of a financial asset and the sales price adjusted for any cumulative gain or loss that had been recognised in other comprehensive income.

Net fair value gains/loss on financial assets and liabilities at fair value through profit or loss not held-for-trading represent the amount of the subsequent measurement of financial assets and liabilities designated at fair value through profit or loss to their fair value or the gain/loss from disposal thereof.

Dividends from investments are recorded when declared and approved by the shareholder's meeting of the respective company.

Net trading income represents the subsequent measurement of the "Trading assets" and "Trading liabilities" to fair value or the gain/loss from disposal of the "Trading assets" or "Trading liabilities".

The amount of the trading income to be recorded represents the difference between the latest carrying value and the fair value as at the date of the consolidated financial statements or the sale price.

D.1.22 Income and expense from investment property

Income and expense from investment property comprise realised gains/losses triggered by de-recognition, rental income and other income and expense related to investment property.

D.1.23 Acquisition costs

Acquisition costs are costs arising from the conclusion of insurance or investment contracts with DPF and include direct costs, such as acquisition commission or the cost of drawing up the insurance document or including the insurance contract in the portfolio, and indirect costs, such as advertising administrative expenses costs connected with the processing proposals and issuing policies. A portion of acquisition costs is deferred, such as agents' commission and other variable underwriting and policy issue costs. General selling expenses and line of business costs as well as the commission for servicing a portfolio are not deferred unless they are related to the acquisition of new business.

In non-life insurance, a proportion of the related acquisition costs are deferred and amortised commensurate with the unearned premiums provision. The amount of any deferred acquisition costs is established on a similar basis as that used for unearned premiums for a relevant line of business (product). Deferred acquisition costs are reported as other assets in the consolidated statement of financial position.

The recoverability of deferred acquisition costs is assessed as at the end of each reporting period as a part of the liability adequacy test and using recoverability tests applied by the selected local entities.

Acquisition costs in respect of life insurance contracts and investment contracts with DPF are charged directly to the consolidated income statement as incurred and are not deferred.

For the investment contracts with DPF the incremental acquisition costs directly attributable to the issue of a related financial liability carried at amortised cost are deducted from the fair value of the consideration received and included within the effective interest rate calculation.

D.1.24 Administrative cost

Administrative expenses include expenses relating to the administration of the Group. This includes employee benefits, office rental expenses and other operating expenses. Employee benefits include expenses arising from short-term employee benefits, such as salaries and wages, management remuneration and bonuses, social insurance. Other operating expenses include costs of premium collection, portfolio administration and the processing of inwards and outwards reinsurance.

D.1.25 Reinsurance commission and profit participations

Reinsurance commission and profit participations include commission received or the receivable from reinsurers and profit participations based on reinsurance contracts. Non-life reinsurance commission are deferred in a manner consistent with the deferral of acquisition costs in non-life insurance.

In the consolidated income statement these are included in the line "Commission and other acquisition costs".

D.1.26 Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the consolidated income statement except where it relates to items recognised directly in other comprehensive income, in which case it is recognised in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted as at the end of the reporting period and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The following temporary differences are not provided for: the initial recognition of assets or liabilities outside of a business combination that affect neither accounting nor taxable profit, goodwill nor differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates enacted or substantially enacted as at the end of the reporting period.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available, against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. 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.

D.1.27 Employee benefits

Short-term employee benefits

Short-term employee benefits are those (other than termination benefits) due to be settled within twelve months of the end of the period in which the employees render the related service. Short-term employee benefits mainly include wages and salaries, management remuneration and bonuses, remuneration for membership of Group boards and non-monetary benefits. The Group makes contributions to government pension schemes at the statutory rates in force during the year, based on gross salary payments. The benefits are recognised in an undiscounted amount as an expense and as a liability (accrued expense).

Other long-term employee benefits

Other long-term employee benefits are those (other than post-employment benefits and termination benefits) due to be settled within twelve months after the end of the period in which the employees render the related service.

The benefits are measured at present value of the defined obligation at the balance sheet date using the projected unit credit method.

Post-employment benefits

Post-employment benefits are those (other than termination benefits) payable after completion of employment. The Group makes contributions to the government health, accident and guarantee insurance and unemployment schemes at the statutory rates in force during the year, based on gross salary payments. Throughout the year, the Group made contributions defined by the relevant laws to such schemes. The cost of these Group made contributions is charged to the consolidated income statement in the same period as the related salary cost as this is a defined contribution plan. There are no further obligations of the Group in respect of employees' post employment benefits.

Termination benefits

Termination benefits are employee benefits payable as a result of the Group's decision to terminate an employee's employment before the normal retirement date, or as an inducement to accept voluntary redundancy.

The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed irrevocable formal plan or providing termination benefits as an inducement to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to present value.

D.1.28 Other accounting policies

Foreign currency translation

(a) Functional and presentation currency
Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The functional currencies of individual group companies are stated in Note C.1. The consolidated financial statements are presented in EUR (€), which is the Group's presentation currency.

(b) Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing as at the transaction dates. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognised in the consolidated income statement and presented within "Other income" or "Other expenses".

Changes in the fair value of monetary securities denominated in foreign currencies classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in the consolidated income statement, and other changes in the carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss in the consolidated income statement. Translation differences on non-monetary financial assets, such as equities classified as available for sale financial assets, are included in the revaluation reserve in other comprehensive income.

For the translation of results and the financial position of all the Group entities, refer to note C.2.

Impairment

Impairment of tangible and intangible assets
Where there is any indication that an asset under the scope of IAS 36 may be impaired, tangible and intangible assets are subject to impairment testing.

An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. The latter is the higher of its fair value less costs of disposal (i.e., the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal) and its value in use (i.e., the present value of the future cash flows expected to be derived from the continuous use and disposal of the asset at the end of its useful life).

The impairment loss is charged to the consolidated income statement.

Where there is any indication that an impairment loss recognised for an asset in prior years no longer exists, the carrying amount of the asset is increased to its estimated recoverable amount. The increased carrying amount of the asset due to the reversal of impairment loss cannot exceed the carrying amount that would be determined if no impairment loss had been recognised for the asset in prior years, net of any depreciation or amortisation accounted for in the meantime.

Intangible assets with an indefinite useful life, primarily brands, are not amortised but are tested for impairment annually, or whenever there is an indication that the intangible asset may be impaired.

Impairment testing of goodwill is disclosed in notes D.1.1 and F.1.1.

Impairment of financial assets

A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment includes, for example, significant financial difficulties of the issuer, default or delinquency in interest or principal payments, the probability that the borrower will enter bankruptcy or other financial reorganisation and the disappearance of an active market for the financial asset.

In all these cases, any impairment loss is recognised only after an analysis of the type of loss has established that the conditions exist to proceed with the corresponding recognition. The analysis includes considerations of the recoverable value of the investment, checks on the volatility of the stock versus the reference market or compared to competitors and any other possible quality factor. The analytical level and detail of the analysis varies based on the significance of the latent losses of each investment.

A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is considered to be objective evidence of impairment. The Group considers prolonged decline to be 12 months. Unrealised loss higher than 30% is assessed as a significant decline. The recoverable amount of the Group's investments in held to maturity financial assets is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset. Receivables with a short duration are not discounted.

Loans and advances are reported net of allowances for loan losses, to reflect the estimated recoverable amounts. Receivables are stated at their cost less impairment losses.

The recoverable amount of an available for sale asset is the current fair value. When there is objective evidence that it is impaired, the decline in fair value that had been recognised directly in other comprehensive income is reclassified to the consolidated income statement.

An impairment loss in respect of a held to maturity security, loan, advance or receivable, available for sale debt instrument is reversed through the consolidated income statement (up to the amount of the amortised cost) if the subsequent increase in recoverable amount can be attributed objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of available for sale equity instruments is not reversed through the income statement and any subsequent increase in fair value is recognised in other comprehensive income.

REPO/reverese REPO transactions

Securities sold under agreements to repurchase at a specified future date are not derecognised from the statement of the financial position as the Group retains substantially all of the risks and rewards of ownership. The corresponding cash received is recognised in the statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability within cash collateral on securities lent and repurchase agreements, reflecting the transaction's economic substance as a loan to the Group. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of agreement using the effective interest rate.

When the counterparty has the right to sell or re-pledge the securities, the Group reclassifies those securities in its statement of financial position to financial assets held for trading pledged as collateral or to financial investments available for sale pledged as collateral, as appropriate.

Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the statement of financial position. The consideration paid, including accrued interest, is recorded in the statement of financial position, within cash collateral on securities borrowed and reverse repurchase agreements, reflecting the transaction's economic substance as a loan by the Group. The difference between the purchase and resale prices is recorded in net interest income and is accrued over the life of the agreement using the effective interest rate.

If securities purchased under an agreement to resell are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale within financial liabilities held for trading and measured at fair value with any gains or losses included in net trading income.

Offsetting financial instruments
Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is an unconditional and legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Share-based payments
Employees of the Group receive remuneration in the form of share-based payments, whereby they render services as consideration for equity instruments (equity-settled transactions). The Group has no obligation to settle the share-based transaction. Transaction will be settled by shares issued by Assicurazioni Generali S.p.A. (ultimate parent company).

Equity-settled transactions
The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model. That cost is recognised together with a corresponding increase in retained earnings in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the best estimate of the number of equity instruments that will ultimately vest. The statement of profit or loss expense or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period and is recognised in other expenses.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions for which vesting is conditional upon a market or non-vesting condition. These are treated as vesting, irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

When the terms of an equity-settled award are modified, the minimum expense recognised is the expense had the terms not been modified, if the original terms of the award are met. An additional expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

When an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation and any expenses not yet recognised for the award are recognised immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if there were a modification of the original award, as described in the previous paragraph.

Fair value measurements
Fair value is defined as 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. A fair value measurement assumes that the asset or liability is exchanged in an orderly transaction between market participants to sell the asset or transfer the liability at the measurement date under current market conditions.

The fair value of financial instruments and other assets and liabilities is based on their quoted market price as at the end of the reporting period, without any deduction for transaction costs. If a quoted market price is not available or if the market for an asset or liability is not active, the fair value is estimated using pricing models or discounted cash-flow techniques.

To assess whether the market is active or not, the Group carefully determines whether the quoted price really reflects the fair value, i.e., in cases where the price has not changed for a long period or the Group has information about an important event but the price did not change accordingly, the market is not considered active. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Discounted cash flow techniques use estimated future cash flows, which are based on management estimates and the discount rate, which is constructed from risk-free rates adjusted by risk margin (credit spread). This is usually derived from an instrument with similar terms and conditions (ideally from the same issuer, similar maturity and seniority) which reflects the market price in the best way.

In general, if pricing models are used, inputs are based on market-related measures as at the end of the reporting period which limits the subjectivity of the valuation performed by the Group, and the result of such a valuation best approximates the fair value of an instrument.

The fair value of derivatives that are not exchange-traded is estimated as at the end of the reporting period using appropriate pricing models as described in the previous paragraph taking into account current market conditions and the current creditworthiness of the counterparties. In the case of options, Black-Scholes models are applied. Also, for any other over-the-counter instruments (CDS, IRS, CCS, etc.), widely recognised models are applied and, again, the parameters of the valuation are intended to reflect market conditions.

Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs are used.

The fair value hierarchy (defined by IFRS 13) of three levels has been used. The fair value hierarchy categorises the inputs to valuation techniques used to measure fair value as follows:

- 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 are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3 inputs are unobservable inputs for the asset or liability.

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. These instruments are included in level 1.

The fair value assets or liabilities that are not traded in an active market (for example, over-the-counter derivatives or unquoted bonds) is determined by using valuation techniques. If all significant inputs required to fair value an instrument are observable on the market, the instrument is included in level 2. Specific valuation techniques used in valuation include mainly quoted market prices or over-the-counter offers for similar instruments, cash flow estimation and risk-free curves.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Level 3 contains the assets and liabilities where market prices are unavailable and entity specific estimates are necessary.

Assets and liabilities are considered Level 3 when their values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable. Level 3 instruments also include those for which the determination of fair value requires significant expert judgement or estimation. A general description of the valuation techniques used for Level 3 assets and liabilities is provided below:

- independent evaluation by a third party – the adequacy of the price results from evaluations, reports or fairness opinions issued by independent third parties;
- price based on the amount of Shareholder's equity;
- price that incorporates additional information about the value of an instrument (insufficient value of illiquid underlying assets in case of funds/hedge funds, not enough resources to finance junior tranches in case of structured products like CDO, default of an issuer,…).

The following table provides a description of the valuation techniques and the inputs used in fair value measurement:

	Level 2	Level 3
Equities		The fair value is mainly determined using an independent evaluation provided by a third party or is based on the amount of Shareholder's equity.
Investment funds		The fair value is mainly based on information about the value of underlying assets. Valuation of underlying assets requires significant expert judgement or estimation.
Bonds, Loans	Bonds are valued using the discounted cash flow technique. It uses estimated future cash flows and the discount rate, which is constructed from risk-free rates adjusted by credit spread. The spread is usually derived from an instrument with similar terms and conditions (ideally from the same issuer, similar maturity and seniority) which reflects the market price in the best way.	Indicative price is provided by a third party or significant expert judgement and is incorporated in the discounted cash flow technique used for Level 2.
Derivatives	Derivatives are valued using the discounted cash flow technique. Estimated future cash flows and market observable inputs like the risk free rates and foreign exchange rates and basis swap spreads are used.	
Deposits, Reverse REPO operations, Deposits under reinsurance business	These instruments are valued using discounted cash flow technique. Estimated future cash flows and market observable inputs like risk free rates and foreign exchange rates are used.	
Financial liabilities at amortised cost	The fair value of debt instruments issued by the Company are valued using the discounted cash flow models based on the current marginal rates of funding of the Company for similar types of loans, with maturities consistent with the maturity of the debt instruments subject to valuation.	
Investment properties		The fair value is determined using an independent valuation provided by a third party and is based on the market value of the property. The independent valuator adopts two valuation techniques: the Income approach (Discounted cash flows) technique and the Comparison method (comparing recent sales of similar properties in the surrounding or competing area to the subject property).

The table below shows unobservable inputs of Level 3 (mil EUR):

Description	Fair value as at 31 December 2016	Valuation technique(s)	Non-market observable input(s)	Range
Equities	67	Net asset value	n/a	n/a
Investment funds	50	expert judgment	value of underlying instruments	n/a
Bonds Government	66	discounted cash flow technique	Level of yield	35–50 bps
Bonds Corporate	42	discounted cash flow technique	Level of credit spread	160–1,050 bps
Investment property	405	External valuation expert	Similar transactions	98–1,200 EUR/sq m

Where possible, the Group tests the sensitivity of the fair values of Level 3 investments to changes in unobservable inputs for reasonable alternatives. Where possible, valuations for Level 3 investments are sourced from independent third parties and, where appropriate, validated against internally modelled valuations, third-party models or broker quotes.

Where third-party pricing sources are unwilling to provide a sensitivity analysis for their valuations or where no third-party pricing source is available, the Group undertakes, where feasible, a sensitivity analysis on the following basis:

- For third-party valuations validated against internally modelled valuations using significant unobservable inputs, the sensitivity of the internally modelled valuation to changes in unobservable inputs for a reasonable alternative is determined.
- For third-party valuations either not validated or validated against a third-party model or broker quote, the third-party valuation in its entirety is considered an unobservable input. Sensitivities are determined by flexing inputs of internal models to a reasonable alternative, including the yield, NAV multiple, IRR or other suitable valuation multiples of the financial instrument implied by the third-party valuation. For example, for a fixed income security the implied yield would be the rate of return which discounts the security's contractual cash flows to equal the third-party valuation.

On the basis of the methodology outlined above and the ranges specified in the table with unobservable inputs, the Group is able to perform a sensitivity analysis for €91 million of the Group's Level 3 investments. For these Level 3 investments, changing unobservable valuation inputs to a reasonable alternative would result in a change in fair value of €3 million.

The policy on the timing of recognising transfers, which is based on the date of the event or changes in circumstances that caused the transfer, is the same for transfers into each level as for transfers out of the levels.

Fair value hedge

The Group designates certain derivatives as hedges of the fair value of recognised assets. Hedge accounting has been applied to derivatives hedging a currency risk on all non-derivative financial assets denominated in, or exposed to foreign currencies (equities, bonds, investment funds, etc.). As of 1 July 2011, hedge accounting has also been applied to derivatives hedging an interest rate exposure of interest-bearing financial assets.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged assets or a portion of fair value of the hedged assets that are attributable to the hedged risk.

At the inception of the transaction, the Group documents the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking hedging transactions.

The Group also documents its assessment of the hedging effectiveness, (compliance with the 80–125% rule), both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are expected to be and have been highly effective in offsetting changes in the fair values of hedged items.

Cash flow hedge

The Group designates certain derivatives as hedges of the cash flow of future interest payments.

At the inception of the transaction, the Group documents the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking hedging transactions.

The hedging instrument is remeasured at fair value attributable to the hedged interest rate risk as at the balance sheet date. The appropriate part of this revaluation, attributable to the effective hedging, is recognised through other comprehensive income in the revaluation reserve within the Group's equity.

The Group also documents its assessment of the hedging effectiveness, both at hedge inception and on an on-going basis, of whether the derivatives that are used in hedging transactions are expected to be and have been highly effective in offsetting changes in the fair values of hedged items.

If the change in fair value of the hedging instrument is larger than the change in fair value of the hedged item, then the equity accounts reflect only the change in fair value of the derivative amounting to change in fair value of the hedged item. Identified hedge ineffectiveness is recognised in the consolidated income statement within the line "Net income / (losses) from financial instruments at fair value through profit and loss".

Embedded derivatives
Certain financial instruments include embedded derivatives, where economic characteristics and risks are not closely related to those of the host contract. The Group designates these instruments at fair value through profit or loss.

The Group does not separately measure embedded derivatives that meet the definition of an insurance contract. No derivatives that are not closely related and are embedded in insurance contracts were identified.

D.2 Non-uniform accounting policies of subsidiaries

The Group has taken advantage of the exemption available under IFRS 4.25(c) to continue using non-uniform accounting policies for insurance contracts (and investment contracts with DPF) of its subsidiaries.

As a result, the amounts received from policyholders under investment contracts with DPF issued by a subsidiary Czech pension company including the Transformed fund continue to be recognised as deposits, in contrast to the Group's accounting policy of recognising premium income under such contracts.

D.3 Principal assumptions

D.3.1 Life insurance liabilities
Life insurance provisions are set in accordance with local GAAP and other legal requirements of the country where the insurance contract was concluded.

Life mathematical provisions are calculated using the net premium method using the same actuarial assumptions as applied in the case of premium calculations (provided that local legislation does not explicitly require the use of different parameters). The assumptions underlying the mathematical provision are locked-in at policy inception and remain in force until the expiry of the liability.

Most notably, the technical interest rate (i.e., the level of guarantee on traditional life policies in force) ranges from 0% to 7.0%.

The above-mentioned figures do not consider guarantees on pension fund products. In this respect, the Transformed fund included in Penzijní společnost České pojišťovny a.s. guarantees a 0% minimum investment return (losses are covered by a mandatory reserve fund). Other smaller pension funds guarantee a 0% minimum investment return.

Life insurance provisions also include insurance provisions recognised as a result of the LAT.

The provisions (including the additional provisions mentioned above) are tested for adequacy using the actual best-estimate assumptions. See note D.3.3 Liability Adequacy Test for more details.

D.3.2 Non-life insurance liabilities
Non-life insurance provisions are set according to local GAAP and other legal regulations of the country where the insurance contract was concluded.

Claims provisions
At the end of the reporting period, provisions are made for the expected ultimate cost of settling all claims incurred in respect to events up to that date, whether reported or not, together with related claims handling expenses, less the amounts already paid and a prudent estimation of salvage and subrogation recoveries.

The liability for reported claims (RBNS) is assessed on a separate case-by-case basis with due regard to the claim circumstances, information available from loss adjusters and historical evidence regarding the size of similar claims. Case reserves are reviewed regularly and are updated as and when new information arises. The estimation of claims incurred but not reported (IBNR) is generally subject to a greater degree of uncertainty than reported claims. IBNR provisions are predominantly assessed by the Group's local actuaries using statistical techniques such as different link ratio methods (e.g. a chain-ladder) whereby historical data is extrapolated to estimate ultimate costs of claims. In case there is insufficient claims history, simplified actuarial methods are applied, such as proportioning based on an appropriately chosen measure. IBNR provisions are initially estimated at a gross level, and a separate calculation is carried out to estimate the size of reinsurance recoveries.

Other provisions
The provisions for contractual non-discretionary bonuses (covering future benefits in the form of additional payments to policyholders or reductions in policyholder payments, which are the result of past performance) are predominantly determined contract by contract. For numerous similar contracts, statistical methods are applied (e.g., distribution fitting on historical claims data).

The ageing provision in health insurance is determined under the same principles that are used for life insurance provisions.

The provision for premium reversal (cancellations) is set at the amount of premiums likely to be reversed:
- to cater for cessation or reduction of the insured interest (the underwriting risk as opposed to the financial risk if the policyholder is unable to meet their commitments);
- in respect of accounts receivable;
- in respect of premiums already collected by the Group.

The provision for cancellations only includes the portion of premiums that will probably be reversed and that have not already been covered by the provision for unearned premiums.

Other non-life insurance provisions may be set up by companies according to local regulations.

Non-life insurance provisions also include insurance provisions recognised as a result of the liability adequacy test – see Note D.3.3 Liability Adequacy Test for more details.

The assumptions that have the greatest impact on the measurement of non-life insurance provisions are as follows:

Tail factors
When applying statistical techniques, the level of IBNR provision for long-tail business is significantly influenced by the estimate of the development of claims from the latest development year for which historical data is available to ultimate settlement. These tail factors are estimated prudently using mathematical curves, which project observed development factors.

Annuities
In MTPL insurance and other third-party liability lines, part of the claims payment may be in the form of an annuity. The provision for such claims is established as the present value of expected future claims payments.

The key assumptions involved in the calculation are mortality tables, adjustment factors used to determine the present value of future payments (taking into account discounting and inflation effects) and disability pensions which influence the amount of annuities to be paid. The Group follows guidance issued by the Czech Insurers' Bureau and similar bodies in other countries in setting these assumptions.

Discounting
With the exception of annuities, non-life claims provisions are not discounted. For annuities, discounting is used as described above.

D.3.3 Liability adequacy test
The liability adequacy test envisaged by IFRS 4 is applied to verify that the insurance provisions – adjusted by the amount of deferred policyholder's liabilities and related intangible assets – are adequate to cover future cash flows coming from the aforementioned insurance contracts, based on the current best estimates. Each inadequacy is charged to the consolidated income statement, initially reducing deferred acquisition costs and the value of business acquired and subsequently accounting for a provision.

Life insurance

Economic assumptions
Economic assumptions are derived from financial market rates while applying Generali methodology. Most important is the term structure of risk-free yields for the currency of the insurance contract, which is calibrated to intra-bank swap yields for the currency (with market yields on local government bonds used in case that the swap yield curve is not available or is not reliable).

Expense assumptions
Initial unit costs are entity-specific and are set in accordance with the experience of the Group. Inflation of maintenance expenses per policy is based on inflation expectations for each country (with an additional consistency check between assumed inflation and the term-structure of interest rates). A separate inflation curve exists for labour cost (additional to the standard inflation of consumer prices).

Demographic assumptions
Mortality and morbidity rates are set according to the recent experience of the Group, if possible. In cases where there is insufficient experience, the rates from companies with a longer history are adopted (taking into account country-specific effects as well as the rate of the population's mortality).

Lapses and paid-up rates are based on the past experience of each company, if possible. In cases where there is insufficient experience, the rates from companies with a longer history are adopted (taking into account company-specific effects and local market characteristics). The Group companies annually investigate actual persistency rates separately for books of policies with similar product type produced by a similar distribution channel. The assumptions are amended, appropriate to the outcome of the investigation.

Investment contracts with DPF are included within the LAT for life insurance.

Non-life insurance

In the case of non-life insurance, unearned premiums reserves are subject to the LAT. The test is carried out on separate lines of business by estimation of future cash flows for which the unearned premiums reserve shall be sufficient to cover. In case of negative result of the non-life liability adequacy test the deferred acquisition costs are decreased. If the result is still negative the provision for unexpired risk is created.

D.3.4 Significant variables

Profit or loss and insurance liabilities are mainly sensitive to changes in mortality, lapse rates, expense rates, discount rates, and annuitisation that are estimated when calculating the adequate value of insurance liabilities during the LAT.

The Group has estimated the impact on profit for the year and on equity at the end of the year for changes in key variables that have a material impact on either profit or equity.

Life insurance

The description below presents sensitivity analysis information for Česká pojišťovna, which represents the majority of the Group's life insurance provisions, except for unit-linked provisions.

According to the LAT, life statutory reserves are comfortably adequate in comparison to the minimum value of the liabilities and the changes in variables other than the discount rate and expense rate have no impact on profit for the year and equity.

Life assurance liabilities as at 31 December 2016 according to the LAT were not sensitive to a change in any variable. Life assurance liabilities as at 31 December 2015 were analysed for Česká Pojišťovna only and were also not sensitive to a change in any variable.

The decrease and increase by 10% in mortality rate, lapse rate, expense rate and 100 bp decrease and increase in the discount rates were tested. Changes therein represent reasonably possible changes in a variable which represent neither expected changes in variable nor worst-case scenarios. The analysis has been prepared for a change in a variable with all other assumptions remaining constant and ignores changes in the values of the related assets.

The LAT sensitivity has been estimated for each life insurer within the GCEE scope separately. The above-stated conclusions apply for every single entity analysed as a consequence.

Non-life insurance

In non-life insurance, variables that would have the greatest impact on insurance liabilities relate to MTPL annuities. The table below presents sensitivity analysis information for Česká pojišťovna and since year 2015 also Czech Generali, which represents the majority of the Group's annuities provisions. In the table below the effects on the liabilities of a 100 bp decrease in the discount rate and of a 100 bp increase in the pension growth rate, gross and net of reinsurance are shown:

Sensitivity of MTPL annuities for Česká pojišťovna

(€ million)		31.12.2016		31.12.2015	
	Change in variable	Change in insurance liabilities (gross)	Change in insurance liabilities (net)	Change in insurance liabilities (gross)	Change in insurance liabilities (net)
Discount Rate	(100) bp	11	7	14	9
Pension growth rate	100 bp	11	7	14	9

Sensitivity of MTPL annuities for Generali

(€ million)		31.12.2016		31.12.2015	
	Change in variable	Change in insurance liabilities (gross)	Change in insurance liabilities (net)	Change in insurance liabilities (gross)	Change in insurance liabilities (net)
Discount Rate	(100) bp	3	1	4	1
Pension growth rate	100 bp	3	1	4	1

D.4 Terms and conditions of insurance and investment contracts with DPF that have a material impact on the amount, timing, and uncertainty of future cash flows

D.4.1 Non-life insurance contracts

The Group offers many forms of general insurance, mainly motor, property and liability insurance. Contracts may be concluded for a fixed term of one year or on a continuous basis with either party having the option to cancel. The Group is therefore generally able to re-price the risk by revising the premium at intervals of not more than one year. It also has the ability to impose deductibles and to reject fraudulent claims.

Future insurance claims are the main source of uncertainty influencing the amount and timing of future cash flows.

The amount of particular claim payments is limited by the sum insured, which is established in the insurance policy.

The other significant source of uncertainty connected with non-life insurance arises from legislative regulations that entitle the policyholder to report a claim before the time of expiration, which usually lasts three to four years from the date when the policyholder becomes aware of the claim. This feature is particularly significant in the case of permanent disability arising from accident insurance, because of the difficulty in estimating the period between the occurrence and confirmation of permanent effects.

The following statements describe characteristics of particular types of insurance contracts, if they are significantly different from the above-mentioned features.

Motor insurance
The Group motor portfolio comprises both motor third-party liability insurance (MTPL) and other motor (mainly CASCO) insurance. MTPL insurance covers bodily injury claims and property claims in the country where the contract was concluded as well as claims caused abroad by insured motorists under the Green Card system.

Property damage under MTPL and CASCO claims are generally reported and settled within a short period of time after the accident. Payments relating to bodily injury claims, however, take longer to finalise and are more difficult to estimate. Such claims may be settled in the form of a lump-sum settlement or an annuity.

For claims relating to bodily injury and related losses of personal earnings, the amount of the related claim payments is derived from governmental decree. This requirement may have a retrospective effect on claims incurred before the effective date of this requirement.

Policyholders may be entitled to a no-claims-bonus on renewal of their policy where the relevant conditions are fulfilled.

The amount of claim payments for damages to property and compensation for loss of earnings may not exceed a per claim threshold which is determined by local regulators. This amount includes compensation for injury as well.

Casco insurance represents standard insurance against damage; claim payment is limited by the sum insured and the amount of participation.

Property insurance
This is broadly split into industrial and personal lines. For industrial lines, the Group uses risk management techniques to identify and evaluate risks and analyse possible losses and hazards and cooperates with reinsurers. Risk management techniques include primarily inspection visits to the industrial areas performed by a risk management team which consists of professionals with long-term experience and deep knowledge of safety rules. Personal property insurance consists of standard buildings and contents insurance.

Claims are normally promptly reported and can be settled without delay.

Liability insurance
This covers all types of liabilities and includes commercial liabilities, directors and officers and professional indemnity as well as personal liability.

While the majority of general liability coverage is written on a „claims-made“ basis, certain general liability coverage is typically insured on an „occurrence basis“.

Accident, health and disability insurance
Accident insurance is traditionally sold as a rider to the life products offered by the Group and belongs to the life insurance segment. Only a small part of accident insurance is sold without life insurance.

D.4.2 Life insurance contracts

Bonuses
Over 90% of the Group’s traditional life insurance contracts include an entitlement to receive a bonus. Bonuses to policyholders are granted at the discretion of the insurer and are recognised when proposed and approved by the Board of Directors, in accordance with the relevant legal requirements. Once allocated to policyholders, bonuses are guaranteed.

Premiums
Premiums may be payable in regular instalments or as a single premium at the inception of the policy. Most endowment-type insurance contracts contain a premium indexation option that may be annually exercised at the discretion of the policyholder. Where the option is not exercised, premiums are not increased with inflation.

Term life insurance products
Traditional term life insurance products comprise the risk of death, a waiver of the premium in the event of permanent disability and an accident rider. The premium is either paid regularly or as a single premium. Policies offer a fixed or a decreasing sum insured for the event of death. These policies offer protection ranging from a few years up to the medium-term. Death benefits are paid only if the policyholder dies during the term of the insurance. A waiver of the premium arises only in the case of an approved disability pension for the policyholder.

The period of disability is the main source of uncertainty connected with life insurance products. It is limited by a contractual minimum duration of the insurance policy and by the end of the insurance period.

Endowment products
These are also traditional term life insurance products providing life-long financial protection. Many long-term policies have tax advantages and allow the insured to finance their retirement needs. Capital life insurance products, involving regular premiums or a single premium, offer coverage against the risk of death and dread disease, an endowment, a waiver of the premium in the case of disability and an accident rider. Insurance benefits are usually paid as a lump sum.

Variable capital life insurance products
Variable capital life insurance products cover all types of insurance risk in the same way that traditional capital life insurance products do. In addition, they also allow the policyholder to pay an extra single premium during the term of the insurance. The policyholder can ask to interrupt payment for a regular premium, to withdraw part of the extra single premium, to change the term of the insurance, the risks covered, the sums insured, and the premium.

Child insurance products
These products are based on traditional life risks: involving death, endowment assurance, a waiver of the premium in the event of disability and an accident rider. The premiums are paid regularly. The term of the insurance is usually limited to the 18th birthday of the child. Benefits may be in the form of a lump sum or an annuity payment.

Unit-linked life insurance
Unit-linked are those products where the policyholders carry the investment risk.

The Group earns management and administration fees and mortality results on these products.

Unit-linked life insurance combines traditional term life insurance with risk coverage of death or dread disease, together with a waiver of the premium in the event of permanent disability, and allows for investment of the regular premium or extra single premium in some investment funds. The policyholder defines the funds and the ratio of the premium where payments are invested and can change the funds and ratio during the contract. They can also change the sums assured, the regular premium, and the insurance risks covered. They can pay an additional single premium or withdraw part of the extra single premium.

Retirement insurance for regular payments (with interest rates)
Life-long retirement programme products include pensions paid-off in the event of death or dread disease, on maturity at the agreed age of the assured, and options for a variable combination of components. The policyholder can pay the premium regularly or in a single payment. Basic types of pensions are short-term pensions and lifetime pensions.

D.4.3 Investment contracts with DPF

Adult deposit life or accident insurance with returnable lump-sum principal
These types of life or accident products allow policyholders to pay a single returnable deposit at the beginning of the policy. The interest earned on the deposit is used to pay the annual premiums. The deposit is returned at the end of assurance or on death. These contracts also entitle the policyholder to a discretionary bonus, determined as under life insurance contracts.

D.5 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

D.5.1 Assumptions used to calculate insurance liabilities

The Group uses certain assumptions when calculating its insurance liabilities. The process used to determine the assumptions that have the greatest effect on the measurement of the items in the Group's financial statements and the effects of changes in the assumptions that would have a material effect on the recognised amounts, are discussed in Note D.3.4.

D.5.2 Fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded on an active market (for example, over-the-counter derivatives) is determined using a valuation method. The Group uses its judgement to select a variety of valuation methods and makes assumptions that are mainly based on the market conditions existing at the end of each reporting period (see also Note D.1.4).

D.5.3 Assumptions used in impairment tests of goodwill and other intangible assets

The Group uses certain assumptions when determining the recoverable amount of goodwill and brands with an indefinite useful life. The process used to determine the assumptions with the greatest effect on the result of the impairment test are described in Note F.1.1 and F.1.2.

D.6 Changes in accounting policies and prior year period restatement

D.6.1 Changes in financial statements presentation

Presentation of FX derivatives

In order to improve the presentation of financial instrument performance, the Group decided to adjust and unify the presentation of gains/losses from FX derivatives, other than unit-link investments derivatives, in the Income statement. The overall result from these FX derivatives previously presented as a part of realised and unrealised gains and losses from derivatives is now presented as a gains and losses on foreign currency.

The following table shows the impact of the change in the presentation:

(€ million)	2015 restated	2015
Net income / losses from financial assets at fair value through profit of loss		
Financial assets		
Realised gains	31	145
Realised losses	(35)	(124)
Unrealised gains	64	77
Unrealised losses	(83)	(82)
Financial liabilities		
Realised gains	9	62
Realised losses	(7)	(122)
Unrealised gains	32	38
Unrealised losses	(15)	(28)
Other income		
Gains on foreign currencies	–	18
Other expenses		
Losses on foreign currencies	(12)	–

D.6.2 Standards, interpretations and amendments to existing standards relevant for the Group and applied in the reporting period

There are no published amendments and interpretations of existing standards mandatory and relevant to the Group which should have been applied by the Group starting from 1 January 2016. The Group has not adopted early any other standard, interpretation or amendment that has been issued but is not yet effective.

D.6.3 Standards, interpretations and amendments to existing standards that are effective in the reporting period but not relevant for the Group's financial statements

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests
The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 Business Combinations principles for business combination accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation if joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are applied prospectively. These amendments do not have any impact on the Group as there has been no interest acquired in a joint operation during the period.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
The amendments clarify the principle in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets.

The amendments are applied prospectively and do not have any impact on the Group, given that it has not used a revenue-based method to depreciate its non-current assets.

Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants
The amendments change the accounting requirements for biological assets that meet the definition of bearer plants and do not have any impact on the Group.

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions
IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014 (EU: 1 February 2015). This amendment is not relevant to the Group, since none of the entities within the Group has defined benefit plans with contributions from employees or third parties.

Amendments to IAS 27: Equity Method in Separate Financial Statements
The amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in their separate financial statements must apply that change retrospectively.

These amendments do not have any impact on the Group's consolidated financial statements.

Annual Improvements 2012–2014 Cycle

These improvements include:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

Assets (or disposal groups) are generally disposed of either through sale or distribution to the owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively.

IFRS 7 Financial Instruments: Disclosures

(i) Servicing contracts
The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures need not be provided for any period beginning before the annual period in which the entity first applies the amendments.

(ii) Applicability of the amendments to IFRS 7 to condensed interim financial statements
The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment must be applied retrospectively.

IAS 19 Employee Benefits

The amendment clarifies that the market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment must be applied prospectively.

IAS 34 Interim Financial Reporting

The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment must be applied retrospectively.

These amendments do not have any impact on the Group's consolidated financial statements.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:
- the materiality requirements in IAS 1;
- that specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated;
- that entities have flexibility as to the order in which they present the notes to financial statements;
- presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments do not have any impact on the Group.

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10 Consolidated Financial Statements. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 Investments in Associates and Joint Ventures allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

These amendments are applied retrospectively and do not have any impact on the Group as the Group does not apply the consolidation exception.

D.6.4 Standards, interpretations and amendments to existing standards that are not yet effective and are relevant for the Group's financial statements

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The group plans to defer the application of IFRS 9 until the earlier of the effective date of the new insurance contracts standard (IFRS 17) or 1 January 2021, applying the temporary exemption from applying IFRS 9 as introduced by the amendments (see below).

Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

In September 2016, the IASB issued amendments to IFRS 4 to address issues arising from the different effective dates of IFRS 9 and the upcoming new insurance contracts standard (IFRS 17).

The amendments introduce two alternative options for entities issuing contracts within the scope of IFRS 4, notably a temporary exemption and an overlay approach. The temporary exemption enables eligible entities to defer the implementation date of IFRS 9 for annual periods beginning before 1 January 2021 at the latest. An entity may apply the temporary exemption from IFRS 9 if:
(i) it has not previously applied any version of IFRS 9 before; and
(ii) its activities are predominantly connected with insurance on its annual reporting date that immediately precedes 1 April 2016.

The overlay approach allows an entity applying IFRS 9 to reclassify between profit or loss and other comprehensive income an amount that results in the profit or loss at the end of the reporting period for the designated financial assets being the same as if an entity had applied IAS 39 to these designated financial assets.

An entity can apply the temporary exemption from IFRS 9 for annual periods beginning on or after 1 January 2018. An entity may start applying the overlay approach when it applies IFRS 9 for the first time.

During 2016, the Group performed an assessment of the amendments and reached the conclusion that its activities are predominantly connected with insurance as at 31 December 2015. The Group intends to apply the temporary exemption in its reporting period starting on 1 January 2018.

IFRS 15 Revenue from Contracts with Customers (including clarifications issued on 12 April 2016)

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted.

The Group expects to apply IFRS 15 fully retrospective. Given insurance contracts are scoped out of IFRS 15, the Group expects the main impact of the new standard to be on the accounting for income from administrative and investment management services. The Group does not expect the impact to be significant.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17.

The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

In 2017, the Group plans to assess the potential effect of IFRS 16 on its consolidated financial statements.

IFRS 2 Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Group is assessing the potential effect of the amendments on its consolidated financial statements.

The Group is considering the implications of the above standards, the impacts on the Group and the timing of their adoption by the Group.

IAS 7 Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017)

The amendments come with the objective that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The Company is considering the implications of the above standards, the impacts on the Company and the timing of their adoption by the Company. The Company is not considering early application of the above standards.

IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017 – not yet endorsed by the EU).

The amendments clarify the accounting treatment of deferred tax assets related to debt instruments measured at fair value.

IAS 40 Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018)

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use.

Entities should apply the amendments prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at that date and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application in accordance with IAS 8 is only permitted if that is possible without the use of hindsight. Early application of the amendments is permitted and must be disclosed.

Annual Improvements 2014–2016

In the 2014–2016 annual improvements cycle, the IASB issued, in December 2016, amendments to three standards (IFRS 12, IFRS 1 and IAS 28). The changes are effective 1 January 2017 for IFRS 12 and 1 January 2018 for the amendments to the other two standards. Earlier application is permitted for the amendments to IAS 28 and must be disclosed.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration (effective for annual periods beginning on or after 1 January 2018)

The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.

Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognised on or after: (i) The beginning of the reporting period in which the entity first applies the interpretation; or (ii) The beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation. Early application of interpretation is permitted and must be disclosed.

E. Risk report

In the risk report, the Group presents further information to enable the assessment of the significance of financial instruments and insurance contracts for the assessment of an entity's financial position and performance. Furthermore, the Group provides information about its exposure to risks arising from financial instruments and insurance contracts, and it discloses management's objectives, policies and processes for managing those risks, in accordance with IFRS 7.

E.1 Risk management system

The Group is a member of the Generali Group and is part of its risk management structure. The Generali Group has implemented a risk management system that aims at identifying, evaluating and monitoring the most important risks to which the Generali Group and the Group are exposed. The most important risks are those risks whose consequences could affect the solvency of the Generali Group, the solvency of any single business unit, or negatively hamper any Group goals.

The risk management processes apply to the whole Generali Group, in all the countries where it operates, and for each business unit. However, the degree of integration and depth varies with the complexity of the underlying risks. The integration of processes within the Generali Group is fundamental to ensuring an efficient system of risk management and capital allocation for every business unit.

The main objectives of the risk management processes of the Generali Group are to keep identified risks below an acceptable level, to optimise capital allocation, and to improve the risk-adjusted performance.

Risk Management guidelines related to investment risk management, the system of limits, credit ratings and guidelines on an approval process for new instruments are in place, as well as the investment risk reporting for management on a monthly basis.

The risk management system is based on three main pillars:
a) the risk measurement process: aimed at assessing the solvency of the Group as well as all individual units;
b) the risk governance process: aimed at defining and controlling the managerial decisions in relation to relevant risks;
c) the risk management culture: aimed at increasing the value creation.

E.2 Roles and responsibility

The system is based on three levels of responsibility:

- Assicurazioni Generali (Generali Group) – for every country, this sets the targets in terms of solvency, results, and risk exposure. Moreover, it defines the risk management policy through a list of Guidelines for acceptance of the main risks. The Generali Group has developed the Enterprise Risk Management Policy to align the risk measurement methodology, the governance and the reporting of each company within the Group.
- Generali CEE Holding (Generali CEE) – defines strategies and objectives for every Company within the CEE region, taking into account the local features and regulations, providing support for the implementation and controlling the results. In particular, in order to assure a better solution to the specific features of local risks and changes in local regulation, the risk management responsibility and decisions are delegated to the Chief Risk Officer of Generali CEE respecting the Generali Group policy framework. Generali and Generali CEE groups are also assigned performance targets for their respective areas.
- Business Unit – defines strategies and targets for the lines of business, in respect of the policy and the guidelines established by Generali CEE. Risk management involves the corporate governance of Group entities and the operational and control structure, with defined responsibility levels and aims to ensure the adequacy of the entire risk management system at every point.

E.3 Risk measurement and control

Through its insurance activity, the Group is naturally exposed to several types of risk, which are related to the movements of the financial markets, to the adverse developments of insurance-related risks, both in life and non-life business and generally to all the risks that affect ongoing organised commercial operations.

These risks can be grouped into the following five main categories which will later be detailed: market risk, credit risk, liquidity risk, insurance risk and operational risk.

Along with the specific measures for the risk categories considered by the Group, the calculation of Economic Capital represents a comprehensive measure of risk that can be aggregated at the different organisational levels (Group, country and operative entity) and at the main business lines (life, non-life and asset management).

The Economic Capital is a risk measure that corresponds to the amount of capital to be held so that the market value of assets is greater than the market value of liabilities in twelve months' time, with a confidence level consistent with the target rating.

The internal models of risk measurement are constantly being improved, in particular those relating to the calculation of the Economic Capital and Asset Liability Management (ALM) approaches have been harmonised at all different organisational levels within the Generali Group.

E.4 Market risk

Unexpected movements in prices of equities, currencies, and interest rates might impact the value of the Group's assets and liabilities.

Financial investments are invested to meet the obligation towards both life and non-life policyholders and to earn a return on capital expected by the shareholders. The same changes might affect both assets and the present value of insurance liabilities.

At the year-end 2016, those investments with market risk affecting the Group were totalled €9,964 million at market value.

(€ million)	31.12.2016		31.12.2015	
	Total fair value	weight (%)	Total fair value	weight (%)
Equities	665	6.7%	702	7.4%
Bonds	9,399	94.3%	8,874	93.2%
Derivatives	(100)	(1.0%)	(60)	(0.6%)
Total	**9,964**	**100.0%**	**9,516**	**100.0%**

As mentioned above, the economic impact of changes in interest rates, equity prices, currencies and corresponding volatility for the shareholders will depend not only on the sensitivity of the assets to these shifts but also on how the same movements effect the measurement of its insurance liabilities.

This effect is particularly significant for the life business because of the minimum guaranteed rates of return and profit sharing arrangements. The impact of the minimum guaranteed rates of return on solvency, both in the short- and long-term, is assessed through deterministic and stochastic analysis. These analyses are performed at the company and single portfolio level and take into account the interaction between assets and liabilities. These analyses help develop product strategies and strategic asset allocations with the aim of optimising the risk and return characteristics of portfolios.

Other financial instruments (receivables, term deposits, financial liabilities, etc.) are not subject to significant market risk because of their nature. This means they are not sensitive to market risk, they are short-term in duration or the risk is negligible to the Group.

E.4.1 Asset liability matching

A substantial part of insurance liabilities may imply an interest rate risk. The management of interest rate risk implied from the net position of assets and liabilities is a key task of asset-liability management (ALM).

Generali CEE Group has an Asset and Liability Committee which is an advisory body to the Board of Directors and is in charge of the most strategic investment and ALM-related decisions. The committee is responsible for setting and monitoring the Group‘s strategic asset allocation in the main asset classes (i.e. government and corporate bonds, equities, real estate, etc.) in addition to the resulting asset and liability strategic position. The objective is to establish the appropriate return potential together with ensuring that the Group can always meet its obligations without undue cost and in accordance with the Group‘s internal and regulatory capital requirements. To guarantee the necessary expertise in meeting its mandate, the Committee consists of representatives from top management and includes asset management, risk management and ALM experts from the business units.

The ALM manages the net asset-liability positions in both life and non-life insurance, with the main focus on traditional life products with a long-term nature and often with embedded options and guarantees. The insurance liabilities are analysed, including the embedded options and guarantees and models of future cash flows are prepared in cooperation with actuaries. The models allow for all guarantees under the insurance contracts and for expected development of the key parameters, primarily mortality, morbidity, lapses and administration expenses.

Initially, government bonds are used to manage the net position of assets and liabilities and in particular their sensitivity to parallel and non-parallel shifts in the yield curve. Next, corporate bonds and derivatives, primarily interest rate swaps, can be used. However, in line with the credit risk management policy, investments in long-term and thus also high-duration instruments focus on government bonds. The use of interest-rate swaps is limited due to their accounting treatment – as their revaluation, which is reported in the consolidated income statement, does not match the reporting of the insurance liabilities.

There is a strategic target asset-liability interest rate position set in line with the risk and capital management policy – to strictly focus on intended risks and reduce capital needed for risks with lower expected gain potential. The prevailing policy is to reduce this position to a minimum level and even though it is not possible to perfectly match future cash flows between assets and liabilities, the position has been substantially reduced within the last years and currently the parallel and non-parallel sensitivities are low. Investments in long-term government bonds in emerging markets also contribute to this result.

In addition to management of the strategic position, there are certain limits allowed for tactical asset manager’s positions, so that the asset interest rate sensitivity can deviate from the benchmark in a managed manner.

E.4.2 Interest rate risk

The Group’s operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets (including investments) and interest-bearing liabilities mature or re-price at different times or in differing amounts. In the case of floating rate assets and liabilities, the Group is also exposed to an interest-rate cash-flow risk, which varies depending on the different re-pricing characteristics of the various floating rate instruments.

Interest rate derivatives are primarily used to bridge the mismatch in the re-pricing of assets and liabilities. In some cases derivatives are used to convert certain groups of interest-earning assets to floating or fixed rates to reduce the risk of losses in value due to interest rate changes or to lock-in spreads. In addition, the Group enters into interest rate swaps to fix the interest rates on its floating-rate debts at a certain level.

The assets whose value is subject to interest rate risk are represented mainly by bonds. The table below summarises the breakdown of their carrying amount by company.

Interest rate risk exposure

(€ million)	31.12.2016		31.12.2015	
	Amount	weight (%)	Amount	weight (%)
Česká pojišťovna, Czech Republic	2,100	22.4%	2,132	24.1%
Penzijní společnost ČP including Transformed fund, Czech Republic	3,630	38.7%	3,358	38.0%
GP Reinsurance EAD, Bulgaria	781	8.3%	778	8.8%
Generali Towarzystwo Ubezpiec., Poland	499	5.3%	444	5.0%
Generali Pojišťovna, Czech Republic	472	5.0%	428	4.8%
Generali Biztosító Rt, Hungary	391	4.2%	371	4.2%
Generali Osiguranje Srbija, Serbia	350	3.7%	292	3.3%
Generali Poisťovňa, Slovakia	271	2.9%	269	3.0%
Generali Romania Asigurare Reasigurare S.A. , Romania	216	2.3%	172	1.9%
Generali Osiguranje, Croatia	176	1.9%	145	1.6%
Generali Zavarovalnica d.d., Slovenia	169	1.8%	149	1.7%
Generali Zycie, Poland	86	0.9%	88	1.0%
Generali CEE Holding B.V., The Netherlands	49	0.5%	38	0.4%
Other companies	195	2.1%	197	2.2%
Total	**9,385**	**100.0%**	**8,861**	**100.0%**

The table below summarises the modified duration of bond portfolios for the biggest companies in the Group.

(Years)	31.12.2016	31.12.2015
Generali Poisťovňa, Slovakia	4.5	4.7
Česká pojišťovna, Czech Republic	7.9	7.5
Penzijní společnost ČP including Transfermed fund, Czech Republic	5.1	4.4
Generali Romania Asigurare Reasigurare S.A., Romania	4.0	4.0
Generali Pojišťovna, Czech Republic	4.9	4.6
Generali Zycie Towarzystwo Ubezpiec., Poland	4.0	4.1
Generali Biztosító Rt, Hungary	3.6	3.5
Generali Towarzystwo Ubezpiec., Poland	3.6	3.3
GP Reinsurance EAD, Bulgaria	4.0	3.3

The Group monitors the sensitivity of the bond portfolio to various standard and non-standard interest rate scenarios.

The income statement and Shareholder's equity sensitivity to interest rate changes have been calculated by applying the stress test (100 bp parallel fall or rise in all yield curves worldwide) to all bond portfolios as at 31 December 2016 and 31 December 2015.

Bonds backing unit-linked provisions are excluded from the sensitivity analysis since investment risk is borne by the policyholders.

The following table shows this sensitivity analysis at the year end, before and after the related deferred taxes. The sensitivity analysis considers the mitigating effect on the insurance liability side (e.g. mainly LAT Reserve and Deferred Policyholders' Liability).

(€ million)		31.12.2016		31.12.2015	
		Income Statement	Shareholder's Equity	Income Statement	Shareholder's Equity
100 bp parallel increase	Gross impact on interest income	–	–	–	–
	Gross impact on fair value	5	(376)	–	(367)
	Income tax charge/(credit)	(1)	42	–	42
	Total net impact	**4**	**(334)**	**–**	**(325)**
100 bp parallel decrease	Gross impact on interest income	–	–	–	–
	Gross impact on fair value	(6)	434	–	422
	Income tax charge/(credit)	1	(49)	–	(50)
	Total net impact	**(5)**	**385**	**–**	**372**

The reasonably possible shift of +/- 100bp on the yield curve implies a potential impact on the result of the period, caused on the one hand by the consequent change in the fair value of bonds and on the other by the re-calculation on coupon and accrued interest of floating rate securities.

While the gross impact of changes in the fair value of the bonds is fully shown in the Shareholder's Equity column (being the large majority of bond portfolios classified as Available for sale), the mitigating impact on the insurance contract liabilities can be summarised as follows:

(€ million)		31.12.2016		31.12.2015	
		Income Statement	Shareholder's Equity	Income Statement	Shareholder's Equity
100 bp parallel increase	Gross impact on interest income	–	–	–	–
	Gross impact on fair value	–	124	–	100
	Income tax charge/(credit)	–	–	–	–
	Total net impact	**–**	**124**	**–**	**100**
100 bp parallel decrease	Gross impact on interest income	–	–	–	–
	Gross impact on fair value	–	(141)	–	(113)
	Income tax charge/(credit)	–	–	–	1
	Total net impact	**–**	**(141)**	**–**	**(112)**

E.4.3 Equity price risk

Equity price risk is the risk that equity prices will fluctuate, affecting the fair value of equity investments and other instruments that derive their value from a particular equity investment or index of equity prices.

The Group manages its use of equity investments in response to changing market conditions using the following risk management tools:
a) The limits for investments are set and carefully monitored for each business unit in its investment policy.
b) The portfolio is diversified (limits are set per single counterparty exposure).

The table below summarises the breakdown by equity and investment fund unit type:

(€ million)	31.12.2016	31.12.2015
Unquoted equities at cost	1	12
Equities at fair value	170	126
Quoted	104	126
Unquoted	66	–
Investments in fund units	494	564
Total	**665**	**702**

The table below summarises the breakdown of the carrying amount of equities and the investment fund unit portfolio by company:

(€ million)	31.12.2016		31.12.2015	
	Amount	weight (%)	Amount	weight (%)
Česká pojišťovna, Czech Republic	254	38.2%	316	45.0%
Penzijní společnost ČP including Transformed fund, Czech Republic	113	17.0%	99	14.1%
GP Reinsurance EAD, Bulgaria	70	10.5%	77	11.0%
Generali Biztosító Rt, Hungary	69	10.4%	71	10.1%
Generali Pojišťovna, Czech Republic	44	6.6%	55	7.8%
Generali Poisťovňa, Slovakia	19	2.9%	16	2.3%
Generali Towarzystwo Ubezpiec., Poland	12	1.8%	20	2.8%
Other companies	84	12.6%	48	6.9%
Total	**665**	**100.0%**	**702**	**100.0%**

The Income statement and shareholder's equity sensitivity to equity price changes have been calculated by applying the stress test (+/- 10% change in equity prices) to all equities and investment fund unit portfolios as at 31 December 2016 and 2015.

Financial assets backing unit–linked provisions are excluded from the sensitivity analysis since the investment risk is borne by the policyholders.

The following table shows this sensitivity analysis at the year end, before and after the related deferred taxes. The sensitivity analysis considers the mitigating effect on the insurance liability side (e.g. mainly Deferred Policyholders' Liability).

(€ million)		31.12.2016		31.12.2015	
		Income Statement	Shareholder's Equity	Income Statement	Shareholder's Equity
Equity price +10%	Gross impact on fair value	8	40	7	54
	Income tax charge/(credit)	(1)	(4)	(1)	(8)
	Total net impact	**7**	**36**	**6**	**46**
Equity price -10%	Gross impact on fair value	(8)	(40)	(7)	(54)
	Income tax charge/(credit)	1	4	1	8
	Total net impact	**(7)**	**(36)**	**(6)**	**(46)**

The impact on the income statement or shareholder's equity is determined by the IFRS classification of the particular investments. The vast majority of investments are classified as available for sale, and thus the impact on Shareholder's equity is much higher than the impact on the income statement.

On the other hand, the mitigating impact on the insurance contract liabilities can be summarised as follows:

(€ million)		31.12.2016		31.12.2015	
		Income Statement	Shareholder's Equity	Income Statement	Shareholder's Equity
Equity price +10%	Gross impact on fair value	–	(10)	–	(8)
	Income tax charge/(credit)	–	–	–	–
	Total net impact	**–**	**(10)**	**–**	**(8)**
Equity price -10%	Gross impact on fair value	–	10	–	8
	Income tax charge/(credit)	–	–	–	–
	Total net impact	**–**	**10**	**–**	**8**

E.4.4 Currency risk

The Group is exposed to currency risk as a result of transactions performed by its entities in currencies different from their functional currency and through their assets and liabilities being denominated in various currencies.

However, the general strategy of the Group is to fully hedge currency risk exposure, and this goal is pursued through the two following actions:
- liabilities expressed in a foreign currency are covered by Group entities using financial investments expressed in the same currency;
- the net exposure arising from assets expressed in foreign currencies is kept at an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate, or using short-term FX operations. Derivative financial instruments are used to manage the potential earnings impact of foreign currency movements, including currency swaps, spots, and forward contracts. If suitable, options and other derivatives are also considered and used.

The FX position is regularly monitored and the hedging instruments are reviewed and adjusted accordingly.

As a result of this approach, the Group has no significant open exposure to any currencies.

Moreover, it should be noted that each company is given specific and strict FX investment limits which are part of the System of Investment Risk Limits prepared by Group Risk Management who also regularly monitor whether these limits are being respected.

E.5 Credit risk

Credit risk refers to the economic impact from downgrades and defaults of fixed income securities or counterparties on the Group's financial strength. Furthermore, a general rise in the spread level, due to the economic crisis, impacts the financial strength of the Group.

The Group has adopted guidelines to limit the credit risk of investments. These favour the purchase of investment-grade securities and encourage diversification and dispersion of the portfolio.

For the rating assessment of an issue or an issuer, only ESMA (European Securities and Markets Authority) recognized ECAIs' (External Credit Assessment Institutions) ratings from rating agencies are can be used. In line with Generali Group principles the Second Best Rule is applied, i.e. if more ratings leading to a different assessment are available, the second best rule states that the lower of the two best credit ratings is chosen.

Securities without an external rating are given an internal one based on the Group's own credit analysis. In most cases internal ratings are based on external rating of the Parent Company or its adjusted external rating due to subordination of the instrument. All internal ratings are in accordance with GCEE's assessment.

To manage the level of credit risk, the Group deals with counterparties with a good credit standing and enters into master netting agreements whenever possible. Master netting agreements provide for the net settlement of contracts with the same counterparty in the event of default.

The Group sets up issuer/counterparty limits according to their credit quality and monitors compliance with these limits on a monthly basis.

The following tables show the Group's exposure to credit risks for bonds and reinsurance assets (only official ratings are used, securities without a rating are shown as non-rated even if an internal rating was allocated to them).

The ratings shown below are expressed according to the S&P scale.

Rating of bonds

(€ million)	31.12.2016		31.12.2015	
	Amount	weight (%)	Amount	weight (%)
AAA	113	1.2%	112	1.3%
AA	74	0.8%	4,079	46.0%
A	5,893	62.7%	1,322	14.9%
BBB	2,125	22.6%	1,451	16.4%
Non-investment grade	983	10.5%	1,498	16.9%
Not-rated	211	2.2%	412	4.5%
Total	**9,399**	**100.0%**	**8,874**	**100.0%**

The portfolio of fixed income investments of the Group has been prudently composed: 79.1% of the securities are government issued (2015: 78.5%).

The distribution by rating class shows that the vast majority of fixed income investment is of a high rating standing, with more than 60% being greater than or equal to the “A” rating. The significant decrease of bonds rated as “AA” and corresponding increase in grade “A” compared to year-end 2015 is caused by the downgrade of Czech government bonds in July 2016.

The somewhat high percentage of “Not-rated” bonds is explained by the fact that securities without a rating are shown as non-rated, even if an internal rating was allocated to them. The line “Non-investment grade” includes bonds rated in “BB” and “B” grades.

Rating of reinsurance assets

(€ million)	31.12.2016		31.12.2015	
	Amount	weight (%)	Amount	weight (%)
AA	62	24.3%	58	21.7%
A	133	52.3%	153	57.2%
BBB	–	–	5	2.0%
Non-investment grade	1	0.4%	1	0.4%
Not-rated	59	23.0%	51	18.7%
Total	**255**	**100.0%**	**268**	**100.0%**

As far as the “Not-rated” counterparties are concerned, these are often local insurance and reinsurance companies that are individually not rated by the rating agencies. However, they are not necessarily weaker from a financial perspective. On the contrary, they are often part of important and highly rated insurance groups.

Rating of term deposits

(€ million)	31.12.2016		31.12.2015	
	Amount	weight (%)	Amount	weight (%)
A	2	0.6%	–	0.0%
BBB	296	88.6%	308	92.2%
Non-investment grade	9	2.7%	18	5.4%
Not-rated	27	8.1%	8	2.4%
Total	**334**	**100.0%**	**334**	**100.0%**

The balance in “BBB” group is almost fully attributable to cash-pooling programme operated by Assicurazioni Generali S.p.A. The balance as at 31 December 2016 amounts to €286 million (2015: €285 million).

The following table presents the ageing analysis for loans and receivables:

(€ million)	Loans and receivables – carrying amount (F.3.4)		Receivables – carrying amount (F.5)	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Neither past due nor impaired – carrying amount	**766**	**638**	**257**	**238**
Past due but not impaired – carrying amount	**–**	**–**	**46**	**45**
Individually impaired – carrying amount	**–**	**–**	**93**	**96**
Gross amount	4	4	180	222
up to 90 days after maturity	–	–	61	82
91 days to 180 days after maturity	–	–	12	26
181 days to 1 year after maturity	–	–	27	24
over 1 year after maturity	4	4	80	90
Allowance for impairment	(4)	(4)	(87)	(126)
Total	**766**	**638**	**396**	**379**

The individual business units of the Group hold collateral for loans and advances to banks in the form of securities as part of a reverse buy-sell transaction, and collateral for loans and advances to non-banks in the form of mortgage interests on property and guarantees received.
The following table shows the fair value of collateral held.

(€ million)	31.12.2016	31.12.2015
Against individually impaired	1	1
Property	1	1
Against neither past due nor impaired	370	245
Debt securities	367	242
Other	3	3
Total	**371**	**246**

E.6 Liquidity risk

Liquidity risk arises during the general funding of the Group’s activities and in the management of its positions. It includes both the risk of being unable to fund assets using instruments with appropriate maturities and rates, the risk of being unable to liquidate an asset sufficiently quickly and in the appropriate amount and the risk of being unable to meet obligations as they become due.

All the business units have access to a diverse funding base. Apart from insurance provisions, which serve as the main source of financing, funds are also raised using a broad range of instruments including deposits, other liabilities evidenced by paper, reinsurance policies, subordinated liabilities and shareholder equity. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds.

The business units strive to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities; for details see also the section above on asset and liability matching. Further, all the business units hold a portfolio of liquid assets as part of its liquidity risk management strategy. The Group continuously monitors the liquidity risk to gain smoothly access to funds to meet known obligations, with an additional buffer to cover potential unknown situations. Special attention is paid to the liquidity management of non-life insurance business requiring sufficient funding to meet all the potential obligations in the event of a natural disaster or other extraordinary event.

All the business units as well as the Group as a whole, continually assess their liquidity risk by identifying and monitoring changes in the funding required to meet business goals and the targets set in terms of the overall strategy.

The following table shows an analysis of the Group's financial assets and liabilities broken down into their relevant maturity bands, based on the residual contractual maturities.

Residual contractual maturities of financial assets

31.12.2016 (€ million)	Less than 1 year	Between 1 and 5 years	More than 5 years	Unspecified	Total
Investments	**1,814**	**4,034**	**4,786**	**2,077**	**12,711**
Loans	**710**	**56**	**–**	**–**	**766**
Held to maturity	**21**	**39**	**7**	**–**	**67**
Available for sale	**974**	**3,688**	**4,594**	**561**	**9,817**
Bonds	974	3,688	4,594	–	9,256
Equities	–	–	–	171	171
Investment fund units	–	–	–	390	390
Financial assets at fair value through profit or loss	**109**	**252**	**184**	**1,516**	**2,061**
Bonds	1	2	6	–	9
Investment fund units	–	–	–	104	104
Unit-linked investments	105	246	174	1,412	1,937
Derivatives	3	4	4	–	11
Receivables	**342**	**7**	**47**	**–**	**396**
Cash and cash equivalents	**379**	**–**	**–**	**–**	**379**
Total financial assets	**2,535**	**4,041**	**4,833**	**2,077**	**13,486**

31.12.2015 (€ million)	Less than 1 year	Between 1 and 5 years	More than 5 years	Unspecified	Total
Investments	**1,701**	**4,075**	**4,223**	**2,005**	**12,004**
Loans and receivables	**580**	**52**	**6**	**–**	**638**
Held to maturity investments	**–**	**60**	**7**	**–**	**67**
Available for sale financial assets	**989**	**3,729**	**4,006**	**615**	**9,339**
Bonds	989	3,729	4,006	–	8,724
Equities	–	–	–	138	138
Investment fund units	–	–	–	477	477
Financial assets at fair value through profit or loss	**132**	**234**	**204**	**1,390**	**1,960**
Bonds	3	4	5	–	12
Investment fund units	–	–	–	87	87
Unit-linked investments	115	226	197	1,303	1,841
Derivatives	14	4	2	–	20
Receivables	**353**	**5**	**21**	**–**	**379**
Cash and cash equivalents	**332**	**–**	**–**	**–**	**332**
Total financial assets	**2,386**	**4,080**	**4,244**	**2,005**	**12,715**

Residual contractual maturities of financial liabilities

31.12.2016 (€ million)	Less than 1 year	Between 1 and 5 years	More than 5 years	Total
Financial liabilities	**391**	**55**	**31**	**477**
Financial liabilities at fair value through profit or loss	52	30	31	113
Derivatives	50	30	31	111
Other	2	–	–	2
Financial liabilities at amortised cost	339	25	–	364
Bonds	12	1	–	13
Net assets attributable to unit holders	16	–	–	16
Other	311	24	–	335
Payables	**376**	**–**	**–**	**376**
Other liabilities	**189**	**12**	**140**	**341**
Total financial liabilities	**956**	**67**	**171**	**1,194**

31.12.2015 (€ million)	Less than 1 year	Between 1 and 5 years	More than 5 years	Total
Financial liabilities	**103**	**54**	**44**	**201**
Financial liabilities at fair value through profit or loss	20	18	44	82
Derivatives	18	18	44	80
Other	2	–	–	2
Financial liabilities at amortised cost	83	36	–	119
Bonds	–	10	–	10
Net assets attributable to unit holders	10	–	–	10
Other	73	26	–	99
Payables	**357**	**–**	**–**	**357**
Other liabilities	**196**	**6**	**150**	**352**
Total financial liabilities	**656**	**60**	**194**	**910**

Derivatives mainly consist of currency swaps due within one month and interest rate swaps that are due within three years.

The following table shows the amount of life segment insurance liabilities and financial liabilities for investment contracts, broken down by the estimated timing of the net cash outflows or contractual maturity. The data reported refers to gross direct business. Deferred policyholders' liabilities are excluded from the analysis as they depend on market movements; therefore, it is impossible to split the estimated timing of the cash flows related to Deferred policyholders' liabilities.

Estimated timing of the net cash outflows resulting from recognised insurance liabilities and contractual maturities of financial liabilities for investment contracts

31.12.2016 (€ million)	Life insurance provisions – Gross direct insurance	Financial liabilities related to investment contracts	Total
Up to 1 year	446	1,232	1,678
Between 1 and 5 years	1,215	692	1,907
Between 6 and 10 years	861	537	1,398
Between 11 and 20 years	772	764	1,536
More than 20 years	680	531	1,211
Total	**3,974**	**3,756**	**7,730**

31.12.2015 (€ million)	Life insurance provisions – Gross direct insurance	Financial liabilities related to investment contracts	Total
Up to 1 year	396	1,165	1,561
Between 1 and 5 years	1,131	670	1,801
Between 6 and 10 years	907	495	1,402
Between 11 and 20 years	829	717	1,546
More than 20 years	675	503	1,178
Total	**3,938**	**3,550**	**7,488**

The Group takes into account the impact of rational/irrational surrenders on its expected profits. In the product design phase, penalties for surrenders are allowed: they are calculated in order to partially compensate for the eventual decrease in expected future profits. Investment contracts may be cancelled early, but, with significant negative consequences for the policyholders.

In relation to the non-life segment, the table below shows the amount of gross direct provisions for outstanding claims split by the remaining maturity. The total liability is broken down by the remaining duration in proportion to the cash flows expected to arise during each duration band.

Estimated timing of the net cash outflows resulting from recognised insurance liabilities – Non-Life insurance liabilities

(€ million)	Provision for outstanding claims gross direct amount	
	31.12.2016	31.12.2015
Up to 1 year	805	697
Between 1 and 5 years	590	560
Between 6 and 10 years	163	167
Between 11 and 20 years	324	363
Total	**1,882**	**1,787**

The accepted reinsurance effect is negligible. Estimated cash flows from other non-life insurance liabilities will predominantly occur within one year.

E.7 Insurance risks

Insurance risk results from the uncertainty surrounding the timing, frequency and size of claims under insurance contracts. The principal risk is that the frequency or size of claims is greater than expected. In addition, for some contracts, there is uncertainty about the timing of insured events. These are, by their nature, random, and the actual number and size of events during any one year may vary from those estimated using established statistical techniques.

The Group is exposed to actuarial and underwriting risk through a wide range of life and non-life products offered to customers: participating and non-participating traditional life products, unit-linked products, annuities, universal life products, guaranteed investment products and all lines of non-life products (property, accident and health, car, third party liability and disability).

The most significant components of actuarial risk concern the adequacy of insurance premium rate levels and the adequacy of provisions with respect to insurance liabilities and the capital base. Adequacy is assessed by taking into consideration: supporting assets (fair and book value, currency and interest sensitivity); changes in interest and exchange rates; developments in mortality and morbidity; non-life claims frequency and amounts; lapses; expenses; and general market conditions. Specific attention is paid to the adequacy of provisions for the life business. For a detailed description of the liability adequacy test, see Note D.3.3 Liability Adequacy Test.

The Group manages insurance risk in the individual business units using internal guidelines for product design, reserving, pricing criteria, reinsurance strategy and underwriting. Monitoring risk profiles, reviewing insurance-related risk control, and asset/liability management are also carried out by senior management. For the most significant business units and portfolios, stochastic modelling is used to assess the risk of interest rate guarantees included in insurance contracts. The pricing reflects the cost of the guarantees and appropriate reserves are established accordingly.

New methods based on dynamic and stochastic modelling are starting to be implemented throughout the Group and are continuously being improved. These methods will be used, among others, to measure the Economic Capital of insurance risks.

E.7.1 Concentration of insurance risk

A key aspect of the insurance risk faced by the Group is the extent of the concentration of insurance risk, which determines the extent to which a particular event or series of events could significantly impact upon the Group's liabilities. Such concentrations may arise from a single insurance contract or through a number of related contracts where significant liabilities could arise. An important aspect of the concentration of insurance risk is that it could arise from the accumulation of risks within a number of different insurance classes.

Concentrations of risk can arise in low-frequency, high-severity events such as natural disasters; in situations where the Group is exposed to unexpected changes in trends, for example, unexpected changes in human mortality or in policyholder behaviour; or where significant litigation or legislative risks could cause a large single loss, or have a pervasive effect on many contracts.

Geographic and sector concentrations

The following table provides an overview of the gross direct written premiums according to the countries in which the Group operates and according to the different lines of business.

Life gross direct premiums written by line of business and by geographical area

2016 (€ million)	Saving & Pension	Protection	Unit Linked	Total
Czech Republic	161	179	115	455
Hungary	21	14	109	144
Slovakia	23	38	27	88
Poland	2	81	89	172
Serbia	49	8	–	57
Romania	7	7	2	16
Slovenia	7	5	13	25
Bulgaria	–	–	–	–
Croatia	26	2	1	29
Total	**296**	**334**	**356**	**986**

2015 (€ million)	Saving & Pension	Protection	Unit Linked	Total
Czech Republic	185	148	173	506
Hungary	22	13	102	137
Slovakia	27	30	28	85
Poland	2	101	114	217
Serbia	49	6	–	55
Romania	8	6	2	16
Slovenia	7	4	12	23
Bulgaria	2	2	–	4
Croatia	25	2	1	28
Total	**327**	**312**	**432**	**1,071**

Non-life gross direct premiums written by line of business and by geographical area

2016 (€ million)	Motor	Non motor				Total
		Property	General liability	Accident, Health and Disability	Other	
Czech Republic	418	310	101	36	12	877
Hungary	98	124	26	21	8	277
Slovakia	67	31	7	11	1	117
Poland	223	53	16	17	12	321
Serbia	63	24	1	14	3	105
Romania	88	30	4	3	4	129
Slovenia	33	19	4	7	2	65
Bulgaria	35	19	1	10	2	67
Croatia	18	9	2	4	3	36
Other countries	7	2	–	1	–	10
Total	**1,050**	**621**	**162**	**124**	**47**	**2,004**

2015 (€ million)	Motor	Non motor				Total
		Property	General liability	Accident, Health and Disability	Other	
Czech Republic	395	316	97	37	6	851
Hungary	91	122	25	19	8	265
Slovakia	59	29	7	11	1	107
Poland	231	55	16	22	13	337
Serbia	61	23	1	13	2	100
Romania	54	30	4	1	4	93
Slovenia	33	18	4	7	2	64
Bulgaria	17	10	1	7	1	36
Croatia	18	10	2	4	2	36
Other countries	7	2	–	1	–	10
Total	**966**	**615**	**157**	**122**	**39**	**1,899**

The breakdown according to gross written premiums is a reliable approximation of the concentration of the total sum insured from a geographical perspective.

Reinsurance has no significant impact on the concentration of insurance risk.

Low-frequency, high-severity risks

Significant insurance risk is connected with low-frequency and high-severity risks. The Group manages these risks through its underwriting strategy and adequate reinsurance arrangements.

According to its underwriting strategy, the most significant risk of natural disaster to which the Group is exposed is the risk of flooding. In the event of a major flood, the Group expects the property portfolio to see high claims for structural damage to properties and contents and high claims for business interruption while transport links are inoperable and business properties are closed for repair.

Apart from the risk of flooding, other climatic phenomena, such as long lasting snowfall, claims caused by snow weight and strong winds or hail storms would have a similar effect. The Group is participating in the insurance of nuclear risks through Czech and Slovak nuclear pools, for more information see note F.30.5.

The underwriting strategy is an integral part of the annual business plan that specifies the classes of business to be written within the planned period and the target sectors of clients. Following approval of the underwriting limits, the strategy is cascaded down to the individual underwriters in the form of underwriting limits (each underwriter can write a business by line size, class of business, territory and industry to ensure the appropriate risk selection within the portfolio).

Life underwriting risk

In the life portfolio of the Group, there is a prevailing component of savings contracts, but there are also pure risk covers (death benefits plus riders, such as accident, disability, dread disease, etc.) and some annuity portfolios, with the presence of the longevity risk.

The risks related to policies with a prevailing savings component are considered when pricing the guarantees, in line with the particular situation in the local financial market and also taking into account any relevant regulatory constraint. In the recent past a policy of redefining the structure of minimum guarantees has been pursued to lower their risk impact and cost.

As far as the demographic risk related to pure risk portfolios is concerned, the mortality tables used in the pricing are prudent. The standard approach is to use population or experience tables with adequate safety loadings.

For the most important risk portfolios, a detailed analysis of mortality experience is carried out every year in comparison with the expected mortality of the portfolio, determined according to the most up-to-date mortality tables available in each market. This analysis takes into consideration mortality by gender, age, policy year, sum assured, other underwriting criteria and also mortality trends.

As far as lapse risk (risks related to voluntary withdrawal from the contract) and expense risk (risks related to the inadequacy of charges and loadings in the premiums to cover future expenses) are concerned, they are also considered in the product development and pricing processes. The Group continuously works on model development and implementation in individual business units and provides support when determining assumptions that are either derived from the experience of the business unit or, if it is not sufficiently reliable or suitable, the experience of the other Group entities, or the general experience of the local market. To mitigate lapse risk, surrender penalties are generally considered in the pricing and are determined in such a way as to compensate, at least partially, for the loss of future profits.

The table below shows the concentration of insurance provisions of life gross direct business by the level of financial guarantee. Financial liabilities related to investment contracts are also included.

Life insurance liabilities and financial liabilities for investment contracts: level of financial guarantee

(€ million)	Gross direct insurance	
	31.12.2016	31.12.2015
Liabilities with guaranteed interest*	**5,651**	**5,481**
between 0% and 1%	3,609	3,307
between 1% and 3%	787	856
between 3% and 4%	538	535
between 4% and 5%	580	655
more than 5%	137	128
Provisions without guaranteed interest	**1,753**	**1,710**
Provisions matched by specific assets**	**148**	**133**
Total	**7,552**	**7,324**

*The upper bound of each range is excluded.
**Provisions matched by specific assets relate to contracts with minimum guaranteed interest where the final yield to policyholders depends on performance of underlying assets.

Insurance provisions include the gross direct amount of mathematical provisions €2,184 million (2015: €2,248 million), provisions for unit-linked policies €1,612 million (2015: €1,526 million), and financial liabilities related to investment contracts with DPF €3,756 million (2015: €3,550 million).

The table above shows a progressive shift of the exposure towards the lower level of guaranteed interest, as a consequence of the new business subscribed in 2016, characterized by a lower level of guarantees compared to previous years.

Non-life underwriting risk
Pricing risk covers the risk that the premium charged is insufficient to cover actual future claims and expenses.

Reserving risk relates to the uncertainty of the run-off of reserves around its expected value which is the risk that the actuarial reserve is not sufficient to cover all liabilities of claims incurred. Its assessment is closely related to the estimation of reserves. Both processes are performed together for consistency reasons, using claim triangles and all other relevant information collected and analysed according to specific guidelines.

The Group has the right to re-price risk on contract renewal and to reject fraudulent claims. These contracts are underwritten by reference to the commercial replacement value of the properties and contents insured and claims payment limits are always included to cap the amount payable on occurrence of the insured event.

The following table shows the cumulative claims payments and the ultimate cost of claims by accident year and their development from 2007 to 2016. The ultimate cost includes paid losses, outstanding reserves on reported losses, estimated reserves for IBNR claims, and claim handling costs.

The amounts refer to direct business gross of reinsurance. Values are included and presented in the development table fully retrospectively for all the entities in the Group in order to provide better comparability.

The observed trend in the ultimate cost for all generations shows the adequate level of prudence adopted by the Group in its reserving policy.

(€ million)	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
Cumulative claim payments											
at the end of underwriting year	547	601	651	717	538	536	585	515	529	578	**5,797**
one year later	763	831	879	1,000	732	741	787	729	741		
two years later	796	876	922	1,044	768	782	826	794			
three years later	812	901	942	1,068	788	802	844				
four years later	824	915	954	1,081	798	813					
five years later	832	924	962	1,086	803						
six years later	840	931	967	1,092							
seven years later	844	935	970								
eight years later	848	937									
nine years later	851										
Estimate of ultimate cumulative claims costs:											
at the end of underwriting year	952	1,096	1,149	1,276	1,030	1,045	1,081	1,019	1,080	1,180	**10,908**
one year later	985	1,082	1,110	1,240	966	984	1,015	1,032	1,045		
two years later	950	1,048	1,083	1,220	940	956	1,001	1,010			
three years later	931	1,036	1,073	1,210	924	945	989				
four years later	918	1,025	1,061	1,177	907	917					
five years later	907	1,010	1,046	1,168	894						
six years later	908	997	1,041	1,154							
seven years later	898	993	1,028								
eight years later	890	985									
nine years later	884										
Estimate of cumulative claims	**884**	**985**	**1,028**	**1,154**	**894**	**917**	**989**	**1,010**	**1,045**	**1,180**	**10,086**
Cumulative payments	**(851)**	**(937)**	**(970)**	**(1,092)**	**(803)**	**(813)**	**(844)**	**(794)**	**(741)**	**(578)**	**(8,423)**
Provisions for outstanding claims not included in underwriting years											116
Provisions not included in the claims development table											103
Accepted reinsurance											35
Amount recognised in the Statement of financial position											**1,917**

E.7.2 Reinsurance strategy

All business units of the Group reinsure some of the risks they underwrite to control their exposure to losses and to protect their capital resources.

The Group concludes a combination of proportionate and non-proportionate reinsurance treaties to reduce its net exposure. The maximum net exposure limits for particular business lines are reviewed annually. To provide additional protection, the Group uses facultative reinsurance for certain insurance policies. The reinsurance arrangements include quota-share, excess, stop-loss, and catastrophe coverage.

The Group has a captive reinsurance company, GP Reinsurance EAD (GP RE), located in Bulgaria. The majority of reinsurance treaties are concluded with GP RE. In addition, the Group benefits from the consolidated reinsurance program and the diversification of its risks due to the GP RE group coverage which is retro-ceded. From 2014 the treaty coverage is provided in almost all lines of business by the ultimate shareholder Assicurazioni Generali S.p.A. (whereas in previous years, the retrocessions were made on the external market); this is a consequence of the new Generali Group business model which provides 100% treaty reinsurance cessions to the ultimate shareholder.

The overview of obligatory reinsurance treaty parameters for the main program and underwriting year 2016:

Line of business/Treaty	Form of reinsurance	Leader
Property		
Property per Risk	Excess of Loss	Assicurazioni Generali S.p.A.
Engineering per Risk	Excess of Loss	Assicurazioni Generali S.p.A.
Property Catastrophe	Excess of Loss	Assicurazioni Generali S.p.A.
Property Catastrophe (Annual Aggregate Protection)	Excess of Loss	Assicurazioni Generali S.p.A.
Liability		
Third Party Liability	Excess of Loss	Assicurazioni Generali S.p.A.
Motor Third Party Liability	Excess of Loss	Assicurazioni Generali S.p.A.
D&O	Variable Quota Share, Excess of Loss	Assicurazioni Generali S.p.A.
Marine		
Marine LoBs	Excess of Loss	Assicurazioni Generali S.p.A.
Agriculture		
Livestock & Crop	Stop Loss	Assicurazioni Generali S.p.A.
Drought & Extreme Rainfall	Quota Share	Swiss Re
Crop Revenue	Quota Share	Swiss Re
Bonds		
Bond	Quota Share	Assicurazioni Generali S.p.A.
Life, pensions		
Death&Other – Single	Fronting	Assicurazioni Generali S.p.A.
Death&Other – Single	Quota Share	Assicurazioni Generali S.p.A.
Death&Other – Single	Surplus	Assicurazioni Generali S.p.A.
Death&Other – Single	Excess of Loss	Assicurazioni Generali S.p.A.
Death&Other – Single	Quota Share	Axa
Death&Other – Single	Fronting	Europ Assistance S.A. Irish Branch
Death&Other – Single	Quota Share	Europ Assistance S.A. Irish Branch
Death&Other – Single	Quota Share	Hannover Re
Death&Other – Single	Surplus	München Re
Death&Other – Single	Surplus	Swiss Re
Death&Other – Single	Fronting	Zurich Life Insurance Company

As a part of its reinsurance strategy, the Group carries out regular monitoring of the financial position of its reinsurers, as shown in Note F.4.

Ceded reinsurance contains a credit risk as the ceding of risk to reinsurers does not relieve the Group of its obligations to its clients. Through the Generali CEE Holding credit risk management system, the Group regularly evaluates the financial status of its reinsurers and monitors the concentration of credit risk to minimise its exposure to financial loss caused by a reinsurer's insolvency. Placement of reinsurance treaties is managed by Generali CEE Holding and is guided by the Security List of Assicurazioni Generali S.p.A.

All reinsurance issues are subject to strict review. This includes the evaluation of reinsurance arrangements, setting the minimum capacity and retention criteria, monitoring the purchase of reinsurance against those criteria, erosion of the reinsurance program and its ongoing adequacy and credit risk. The treaty capacity needed is based on both internal and group modelling.

E.8 Operating risk and other risks

Operational risk is defined as potential losses, including opportunity costs, arising from shortcomings or underperformance in internal processes, human resources and systems or from other causes which may result from internal or external factors.

As part of the on-going processes of the Generali Group, the Group has set some common principles for these kinds of risks:
- policies and basic requirements to handle specific risk sources as defined at the Generali Group level;
- criteria to measure operational risk. Moreover, a specific worldwide task force has been set up to define a common Generali Group methodology to identify, measure and monitor operational risks; and
- common methodologies and principles guiding internal audit activities to identify the most relevant processes to be audited.

The operational risk management process is primarily based on analysing the risks and designing modifications to work procedures and processes to eliminate, as far as possible, the risks associated with operational events (losses caused by risks other than market and credit risk). Work procedures governing the investment and risk management processes constitute a part of the Group's system of mandatory policies and procedures.

E.9 Financial strength monitoring by third parties

The Group's and/or its subsidiaries' financial strength is also monitored by third parties such as insurance regulators.

Also, the leading rating agencies periodically assess the financial strength of the whole Generali Group expressing a judgment on the ability to meet the ongoing obligations assumed toward policyholders.

This assessment is performed taking into account several factors such as, financial and economic data, the positioning of the Group within its market, and the strategies developed and implemented by the management.

The Group's largest subsidiary Česká pojišťovna, a.s. has a financial strength rating of "A" (Excellent) and an issuer credit rating of "a", both with a stable outlook, assigned by A.M. Best on 28 October 2016. The rating reflects Česká pojišťovna's very strong business profile, excellent record of technical profitability and solid risk-adjusted capitalisation.

E.10 Capital management

The objectives of the Group as well as the capital management policy of individual business units are:
- to guarantee the accomplishment of solvency requirements as defined by the specific laws of each sector where the participating companies operate (insurance or financial sector);
- to safeguard the going concern and the capacity to finance expansion through internal growth;
- to continue to guarantee an adequate return on the shareholder's capital; and
- to determine adequate pricing policies that are suitable for the risk level of each sector's activity.

In every country in which the Group operates, local laws and/or local supervisory authorities require a minimum capital. This minimum capital should be maintained by each subsidiary to face its insurance obligations and operational risks. This minimum level of capital has been continuously maintained during the financial year.

E.10.1 Solvency

The Generali Group uses an internal approach to determine the available financial resources and the capital requirements for risks which it is exposed to (Group Internal Model), while maintaining consistency with the basic framework of Solvency II, which came effective in 2016. On 7 March 2016, the Group received the regulatory approval to use the Group Internal Model for regulatory solvency capital requirement calculations.

During 2016, activities aimed at enhancing the Risk Management System have continued, mainly in terms of advanced risk and solvency analysis and embedding the risk management into business decisions. In minor areas, the still remaining Solvency II requirements were implemented. This development was linked to the refinement of the methodology concerning the assessment of available financial resources and the variety of associated risks, consistently with an economic approach. Within risk assessment and monitoring enhancement activities, focus has been given to improve the overall validation activity of the overall risk assessment process, in order to fulfil the tests and standard requirements of the regulatory regime. Finally, activities aimed at a wider and more transparent disclosure of risks have been carried out, in light of Solvency II Pillar II (Own Risk and Solvency Assessment) and Pillar III requirements (regulatory and market disclosure).

Based on preliminary calculation, all GCEE Holding subsidiaries that are insurance companies fulfil the regulatory capital requirements in respect of the solvency position as of 31 December 2016. The final solvency position according to the Solvency II requirements will be available after the date of the financial statements and will be published as a part of the Solvency and Financial Condition Report (SFCR) by each subsidiary at the end of May 2017.

F. Notes to the consolidated statement of financial position and income statement

F.1 Intangible assets

(€ million)	31.12.2016	31.12.2015
Goodwill	**1,371**	**1,378**
of which is goodwill on Česká pojišťovna a.s.	1,012	1,012
of which is goodwill on Generali Towarzystwo Ubezpiec	11	17
of which is goodwill on Generali Poisťovňa, a. s.	314	314
of which is goodwill on Generali Osiguranje Srbija A.D.O	18	19
of which is goodwill on Penzijní společnost České Pojištovny, a.s.	16	16
Other intangible assets	**863**	**923**
Software	69	67
Present value of future profits from portfolios acquired	586	648
of which Česká pojišťovna a.s.	513	567
of which Penzijní společnost České Pojištovny, a.s.	44	48
of which Generali Poisťovňa, a. s.	24	28
Others	5	5
Other intangible assets	208	208
Total	**2,234**	**2,301**

In view of recent developments on the Polish insurance market, the management of the Group has revised its plans for the former Proama insurance portfolio (currently managed under Generali Towarzystwo Ubezpiec). Following this revision, and in line with impairment test methodology as described below, an impairment charge in 2016 amounting to €6 million was identified (see Note F.24).

The remaining amortization period of the Present value of future profits from the portfolios acquired listed above is between 17 and 21 years.

F.1.1 Goodwill

(€ million)	2016	2015
Gross book value as at beginning of reporting period	**1,566**	**1,540**
Accumulated impairment as at beginning of reporting period	**(188)**	**(188)**
Carrying amount as at beginning of reporting period	**1,378**	**1,352**
Impairment charge for the period	(6)	–
Foreign currency translation effects	(1)	26
Carrying amount as at end of reporting period	**1,371**	**1,378**
Accumulated impairment as at end of reporting period	**(194)**	**(188)**
Gross book value as at end of reporting period	**1,565**	**1,566**

The goodwill is allocated to individual cash-generating units and recognised in the functional currency of the respective unit. Subsequently, goodwill is translated to the Group's presentation currency at the end of the reporting period. The related translation differences are recognised in other comprehensive income.

The overall goodwill is allocated to individual cash-generating units according to the proportion they contribute to the overall surplus between the value in use resulting from the impairment test model and the net asset value of the cash-generating unit. In particular, the Dividend Discount Model (DDM) has been used for the determination of the value in use. Only established insurance companies, pension companies and funds are considered to be cash-generating units for the purpose of goodwill allocation (corresponding to entities with allocated goodwill in Note F.1).

The Dividend Discount Model is based on the hypothesis that the value of a cash-generating unit is equal to the present value of the post-tax cash flows available for its shareholders. These cash flows are supposed to be equal to the flows derived from the distributable dividends, while maintaining an adequate capital structure as required by the laws in force and the entity's economic nature and to maintain its expected future development.

According to this method, the value of the cash-generating unit is equal to the sum of the discounted value of future dividends plus the terminal value of the cash-generating unit itself.

The application of this criterion has generally entailed the following phases:
- For forecasting the future cash flows of each cash-generating unit, the detailed information included in the last available Rolling Plan 2017–2019 has been considered. The main economic-financial data has been calculated for two additional years (2020 and 2021) on the basis of the growth rate in the last year of the Rolling Plan (2019) to extend the forecast period. Concerning non-life cash-generating units, the combined ratios considered are included within the range 87.2% – 99.3%;
- Explicit forecasting of the future cash flows to be distributed to shareholders in the planned time frame, taking into account limits requiring the maintenance of an adequate capital level;
- Calculating the cash-generating unit's terminal value, which is the expected value of the cash-generating unit at the end of the latest year planned;
- Regarding the terminal value, applying a growth rate of 1.0% (2.0% for Poland) on the cash flows of the latest Plan year;
- The post-tax discount rate of the future cash flows (between 5.51% and 13.74%) has been derived from the return rate of risk-free investments (between 0.41% and 8.64%), annual cost of capital (5.00%), size premium (1.00%) and beta (0.82).

Assumptions used in the impairment test of goodwill:

	Combined ratio*	Long term growth rate	Discount rate
Česká pojišťovna, a.s. – Life	–	1.0%	5.51%
Česká pojišťovna, a.s. – Non-life	90.6%	1.0%	5.51%
Generali Towarzystwo Ubezpiec.	98.9%	2.0%	9.50%
Generali poisťovňa, a.s. – Life	–	1.0%	6.00%
Generali poisťovňa, a.s. – Non-life	99.3%	1.0%	6.00%
Generali Osiguranje Srbija A.D.O. – Life	–	1.0%	13.74%
Generali Osiguranje Srbija A.D.O. – Non-life	87.2%	1.0%	13.74%
Penzijní společnost České pojišťovny, a.s.	–	1.0%	5.51%

*Combined ratio is a measure for profitability of non-life insurance companies comparing claims expenses, acquisition costs and administration costs with insurance premiums revenues.

For all the cash-generating units subject to the impairment test of goodwill, there is a sufficient surplus of economic value above book value.

F.1.2 Other intangible assets

The tables below show the changes in the individual classes of other intangible assets:

(€ million) 2016	Software	Present Value of Future Profits	Brands	Other	Total
Balance as at beginning of reporting period – Gross amount	**321**	**1,278**	**207**	**8**	**1,814**
Accumulated amortisation and impairment losses	**(254)**	**(630)**	**–**	**(7)**	**(891)**
Carrying amount as at beginning of reporting period	**67**	**648**	**207**	**1**	**923**
Increases	22	–	–	1	23
Decreases	(1)	–	–	–	(1)
Amortisation of the period	(20)	(62)	–	(1)	(83)
Other changes	1	–	–	–	1
Carrying amount as at end of reporting period	**69**	**586**	**207**	**1**	**863**
Accumulated amortisation and impairment losses	**(273)**	**(692)**	**–**	**(8)**	**(973)**
Balance as at end of reporting period – Gross amount	**342**	**1,278**	**207**	**9**	**1,836**

(€ million) 2015	Software	Present Value of Future Profits	Brands	Other	Total
Balance as at beginning of reporting period – Gross amount	**306**	**1,247**	**203**	**8**	**1,764**
Accumulated amortisation and impairment losses	**(237)**	**(551)**	**(1)**	**(7)**	**(796)**
Carrying amount as at beginning of reporting period	**69**	**696**	**202**	**1**	**968**
Increases	22	–	–	–	22
Decreases	(3)	–	–	–	(3)
Foreign currency translation effects	1	17	5	–	23
Amortisation of the period	(22)	(65)	–	–	(87)
Carrying amount as at end of reporting period	**67**	**648**	**207**	**1**	**923**
Accumulated amortisation and impairment losses	**(254)**	**(630)**	**–**	**(7)**	**(891)**
Balance as at end of reporting period – Gross amount	**321**	**1,278**	**207**	**8**	**1,814**

The Brands item primarily consists of the Česká pojišťovna brand. As the brand name has an indefinite useful life, it is not subject to amortisation and is recorded at cost less accumulated impairments. The fair value of the brand is determined using a royalty savings approach. The brands are tested annually for impairments. In 2016 and 2015, no impairment losses were recognised in the consolidated statement of comprehensive income.

	Česká pojišťovna	Generali Osiguranje Srbija A.D.O.	Generali Osiguranje d.d.
Carrying amount	**201**	**2**	**4**
Assumptions used in the impairment test:			
Royalty rate	1.45%	1.60%	1.60%
Long-term growth	1.0%	3.0%	2.0%
Cost of capital	5.51%	13.74%	8.14%

F.2 Tangible assets

F.2.1 Land and buildings (own use)

(€ million)	2016	2015
Gross book value as at beginning of reporting period	**90**	**115**
Accumulated depreciation and impairment as at beginning of reporting period	**(30)**	**(38)**
Carrying amount as at beginning of reporting period	**60**	**77**
Foreign currency translation effects	1	–
Additions	1	6
Business combinations	–	4
Reclassifications	(1)	(16)
Disposals	(1)	(5)
Other changes	–	(2)
Depreciation of the period	(3)	(3)
Net impairment loss of the period	1	(1)
Carrying amount as at end of reporting period	**58**	**60**
Accumulated depreciation and impairment as at end of reporting period	**(32)**	**(30)**
Gross book value as at end of reporting period	**90**	**90**
Fair value	**65**	**67**

In 2015, Bělehradská building located in Prague, Czech Republic amounting to €16 million was reclassified from own used to investment property.

F.2.2 Other tangible assets

(€ million)	2016	2015
Gross book value as at beginning of reporting period	**72**	**72**
Accumulated depreciation and impairment as at beginning of reporting period	**(52)**	**(53)**
Carrying amount as at beginning of reporting period	**20**	**19**
Additions	8	9
Disposals	(2)	(1)
Other changes	(2)	–
Depreciation of the period	(6)	(7)
Carrying amount as at end of reporting period	**18**	**20**
Accumulated depreciation and impairment as at end of reporting period	**(50)**	**(52)**
Gross book value as at end of reporting period	**68**	**72**
Fair value	**18**	**20**

F.3 Investments

F.3.1 Investment properties

(€ million)	2016	2015
Gross book value as at beginning of reporting period	**344**	**274**
Accumulated depreciation and impairment as at beginning of reporting period	**(32)**	**(13)**
Carrying amount as at beginning of reporting period	**312**	**261**
Foreign currency translation effects	(1)	4
Increases	3	–
Acquisitions	58	36
Decreases	(2)	–
Reclassifications	1	16
Other changes	–	1
Depreciation of the period	(7)	(5)
Net impairment loss of the period	(2)	(1)
Carrying amount as at end of reporting period	**362**	**312**
Accumulated depreciation and impairment as at end of reporting period	**(39)**	**(32)**
Gross book value as at end of reporting period	**401**	**344**
Fair value	**405**	**337**

The Group acquired two investment properties in 2016. In March 2016, the Group acquired an office building located in the centre of Prague, Náměstí republiky. The fair value of acquired investment property amounted to €29 million.

The second transaction occurred in May 2016. The Group purchased real estate entity MUSTEK PROPERTIES, s.r.o. owning accommodation and retail premises located in the centre of Prague. The fair value of the investment property amounted to €29 million.

In 2015, the Group acquired two investment properties. In the first half of 2015, the Group purchased the real estate entity IDEE, s.r.o. owning retail and office property located in the centre of Prague. The total acquisition cost amounted to €15 million, including a contingent consideration of €1 million paid to the seller in January 2016 after meeting conditions defined in the purchase agreement.

Another property was acquired in December 2015 in Warsaw, when the Group paid €21 million to purchase an office building located in the Wlochy district, an established secondary office location facing Jerozolimskie avenue.

In 2015, Bělehradská building located in Prague, Czech Republic amounting to €16 million was reclassified from own used to investment property.

The fair value of investment property is based on valuations of independent experts who hold a recognised and relevant professional qualification and have recent experience in the location and category of the investment properties being valued.

The key variables used in this method are estimated market rental income (calculated including the inflation rate), capacity utilisation, maintenance and renewal expenses (based on the acquisition price, technical condition, useful life and discount rate).

Investment properties are mainly valuated 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 valuations, considering the limited cases where the inputs would be observable in active markets, the Group proceeded to classify the whole category at level 3.

For investment income, see note F.18, for investment expense, see note F.22.

F.3.2 Investments in associated companies and joint ventures

(€ million)	31.12.2016	31.12.2015
Investments in associated companies and joint ventures consolidated at equity	**24**	**10**
VÚB Generali d.s.s., a.s.	9	8
Generali Fond nemovitostních akcií	15	–
Generali Fond živé planety	–	2
Other investments	**4**	**5**
Total	**28**	**15**

Changes in associated and joint ventures consolidated at equity

(€ million)	31.12.2016	31.12.2015
Balance as at beginning of reporting period	**10**	**25**
Reclassification	9	(14)
Increases	4	–
Change in value recognised in income statement	1	(1)
Balance as at end of reporting period	**24**	**10**

During 2016, the Group share in Generali Fond nemovitostních akcií increased above 20%. As a result, the fund has been reclassified from financial investments to associated company and is accounted for under the equity method (see note C.1).

The Group share in Generali Fond živé planety decreased below 20% in 2016. As a result, the fund is no longer classified as an associated company (see note C.1). The investment has been reclassified to financial investments and is accounted for in accordance with IAS 39.

Movements in non-consolidated subsidiaries and associated companies

(€ million)	31.12.2016	31.12.2015
Balance as at beginning of reporting period	**5**	**5**
Increase in participation	–	–
Impairment	(1)	–
Balance as at end of reporting period	**4**	**5**

There were no acquisitions in 2016 and 2015.

The impairment losses in 2016 contain impairment for Familio Befektetési és and Blutek Auto.

Summarised financial information for associated companies consolidated at equity

Summarised statement of financial position for associated companies

(€ million)	Fond nemovitostních akcií	VÚB Generali d.s.s., a.s.
	31.12.2016	31.12.2016
Total assets	**64**	**18**
Investments	61	17
Cash and cash equivalents	3	1
Current assets	**64**	**18**
Total liabilities	**1**	**1**
Payables and other liabilities	1	1
Current liabilities	**1**	**1**
Net assets	**63**	**17**

(€ million)	Generali Fond živé planety	VÚB Generali d.s.s., a.s.
	31.12.2015	31.12.2015
Total assets	**9**	**17**
Investments	8	10
Cash and cash equivalents	1	7
Current assets	**9**	**17**
Total liabilities	**–**	**1**
Payables and other liabilities	–	1
Current liabilities	**–**	**1**
Net assets	**9**	**16**

Summarised statement of comprehensive income

(€ million)	Fond nemovitostních akcií	VÚB Generali d.s.s., a.s.	VÚB Generali d.s.s., a.s.
	2016	2016	2015
Net gains/(losses) from the fees and commission	(2)	6	6
Net gains from financial operations	5	–	–
Other operating expense	–	(1)	(2)
Earnings before tax	**3**	**5**	**4**
Tax	–	(1)	(1)
Net profit of the year	**3**	**4**	**3**

In 2015, the financial result of the investment fund Generali Fond živé planety is immaterial from the Group point of view and therefore not disclosed.

F.3.3 Held to maturity financial assets

(€ million)	Book Value		Fair value	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Quoted bonds	67	67	75	74
Total	**67**	**67**	**75**	**74**
Current portion	**21**	**–**		
Non-current portion	**46**	**67**		

The fair value of quoted bonds is determined in accordance with the principles described in Note D.1.4.

Maturity of held to maturity financial assets – bonds

(€ million)	Book Value	
	2016	2015
Up to 1 year	21	–
Between 1 and 5 years	39	60
Between 5 and 10 years	7	7
Total	**67**	**67**

F.3.4 Loans and receivables

(€ million)	Book Value		Fair value	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Unquoted bonds	**53**	**58**	**59**	**64**
Other loans and receivables	**713**	**580**	**713**	**582**
Term deposit with credit institutions	334	334	334	336
Reverse repurchase agreement (Reverse REPO)	370	242	370	242
Other loans	9	4	9	4
Loans and receivables total	**766**	**638**	**772**	**646**
Current portion	**710**	**580**		
Non-current portion	**56**	**58**		

On the line Term deposit with credit institutions in 2016 is included amount from cash-pooling programme operated by Assicurazioni Generali S.p.A. The balance as at 31 December amounts to €286 million (2015: €285 million).

Fair value measurement as at the end of the reporting period:

(€ million)	31.12.2016			
	Level 1	Level 2	Level 3	Total
Unquoted bonds	**–**	**59**	**–**	**59**
Other loans and receivables	**–**	**704**	**9**	**713**
Term deposit with credit institutions	–	334	–	334
Reverse repurchase agreement (Reverse REPO)	–	370	–	370
Other loans	–	–	9	9
Total	**–**	**763**	**9**	**772**

(€ million)	31.12.2015			
	Level 1	Level 2	Level 3	Total
Unquoted bonds	**–**	**64**	**–**	**64**
Other loans and receivables	**–**	**581**	**1**	**582**
Term deposit with credit institutions	–	336	–	336
Reverse repurchase agreement (Reverse REPO)	–	242	–	242
Other loans	–	3	1	4
Total	**–**	**645**	**1**	**646**

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

In the opposite case, the fair value is determined using the market and income approach. Primary inputs to the market approach are quoted prices for identical or comparable assets in active markets where the comparability between security and benchmark defines the fair value level. The income approach in most cases means a discounted cash flow method where either the cash flow or the discount curve is adjusted to reflect credit risk and liquidity risk, using interest rates and yields curves commonly observable at frequent intervals. Depending on the observability of these parameters, the security is classified at level 2 or level 3.

F.3.5 Available for sale financial assets

(€ million)	31.12.2016	31.12.2015
Unquoted equities at cost	**1**	**12**
Equities at fair value	**170**	**126**
Quoted	104	126
Unquoted	66	–
Bonds	**9,256**	**8,724**
Quoted	9,252	8,420
Unquoted	4	304
Investments in fund units	**390**	**477**
Total	9,817	9,339
Current portion	**974**	**989**
Non-current portion	**8,843**	**8,350**

Thanks to the availability of company and market data, the Group was recently able to estimate the fair value of its investments in the Hungarian building society Fundamenta-Lakáskassza Lakástakarék-pénztár Rt. and an alternative investment Lion River I N.V. (NL). Consequently, the investments were reclassified from Unquoted equities at cost to Unquoted equities at fair value in 2016 in total amounting of €11 million.

The increase on line Unquoted equities at fair value in 2016 results (apart from the reclassification described in the previous paragraph) from: new investment in the real estate investment fund Generali Europe Income Holding S.A. amounting to €13 million; increase of participation in Lion River I N.V. amounting to €38 million and positive revaluation of investment in Fundamenta-Lakáskassza amounting to €15 million.

Based on clarification of definition of quoted and unquoted instruments unquoted bonds amounting to € 290 million were reclassified from unquoted bonds to quoted bonds in 2016.

Maturity of available for sale financial assets – bonds

(€ million)	Fair value 2016	Fair value 2015
Up to 1 year	974	989
Between 1 and 5 years	3,688	3,729
Between 5 and 10 years	2,848	2,516
More than 10 years	1,746	1,490
Total	**9,256**	**8,724**

Realised gains and losses, and impairments on available for sale financial assets

(€ million)	Realised gains		Realised losses		Impairment losses	
	2016	2015	2016	2015	2016	2015
Equities	14	4	(2)	(1)	(13)	(8)
Bonds	56	26	(5)	(11)	–	–
Investments in fund units	13	24	(13)	(2)	(11)	(11)
Total	**83**	**54**	**(20)**	**(14)**	**(24)**	**(19)**

Fair value measurement at the end of the reporting period

(€ million)	31.12.2016			
	Level 1	Level 2	Level 3	Total
Unquoted equities at cost	**–**	**–**	**1**	**1**
Equities at fair value	**104**	**–**	**66**	**170**
Quoted	104	–	–	104
Unquoted	–	–	66	66
Bonds	**8,072**	**1,076**	**108**	**9,256**
Quoted	8,072	1,072	108	9,252
Unquoted	–	4	–	4
Investments in fund units	**378**	**12**	**–**	**390**
Total	**8,554**	**1,088**	**175**	**9,817**

(€ million)	31.12.2015			
	Level 1	Level 2	Level 3	Total
Unquoted equities at cost	**–**	**–**	**12**	**12**
Equities at fair value	**126**	**–**	**–**	**126**
Quoted	126	–	–	126
Bonds	**7,324**	**1,288**	**112**	**8,724**
Quoted	7,324	984	112	8,420
Unquoted	–	304	–	304
Investments in fund units	**468**	**9**	**–**	**477**
Total	**7,918**	**1,297**	**124**	**9,339**

The following table represents the transfers between fair value levels during reporting periods:

(€ million)	2016	2015
Transfers into Level 1 from Level 2	76	–
Transfers into Level 1 from Level 3	–	–
Transfers into Level 2 from Level 1	3	156
Transfers into Level 2 from Level 3	15	91
Transfers into Level 3 from Level 1	–	–
Transfers into Level 3 from Level 2	–	41

In 2016, €55 million in government bonds and €21 million in corporate bonds were reclassified from Level 2 to Level 1.

In 2016, €7 million in government bonds and €8 million in corporate bonds were reclassified out of the level 3 as a result of available market information about its future yields.

In 2015, €125 million in government bonds, €25 million in corporate bonds and €6 million in investment fund units were reclassified from Level 1 to Level 2.

Corporate bonds in 2015 amounting to €41 million were reclassified from Level 2 to Level 3 due to a situation in financial markets impacting the availability of observable market inputs, namely the level of credit spreads.

Further analysis was carried out in order to harmonize the portfolio in 2015. As a result, €9 million in government bonds and €82 million in corporate bonds were reclassified from level 3 to Level 2.

The following table presents the changes in Level 3 instruments:

(€ million)	2016	2015
Balance as at beginning of reporting period	**124**	**230**
Transfers from Level 3	(15)	(91)
Increases	48	17
Decreases and maturities	(4)	(99)
Transfers to Level 3	–	41
Net unrealised gains and losses recognised in OCI	27	21
Net unrealised gains and losses recognised in P&L	(1)	4
Amortization	1	1
Other changes	(5)	–
Balance as at end of reporting period	**175**	**124**
Realised gains/losses for the period recognised in P&L	**–**	**–**
Net impairment loss for the period recognised in P&L	**–**	**–**

F.3.6 Financial assets at fair value through profit or loss

(€ million)	Financial assets held-for-trading		Financial assets designated as at fair value through profit and loss		Total financial assets at fair value through profit and loss	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Equities	–	–	–	–	–	–
Bonds	–	–	9	12	9	12
Quoted	–	–	9	12	9	12
Investments in fund units	–	–	104	87	104	87
Derivatives	3	5	8	15	11	20
Unit-linked investments	–	–	1,937	1,841	1,937	1,841
Total	3	5	2,058	1,955	2,061	1,960
Current portion					109	132
Non-current portion					1,952	1,828

All financial instruments held-for-trading are valued based on quoted market prices, except derivatives, which are valued based on generally accepted valuation techniques depending on the product (i.e., discounted expected future cash flows, Black-Scholes model, etc.).

Fair value measurement at the end of the reporting period:

(€ million)	31.12.2016			
	Level 1	Level 2	Level 3	Total
Equities	–	–	–	–
Bonds	9	–	–	9
Quoted	9	–	–	9
Investments in fund units	104	–	–	104
Derivatives	–	11	–	11
Unit-linked investments	1,765	122	50	1,937
Total	1,878	133	50	2,061

(€ million)	31.12.2015			
	Level 1	Level 2	Level 3	Total
Equities	–	–	–	–
Bonds	10	2	–	12
Quoted	10	2	–	12
Investments in fund units	87	–	–	87
Derivatives	–	20	–	20
Unit-linked investments	1,157	682	2	1,841
Total	1,254	704	2	1,960

The following table represents the transfers between fair value levels during reporting periods:

(€ million)	2016	2015
Transfers into Level 1 from Level 2	1	–
Transfers into Level 1 from Level 3	–	–
Transfers into Level 2 from Level 1	–	112
Transfers into Level 2 from Level 3	–	–
Transfers into Level 3 from Level 1	–	–
Transfers into Level 3 from Level 2	29	1

In 2016, Unit-linked corporate bonds amounting to €29 million were reclassified from Level 2 to Level 3 as a result of improved FVH assessment. For these bonds volatility of underlying equity indices creates material non-observable market input.

In 2015, unit-linked investment fund units of €112 million were reclassified from level 1 to level 2 and €1 million were reclassified from level 2 to level 3 in relation to the frequency of an officially published valuation of the fund units.

The following table presents the changes in Level 3 instruments:

(€ million)	Financial assets held-for-trading		Financial assets designated as at fair value through profit and loss		Total financial assets at fair value through profit and loss	
	2016	2015	2016	2015	2016	2015
Balance as at beginning of reporting period	**–**	**–**	**2**	**1**	**2**	**1**
Decreases and maturities	–	–	–	(1)	–	(1)
Transfers to Level 3	–	–	29	1	29	1
Other changes	–	–	19	1	19	1
Balance as at end of reporting period	**–**	**–**	**50**	**2**	**50**	**2**
Realised gains/losses for the period recognised in P&L	**–**	**–**	**–**	**–**	**–**	**–**

F.4 Reinsurance assets

(€ million)	Direct insurance		Accepted reinsurance		Total	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Non-life insurance liabilities	**153**	**162**	**41**	**50**	**194**	**212**
Provisions for unearned premiums	32	36	11	7	43	43
Provisions for outstanding claims	119	123	30	43	149	166
Other insurance liabilities	2	3	–	–	2	3
Life insurance liabilities	**61**	**56**	**–**	**–**	**61**	**56**
Provisions for outstanding claims	8	7	–	–	8	7
Mathematical provision	29	28	–	–	29	28
Provision for unit-linked policies	24	21	–	–	24	21
Total	**214**	**218**	**41**	**50**	**255**	**268**
Current portion	**160**	**147**	**38**	**49**	**198**	**196**
Non-current portion	**54**	**71**	**3**	**1**	**57**	**72**

The amounts included in reinsurance assets represent expected future claims to be recovered from the Group's reinsurers and the reinsurers' share of unearned premiums.

Item Mathematical provision includes also Provision for unearned premiums for Life segment of € 3 million (2015: € 3 million) ceded to reinsurers.

The amount of “Other insurance liabilities” in the non-life section mainly represents provisions for profit sharing and premium refunds together with provisions for premium reversals.

Ceded reinsurance arrangements do not relieve the Group of its direct obligations to policyholders. Thus, credit exposure exists with respect to reinsurance ceded to the extent that any reinsurer is unable to meet the obligations assumed under the reinsurance agreements (see Note E.5 for detailed analysis of credit risk associated with reinsurance assets).

F.5 Receivables

(€ million)	31.12.2016	31.12.2015
Receivables arising out of direct insurance operations	**210**	**217**
Amounts owed by policyholders	189	196
Amounts owed by intermediaries and others	21	21
Receivables arising out of reinsurance operations	**41**	**33**
Trade and other receivables	**133**	**116**
of which receivables from derivatives collateral	69	37
Current income tax receivables	**12**	**13**
Total receivables	**396**	**379**
Current portion	**342**	**353**
Non-current portion	**54**	**26**

F.6 Other assets

(€ million)	31.12.2016	31.12.2015
Deferred acquisition costs	**171**	**162**
Deferred tax assets	**28**	**14**
Other assets	**33**	**35**
Prepaid rent	1	1
Other accrued income	9	8
Other prepayments	18	20
Deferred costs for investment management services	3	3
Assets – other	2	3
Other assets total	**232**	**211**
Current portion	**169**	**165**
Non-current portion	**63**	**46**

F.6.1 Deferred acquisition costs (DAC)

(€ million)	Gross amount		Reinsurance		Net amount	
	2016	2015	2016	2015	2016	2015
Balance as at beginning of reporting period	**167**	**168**	**(4)**	**(4)**	**163**	**164**
Change of DAC	8	(8)	–	–	8	(8)
Reversal of impairment	–	6	–	–		6
Balance as at end of reporting period	**175**	**166**	**(4)**	**(4)**	**171**	**162**

In 2015, an impairment booked by the Polish life insurance subsidiary Generali Zycie was partially reversed by €6 million as a result of the positive decision of Polish authorities regarding surrender fees.

F.7 Cash and cash equivalents

(€ million)	31.12.2016	31.12.2015
Cash and cash equivalents	41	–
Cash at bank	338	332
Total	**379**	**332**

Short term deposits are included on line Cash at banks in the amount of €114 million (2015: €126 million).

F.8 Shareholder’s equity

The following table provides detail on the distribution restrictions of equity:

(€ million)	31.12.2016	31.12.2015
Shareholder's equity attributable to the Group	**4,773**	**4,672**
Not available for distribution to shareholders	**426**	**413**
Share capital	–	–
Revaluation – financial assets AFS	408	374
Translation reserve	(122)	(122)
Cash flow hedge reserve/(deficit)	(3)	(3)
Other capital reserves	143	164
Available for distribution to shareholders	**4,347**	**4,259**
Additional paid-in capital	3,602	3,602
Retained earnings	745	657
Shareholder's equity attributable to non-controlling interests	**4**	**27**
Total	**4,777**	**4,699**

The following table provides details of reserves for revaluation – financial assets available for sale:

(€ million)	2016	2015
Beginning reporting period	**374**	**315**
– attributable to the Group	**374**	**315**
– attributable to non-controlling interests	**–**	**–**
Gross revaluation as at the beginning of the year	**432**	**366**
Tax on revaluation as at the beginning of the year	**(58)**	**(51)**
Revaluation gain/(loss) in equity – gross	103	101
Realisation in income statement – gross	(63)	(38)
Impairment losses	24	19
Change in deferred policyholder liabilities	(28)	(16)
Changes in Group structure	2	–
Tax on revaluation	(4)	(7)
Gross revaluation as at the end of the year	**470**	**432**
Tax on revaluation as at the end of the year	**(62)**	**(58)**
End of reporting period	**408**	**374**
– attributable to the Group	**408**	**374**
– attributable to non-controlling interests	**–**	**–**

Movements in the reserve for cash-flow hedges were as follows:

(€ million)	2016	2015
Carrying amount as at beginning of reporting period	**(3)**	**(4)**
Fair value gains of the year	–	2
Tax on fair value gains / losses	–	(1)
Carrying amount as at end of reporting period	**(3)**	**(3)**

The following table provides details of authorized and issued shares:

	31.12.2016	31.12.2015
Number of shares authorised	500,000	500,000
Number of shares issued and fully paid	100,000	100,000
Par value per share (€)	1	1

F.8.1 Dividends

On 29 December 2014 and 12 January 2015, the Company's shareholders adopted decisions, whereby they declared interim dividends of €100 million and €50 million respectively, paid out of the 2014 profit.

On 5 June 2015, the Company's shareholders adopted a decision to distribute out of the profit for the financial year 2014 a final dividend amounting to €26 million.

On 12 July 2016, the Company's shareholders adopted decisions whereby they declared final dividends of €230 million, paid out of the 2015 profit.

On 9 February 2017, the Company' shareholders adopted a decision, whereby they declared final dividends of €285 million, paid out of the 2016 profit.

F.9 Other provisions

(€ million)	31.12.2016	31.12.2015
Provisions for taxation	–	–
Provisions for commitments	31	35
Restructuring provisions	3	3
Provisions – other	18	12
Total	**52**	**50**
Current portion	**23**	**20**
Non-current portion	**29**	**30**

(€ million)	2016	2015
Balance as at beginning of reporting period	**50**	**60**
Foreign currency translation effects	–	1
Variations	2	(11)
Balance as at end of reporting period	**52**	**50**

Provisions for commitment

(€ million)	2016	2015
Balance as at beginning of reporting period	**35**	**44**
Foreign currency translation effects	–	1
Variations	(4)	(10)
Balance as at end of reporting period	**31**	**35**

Provisions for commitments mainly consist of provisions for the MTPL deficit, which as at 31 December 2016 amounted to €23 million (2015: €29 million).

Both in the Czech Republic and Slovakia, statutory MTPL insurance was replaced by contractual MTPL insurance (on 31 December 1999 and 31 December 2001 respectively). All rights and obligations arising from MTPL insurance prior to those dates, including the deficit of premiums received to cover the liabilities and costs, were transferred to the Czech and Slovak Bureaus of Insurers ("the Bureaus").

Companies belonging to the Group, having obtained a license to write contractual MTPL insurance in the Czech Republic and Slovakia, are members of the Bureau (see Note F.30.5).

All members of the Bureaus guarantee the appropriate portion of their liabilities, based on the member's market share for this class of insurance.

Based on information publicly available and provided to Bureau members, the Group created a provision adequate to cover the cost of claims likely to be incurred in relation to the liabilities ceded. However, the final and exact amount of the incurred cost of claims will only be known after several years.

The variations relate primarily to the decrease in the Czech Bureau provision due to the change in the estimate of claims to be paid by the Czech Bureau and also the decline in the Group's share of the Czech MTPL market. Provision for MTPL deficit in Slovakia was released in 2015.

With the exception of provisions for commitments, all the other provisions are current.

F.10 Insurance liabilities

(€ million)	Direct insurance		Accepted reinsurance		Total	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Non-life insurance liabilities	**2,583**	**2,456**	**46**	**43**	**2,629**	**2,499**
Provisions for unearned premium	676	643	9	7	685	650
Provisions for outstanding claims	1,882	1,787	35	35	1,917	1,822
Other insurance liabilities	25	26	2	1	27	27
Life insurance liabilities	**4,265**	**4,194**	**–**	**–**	**4,265**	**4,194**
Provisions for outstanding claims	138	129	–	–	138	129
Mathematical provision	2,184	2,248	–	–	2,184	2,248
Unit-linked provision	1,612	1,526	–	–	1,612	1,526
Other insurance liabilities	331	291	–	–	331	291
Provisions for liability adequacy test	13	12	–	–	13	12
Ageing provision	13	11	–	–	13	11
Deferred policyholder assets/liabilities	291	256	–	–	291	256
Other	14	12	–	–	14	12
Total	**6,848**	**6,650**	**46**	**43**	**6,894**	**6,693**
Current portion					**2,494**	**2,007**
Non-current portion					**4,400**	**4,686**

Item Mathematical provision also includes Provision for unearned premiums for Life segment of €28 million (2015: €29 million).

Other non-life insurance liabilities primarily comprise provisions for profit sharing and premiums refunds.

F.10.1 Non-life insurance liabilities

Provisions for unearned premiums

The table below shows the roll-forward of the non-life liabilities for unearned premiums:

(€ million)	Gross		Reinsurance		Net	
	2016	2015	2016	2015	2016	2015
Balance as at beginning of reporting period	**650**	**573**	**(43)**	**(39)**	**607**	**534**
Movements of the year	45	51	–	(2)	45	49
Foreign currency translation effects	(5)	4	–	–	(5)	4
Business combinations	–	16	–	(1)	–	15
Portfolio transfer	–	1	–	(1)	–	–
Other changes	(5)	5	–	–	(5)	5
Balance as at end of reporting period	**685**	**650**	**(43)**	**(43)**	**642**	**607**

Business combinations represent insurance provisions of ZAD Victoria acquired in December 2015.

Provisions for outstanding claims

The following table shows the roll-forward of provisions for outstanding claims, including claims incurred but not reported:

(€ million)	Gross		Reinsurance		Net	
	2016	2015	2016	2015	2016	2015
Balance as at beginning of reporting period	**1,822**	**1,659**	**(166)**	**(157)**	**1,656**	**1,502**
Change related to claims incurred in current year	639	588	(40)	(33)	599	555
Change related to claims incurred in previous years	(536)	(480)	55	33	(481)	(447)
Business combinations	–	34	–	(7)	–	27
Portfolio transfer	–	1	–	(1)	–	–
Foreign currency translation effects	(8)	18	1	(1)	(7)	17
Other changes	–	2	1	–	1	2
Balance as at end of reporting period	**1,917**	**1,822**	**(149)**	**(166)**	**1,768**	**1,656**

Business combinations represent insurance provisions of ZAD Victoria acquired in December 2015.

The table below discloses information about gross insurance provisions for outstanding claims:

(€ million)	Direct insurance		Accepted reinsurance		Total	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Motor	1,248	1,148	–	–	1,248	1,148
Non-motor	634	639	35	35	669	674
General liability	307	292	14	12	321	304
Property	230	244	17	18	247	262
Accident, Health and Disability	44	44	–	–	44	44
Marine, Aviation and Transport	34	34	4	5	38	39
Other	19	25	–	–	19	25
Total	**1,882**	**1,787**	**35**	**35**	**1,917**	**1,822**

F.10.2 Life insurance liabilities

Provisions for outstanding claims

(€ million)	Direct insurance	
	2016	2015
Balance as at beginning of reporting period	**129**	**125**
Foreign currency translation effects	–	2
Change of the period	9	2
Balance as at end of reporting period	**138**	**129**

Mathematical provisions for life segment

(€ million)	Direct insurance	
	2016	2015
Balance as at beginning of reporting period	**2,248**	**2,404**
Foreign currency translation effects	(1)	42
Premiums and payments	(129)	(263)
Interests and bonuses credited to policyholders	65	68
Other changes	1	(3)
Balance as at end of reporting period	**2,184**	**2,248**

In both years, the decrease in the amount of mathematical provisions is due to the maturities of old portfolios.

Provisions for unit-linked policies

(€ million)	Direct insurance	
	2016	2015
Balance as at beginning of reporting period	**1,526**	**1,399**
Foreign currency translation effects	(5)	10
Premiums and payments	22	122
Interests and bonuses credited to policyholders	69	(5)
Balance as at end of reporting period	**1,612**	**1,526**

The development of the provisions for unit-linked policies is driven by the movements in the value of assets backing unit-linked policies and the net inflows of such provisions.

Deferred policyholders' liabilities

(€ million)	Direct insurance	
	2016	2015
Balance as at beginning of reporting period	**256**	**231**
Foreign currency translation effects	–	5
Premiums and payments	7	5
Change of the period without impact on income statement	28	15
Balance as at end of reporting period	**291**	**256**

The development in Deferred Policyholder Liability (DPL) is almost entirely explained by the Transformed Fund and it reflects the movement of unrealised gains in the Available for sale portfolio which are attributed to policyholders through the DPL.

Insurance liabilities and financial liabilities related to policies of the life segment

(€ million)	Net position	
	31.12.2016	31.12.2015
Insurance contracts	3,692	3,662
Investment contracts with discretionary participation feature	64	74
Total insurance provisions	**3,756**	**3,736**
Investment contracts fair valued	321	306
Investment contracts at amortised cost	3,435	3,244
Total investment contracts	**3,756**	**3,550**

Total insurance liabilities include the following items – all net of reinsurance: mathematical provisions of €2,131 million (2015: €2,199 million), provisions for policies where the investment risk is borne by the policyholders of €1,612 million (2015: €1,526 million) and ageing provisions for the life segment, which amounted to €13 million (2015: €11 million).

F.11 Financial liabilities

	31.12.2016	31.12.2015
Financial liabilities at fair value through profit or loss	**434**	**388**
Financial liabilities at fair value through profit or loss related to investment contracts	321	306
Financial derivatives	111	80
Other liabilities at fair value through profit or loss	2	2
Financial liabilities at amortised cost	**3,799**	**3,363**
Financial liabilities at amortised cost related to investment contracts	3,435	3,244
Bonds	13	10
Net asset value attributable to unit holders	16	10
Other liabilities at amortised cost	335	99
Total	**4,233**	**3,751**
Current portion	**1,607**	**1,258**
Non-current portion	**2,626**	**2,493**

Financial liabilities at amortised cost related to investment contracts primarily represent on demand financial liabilities towards participants of the Transformed Fund.

Other liabilities at amortised cost consist primarily of reinsurance deposits of €62 million (2015: €56 million), bank loan provided to Green Point Offices a.s. amounting to €24 million (2015: €24 million) and REPO operations amounting to €249 million (2015: €0 million). Bank loans provided to real estate companies Solitaire a.s. (2015: €10 million) and Pařížská 26 s.r.o. (2015: €9 million) were fully repaid and refinanced internally.

As collateral to the bank loan, the Group pledged the building and land, lease receivables from the building and the balance on bank accounts.

In December 2012, at the maturity date, the Group (through its subsidiary Česká pojišťovna), paid up the 250 fixed-coupon bonds of €19.9 million nominal value and issued a new bond of the same nominal value[1]. The new issue of bonds bear an interest rate of 1.83% p.a. and transaction costs related to the issue amounted to €0.1 million. The bond is quoted on the secondary market of the Prague Stock Exchange and will mature in 2017.

The amortization of any discount, premiums or direct transaction cost and interest related to other liabilities, evidenced by paper, is calculated using the effective interest rate method, and is recognised in interest expense and similar charges.

[1] The amount shown in table F.11 is lower since part of the bond was subscribed by other Group companies.

The fair value measurement of Financial liabilities at fair value through profit or loss as at the end of the reporting period:

(€ million)	31.12.2016			
	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit or loss	**310**	**124**	**–**	**434**
Financial liabilities at fair value through profit or loss related to investment contracts	307	14	–	321
Financial derivatives	1	110	–	111
Other liabilities at fair value through profit or loss	2	–	–	2

(€ million)	31.12.2015			
	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit or loss	**121**	**267**	**–**	**388**
Financial liabilities at fair value through profit or loss related to investment contracts	120	186	–	306
Financial derivatives	–	80	–	80
Other liabilities at fair value through profit or loss	1	1	–	2

There were no transfers between levels of fair value measurement categories in 2016 and 2015.

The fair value measurement of Financial liabilities at amortised costs as at the end of the reporting period:

(€ million)	31.12.2016			
	Level 1	Level 2	Level 3	Total
Financial liabilities at amortised cost	**–**	**352**	**3,448**	**3,800**
Financial liabilities at amortised cost related to investment contracts	–	–	3,435	3,435
Bonds	–	–	13	13
Net asset value attributable to unit holders	–	16	–	16
Other liabilities at amortised cost	–	336	–	336

(€ million)	31.12.2015			
	Level 1	Level 2	Level 3	Total
Financial liabilities at amortised cost	**–**	**126**	**3,244**	**3,370**
Financial liabilities at amortised cost related to investment contracts	–	–	3,244	3,244
Bonds	–	13	–	13
Net asset value attributable to unit holders	–	10	–	10
Other liabilities at amortised cost	–	103	–	103

There were no significant transfers between levels of fair value measurement categories in 2016 and 2015.

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 is valued using discounted cash flow models based on the current marginal rates of funding of the Group for similar types of loans, with maturities consistent with the maturity of the debt instruments subject to valuation.

The fair value of financial liabilities at amortised cost related to investment contracts can be assumed to be equal to its carrying amount, since the fund participants, after a year of membership, have the right at any moment to withdraw money from their accounts. The overwhelming majority of the fund members already fulfill this condition. The carrying amount can therefore be considered a reasonable approximation of fair value.

The fair value of such liabilities is therefore classified as level 3.

F.12 Payables

(€ million)	31.12.2016	31.12.2015
Payable arising out of direct insurance operations	**197**	**185**
Payable arising out of reinsurance operations	**46**	**47**
Current income tax payables	**13**	**20**
Other payables	**120**	**105**
Payables to employees	21	21
Payables to clients and suppliers	27	24
Social security	6	5
Other payables	66	55
Total	**376**	**357**
Current portion	**376**	**357**
Non-current portion	**–**	**–**

F.13 Other liabilities

(€ million)	31.12.2016	31.12.2015
Deferred tax liabilities	**161**	**174**
Other liabilities	**180**	**178**
Other accrued expenses	147	128
Deferred expenses	11	13
Other	22	37
Total	**341**	**352**
Current portion	**189**	**196**
Non-current portion	**152**	**156**

The line Other accrued expenses consists of accruals for commissions, bonuses, salaries, investments and other sundry accruals.

F.14 Net earned premiums revenue

(€ million)	Gross amount		Reinsurers‘ share		Net amount	
	2016	2015	2016	2015	2016	2015
Non-life earned premium	**2,002**	**1,883**	**(171)**	**(179)**	**1,831**	**1,704**
Premiums written	2,047	1,934	(171)	(181)	1,876	1,753
Change in the provision for unearned premium	(45)	(51)	–	2	(45)	(49)
Life premium	**986**	**1,071**	**(38)**	**(35)**	**948**	**1,036**
Total	**2,988**	**2,954**	**(209)**	**(214)**	**2,779**	**2,740**

F.15 Fee and commission income and income from financial service activities

(€ million)	2016	2015
Fee and commission income from asset management activity	31	33
Fee and commission income related to investment contracts	8	8
Fee and commission income related to pension funds management	1	1
Total	**40**	**42**

F.16 Net income / (losses) from financial assets and liabilities at fair value through profit or loss

(€ million)	Financial investments held-for-trading		Unit-linked financial investments and financial investments related to pension funds		Financial investments designated as at fair value through profit or loss		Total	
	2016	2015 restated	2016	2015	2016	2015 restated	2016	2015 restated
Financial assets	**3**	**–**	**86**	**(5)**	**9**	**(2)**	**98**	**(7)**
Interest income and other income	1	–	31	16	–	–	32	16
Realised gains	2	–	35	29	2	2	39	31
Realised losses	(1)	–	(32)	(35)	–	–	(33)	(35)
Unrealised gains	1	1	78	60	16	3	95	64
Unrealised losses	–	(1)	(26)	(75)	(9)	(7)	(35)	(83)
Financial liabilities	**(3)**	**(11)**	**(12)**	**7**	**(13)**	**1**	**(28)**	**(3)**
Interest expenses	(2)	(9)	–	–	(16)	(16)	(18)	(25)
Other income	–	1	–	–	2	2	2	3
Realised gains	1	3	2	6	–	–	3	9
Realised losses	(1)	(1)	(11)	(5)	–	(1)	(12)	(7)
Unrealised gains	1	1	3	11	6	20	10	32
Unrealised losses	(2)	(6)	(6)	(5)	(5)	(4)	(13)	(15)
Total	**–**	**(11)**	**74**	**2**	**(4)**	**(1)**	**70**	**(10)**

F.17 Share of results of associates and joint ventures accounted for using the equity method

The line “Share of results of associates and joint ventures accounted for using the equity method” in the consolidated income statement reflects the relevant share of the Groups‘ result of VÚB Generali d.s.s., a.s. and Generali Fond nemovitostních akcií amounting to €3 million (only VÚB Generali d.s.s., a.s. in 2015: €2 million).

F.18 Income from other financial instruments and investment properties

(€ million)	2016	2015
Interest income	**252**	**261**
Interest income from held to maturity financial assets	4	4
Interest income from loans and receivables	6	5
Interest income from available for sale financial assets	241	251
Interest income from cash and cash equivalents	1	1
Income – other	**36**	**34**
Income from investment properties	21	19
Other income from available for sale financial assets	15	15
Realised gains	**83**	**54**
Realised gains on available for sale financial assets	83	54
Unrealised gains	**11**	**2**
Unrealised gains from hedged instruments	11	2
Reversal of impairment losses	**3**	**7**
Reversal of impairment of loans and receivables	–	4
Reversal of impairment of other receivables	3	3
Total	**385**	**358**

The following table shows the total of future minimum lease income from investment properties under non-cancellable operating leases for each of the following periods:

(€ million)	2016	2015
Not later than one year	23	19
Later than one year and not later than five years	43	31
Later than five years	11	8
Total	**77**	**58**

F.19 Other income

(€ million)	2016	2015 restated
Income from tangible assets	2	2
Changes in provision for commitments	4	10
Income from service and assistance activities and recovery of charges	14	15
Recovery of charges	7	6
Income from service and assistance activities	7	9
Other technical income	29	29
Income – other	17	20
Total	**66**	**76**

Income from recovery of charges includes service charge income from investment properties and amounts to €7 million in 2016 (2015: €6 million).

F.20 Net insurance benefits and claims

(€ million)	Gross amount		Reinsurers' share		Net amount	
	2016	2015	2016	2015	2016	2015
Non-life net insurance benefits and claims	**1,129**	**1,052**	**(51)**	**(54)**	**1,078**	**998**
Claims paid	1,024	942	(67)	(53)	957	889
Change in technical provisions	105	110	16	(1)	121	109
Life net insurance benefits and claims	**718**	**693**	**(24)**	**(22)**	**694**	**671**
Claims paid	667	767	(18)	(19)	649	748
Change in technical provisions	51	(74)	(6)	(3)	45	(77)
Total	**1,847**	**1,745**	**(75)**	**(76)**	**1,772**	**1,669**

F.21 Fee and commission expenses and expenses from financial service activities

(€ million)	2016	2015
Fee and commission expenses from asset management activity	6	8
Fee and commission expenses related to investment contracts	2	1
Total	**8**	**9**

F.22 Expenses from other financial instruments and investment properties

(€ million)	2016	2015
Interest expense	**34**	**43**
Interest expense on loans, bonds and other payables	32	43
of which: Interest expenses on financial liabilities at amortised cost related to investment contracts	31	41
Interest expense on deposits received from reinsurers	2	–
Expense – other	**11**	**7**
Depreciation of investment properties	7	5
Expenses from investment properties	4	2
Realised losses	**21**	**16**
Realised losses on available for sale financial assets	20	14
Realised losses on other receivables	1	2
Unrealised losses	**5**	**13**
Unrealised losses on hedged instruments	5	13
Impairment losses	**37**	**30**
Impairment of investment properties	2	1
Impairment of loans and receivables	10	9
Impairment of available for sale financial assets	24	19
Impairment of other receivables	1	1
Total	**108**	**109**

F.23 Acquisition and administration costs

(€ million)	Non-life segment		Life-segment		Financial segment		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
Commission and other acquisition costs	**421**	**394**	**169**	**214**	**–**	**–**	**590**	**608**
Gross acquisition costs and other commission	443	417	179	224	–	–	622	641
Received reinsurance commission	(22)	(23)	(10)	(10)	–	–	(32)	(33)
Investment management expenses	1	3	2	2	–	–	3	5
Other administration costs	123	127	70	64	22	24	215	215
Total	**545**	**524**	**241**	**280**	**22**	**24**	**808**	**828**

Other administration costs consist mainly of wages and salaries, building and office rentals, and IT expenses.

The following table shows the total of future minimum lease payments under non-cancellable operating leases for each of the following periods:

(€ million)	2016	2015
Not later than one year	22	22
Later than one year and not later than five years	71	52
Later than five years	15	50
Total	**108**	**124**

F.24 Other expenses

(€ million)	2016	2015 restated
Amortization of intangible assets	83	87
Impairment of other intangible assets	6	–
Depreciation of tangible assets	9	10
Expenses from tangible assets	2	3
Losses on foreign currencies	13	12
Restructuring charges and allocation to other provisions	14	9
Expenses from service and assistance activities and charges incurred on behalf of third parties	22	22
Other technical expenses	64	61
Holding costs	23	20
Other charges	51	53
Total	**287**	**277**

In view of the recent developments on the Polish insurance market, the management of the Group has revised its plans for the former Proama insurance portfolio (currently managed under Generali Towarzystwo Ubezpiec). Following this revision, and in line with impairment test methodology (described in Note F.1.1) an impairment charge in 2016 amounting to €6 million was identified. No impairment of goodwill has been recored in 2015.

In 2016, Other technical expenses consist mainly of “insurance tax” in Hungary amounting to €24 million (2015: €23 million), the fire brigade charge amounting to €11 million (2015: €10 million), contributions paid to insurance regulators of €5 million (2015: €3 million), charges relating to government guaranteed funds of €4 million (2015: €5 million) used to cover MTPL injuries from unknown or uninsured drivers, and cancellation of premiums written in previous years amounting to €6 million (2015: €2 million).

F.25 Income taxes

The table below shows a breakdown of income taxes recognised in the income statement:

(€ million)	2016	2015
Current income taxes	**84**	**78**
Czech Republic	52	44
Bulgaria	13	14
Hungary	7	4
Poland	2	5
Slovakia	3	5
Other countries	7	6
Income taxes related to previous period	**(9)**	**(4)**
Czech Republic	(8)	(2)
Other countries	(1)	(2)
Deferred income taxes	**(31)**	**(23)**
Czech Republic	(21)	(16)
Hungary	(6)	–
Poland	(3)	(5)
Slovakia	–	(2)
Other countries	(1)	–
Total	**44**	**51**

The tax authorities of the territories in which Group entities operate may inspect the books and records of Group entities at any time within a maximum period of three to 10 years, depending on the tax jurisdiction subsequent to the reported tax year, and may impose additional tax assessments and penalties. The Group's management is not aware of any circumstances that might give rise to a potential material liability in this respect.

The table below shows tax rates in selected countries:

	2016	2015
Czech Republic	19%	19%
Bulgaria	10%	10%
Hungary	19%	19%
Poland	19%	19%
Slovakia	22%	22%

The table below shows the reconciliation between the expected and actual income tax, which is based on the 19% tax rate applicable in the Czech Republic.

(€ million)	2016	2015
Expected income tax rate	**19.0%**	**19.0%**
Earnings before taxes	**360**	**316**
Expected income tax expense (benefit)	**68**	**60**
Effect of foreign tax rate differential	(14)	5
Effect of special (lower) tax rate	7	(5)
Tax exempt income and other tax decreasing items	(23)	(53)
Tax non-deductible expenses and other tax increasing items	37	72
Effect of tax losses	(6)	(3)
Other (local) income taxes	–	–
Foreign WHT not recoverable	–	1
Income taxes for prior years	(4)	(1)
Tax reliefs	–	–
Other	(21)	(25)
Tax expense	**44**	**51**
Effective tax rate	**12.2%**	**16.1%**

F.25.1 Deferred tax

(€ million)	Deferred tax assets		Deferred tax liabilities	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Intangible assets	–	1	(144)	(155)
Land and buildings	2	2	(2)	(2)
Financial assets available for sale	63	50	(1)	(1)
Financial assets at fair value through profit and loss	2	5	(2)	(1)
Receivables	1	2	–	–
Deferred acquisition costs	1	1	–	–
Insurance provisions	1	1	(6)	(11)
Paybles	10	8	–	–
Fiscal losses carried forward	13	7	–	–
Accrued income and prepayments	1	1	(8)	(9)
Deferred tax asset / liability with impact on equity	1	1	(75)	(65)
Other	11	8	(1)	(3)
Total deferred tax asset/liability before set off	**106**	**87**	**(239)**	**(247)**
Set off of tax	(78)	(73)	78	73
Net deferred tax asset/liability	**28**	**14**	**(161)**	**(174)**
Current portion	**23**	**14**	**(161)**	**(174)**
Non-current portion	**5**	**–**	**–**	**–**

In accordance with the balance sheet liability method, the amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the end of the reporting period.

Changes in net deferred tax position are presented in the following table:

(€ million)	Net deferred tax asset/liability	
	2016	2015
Balance as at beginning of reporting period	**(160)**	**(176)**
Deferred income tax for the period	31	23
Deferred tax recognised directly in equity	(4)	(8)
Total deferred tax income for the period	**27**	**15**
Currency translation differences	–	1
Balance as at end of reporting period	**(133)**	**(160)**

The Group did not recognise deferred tax assets of €25 million (2015: €40 million) from deductible temporary differences (unused tax losses) since their realization is not considered probable for certain individual entities in the Group. Tax losses of these entities cannot be offset against the taxable profits of other entities in the Group.

Expiration of unused tax losses carried forward are presented in the following table:

(€ million)	Not recognized temporary differences	
	31.12.2016	31.12.2015
Expire in 1 year	–	41
Expire between 1 and 3 years	2	38
Expire between 3 and 5 years	124	131
Expire in more than 5 years	8	7
Expire after indefinite time	–	–
Total	**134**	**217**

F.26 Share-based payments

Selected members of management of the Group are beneficiaries of a Generali Group's long-term incentive (LTI) plan.

From 2011 to 2012, the Generali Group adopted a multi-year plan, currently still in place, based on two cycles of three years. This plan was applicable for some of the Group managers participating in the program who joined the Group after 2010 and are still employed by the Group. Once the first cycle reaches its conclusion, if the relevant targets have been achieved, a monetary bonus is disbursed of which a part is re-invested in Assicurazioni Generali S.p.A. shares. This is then followed by a second cycle, after which, again assuming certain targets have been achieved, participants may be granted a certain number of free shares for each share purchased. The cost component linked to monetary bonuses of the first cycle is fully accrued in the previous years while the cost component linked to the equity component will come to full maturity at the end of next year.

From 2013, the Group adopted new plans based on a single three-year cycle, after which, assuming certain targets have been achieved, free shares, subject to specific lock-up periods, may be granted to the participants.

The LTI plan 2013 has fully accrued its relevant cost component in the first half of the year, coming to close with the equity instruments assignment upon verification of the Group's performance levels in terms of ROE and relative TSR, as well as threshold levels required in terms of Solvency I ratio.

The LTI plans for 2014 and 2015, currently in progress, may result in shares granted respectively in 2017 and 2018, subject to the Group performance level (determined by the cross-comparison of ranges of ROE and relative TSR) and the overcoming of the minimum level, where requested in terms of Return on Risk capital and Solvency ratio (the latter referring to the Solvency I ratio, or to the Economic Solvency Ratio, in line with the regulations in force in the year of performance assessed).

As far as the lock-up constraints are concerned, 50% of the shares are immediately available, 25% is subject to a one-year lock-up period and the remaining 25% to a two year lock-up period, reduced to one year with the extent to the 25% of the equity instruments assigned in relation to LTI 2013 and 2014 plans.

In line with the previous year, a new long-term incentive plan based on Assicurazioni Generali shares – Group Long Term Incentive (LTI) 2016 – has been submitted for the approval of the Shareholder's Meeting.

In line with market practises and investor expectations, shares are assigned and available to beneficiaries over a total time frame of 6 years, subject to the achievement of Group's performance conditions (Return on Equity – ROE and relative Total Shareholders Return – rTSR) and the achievement of a minimum level of Economic Solvency Ratio.

The cycles are divided into three tranches. The sum of shares set aside in each of the three years will be assigned in a single deal only at the end of the third year, approximately by the month of April (date of assignment), after an overall evaluation of the Board of Directors concerning the effective achievement of the Objectives not only on an annual basis but over three years as well.

For each cycle, the maximum number of shares (per beneficiary) that can be assigned at the end of three years is calculated by dividing the maximum award amount (calculated as a percentage of the base salary) by the share value, calculated as the average of the three months prior to the approval by the Board of Directors of the draft budget for the financial year and the consolidated financial statement relating to the financial year that closed prior to that in which the plan began.

The total amount of shares which can be assigned is subdivided into the three tranches at the respective percentages rate of 30% – 30% – 40%.

Once the level of the Economic Solvency ratio has been reached, the achievement of the Group's financial targets, represented by the ROE and the relative TSR, compared with the peer's part of the STOXX Euro Insurance index, is verified on a yearly and overall three-year cycle basis.

During each year of the plan and at the end of the three years, the Board of Directors evaluates the degree to which the Economic Solvency Ratio has been achieved as compared with the limit set as 130%, or alternative percentage as may be chosen from time to time by the Board of Directors. On the basis of this evaluation, the number of shares to be accrued annually or definitively granted may be reduced or even zeroed by the Board of Directors if the Economic Solvency Ration should fall below the threshold established.

In any case, no incentive will be paid in the event of a significant worsening of the capital and financial situation of Assicurazioni Generali S.p.A.

Individual tranches of shares are only granted at the end of performance period and, therefore, at the end of the three years, after verifying the degree to which the targets have been achieved in the third year and as long as there continues to be an employment/director relationship in place with the Group companies as at the grant date.

As regards the holding period, in line with investor requests, at the grant date, 50% of the shares are immediately available (to allow the participants to pay the tax charges connected with the grant), the remaining 50% is subject to a two year lock-up period; subject to the requirement for the directors who participate in the plan to maintain a suitable number of shares assigned until term of the office in course at the expiry of the lock-up.

Vesting period
Whilst considering that Beneficiaries render services for the award beginning on a date earlier than the grant date (i.e. April 30, 2014/2015/2016), we assume that the vesting period starts from April 30, 2014/ January 1, 2015 / January 1, 2016. The vesting period for all plans is three years (except for the plan granted in 2011 which has a six years vesting period).

Vesting conditions
The number of shares to be allocated for each tranche is directly linked to the assessment of achievement against the objectives identified for the cycle. The objectives identified are the relative Total Shareholders' Return – rTSR (compared with a Peer Group, identified in the STOXX Euro Insurance Index) and the Return on Equity – ROE); the performance level, and corresponding incentive level, depends on the simultaneous achievement of the two objectives.

Even after the Objectives achievement, the Plan's Bonus (whole or in part) might not be assigned when a strategic objective is not met or the working/administrative relationship with Assicurazioni Generali S.p.A. or with other companies in the Generali Group of a beneficiary is terminated before the end of the three years period of the Plan.

Valuation

The total cycle cost (TC) is calculated in the following manner:

- Maximum award amount = 175% (based on the table of annual performance outcome)* Base salary
- Maximum share number = Maximum reward amount/share value (calculated as the average of the three months prior to the approval by the Board of Directors of the draft financial statements relating to the year before the beginning of the Plan)
- Base Share number = Base salary / share value (calculated as the average of the three months prior to the approval by the Board of Directors of the draft financial statements relating to the year before the beginning of the Plan)

Valuation approach / estimates:

1. The "probability that the service condition is satisfied" is assumed to be at 100% until a different information update;
2. Until the "annual minimum threshold assessment" this condition is assumed to be satisfied;
3. Until the "probability that the RORC condition is satisfied" is assumed to be at 100%;
4. Valuation related to market condition (rTSR):
   The fact that a market condition is involved implies that the related right to receive shares is valued at inception (grant date) irrespective of satisfying the other conditions. The value of reward related to market condition is estimated using the Monte-Carlo simulation, projecting the Generali share performance (TSR) with respect to shares of companies included in the STOXX Euro Insurance index (for each tranche separately). For each of the possible 50,000 simulations, the FV of the Generali share is also estimated.
   For each simulation (out of 50,000; with a probability of 1/50,000) the estimated fair value of the AG share will be multiplied by the number of free shares attributable. The probability weighted sum of simulation results will be discounted at grant date.
   The fact that the amount of bonus (free shares) related to market condition is also dependent on the result of the performance condition introduces a certain complexity into the valuation of reward value. This implies the calculation of five different "reward values" based on the number of free shares attributable to market conditions in relation to each possible RoE target.
5. Valuation related to performance condition (RoE):
   On each valuation date, for each tranche, the best estimate of the RoE result will be taken into consideration by using the above mentioned "value of reward" related to the RoE outcome.

As at 31 December 2016, the expenses recognised in relation to these plans were amounting to €4 million (2015: €2 million) and the equity reserve for share based payments of €6 million (2015: €3 million).

F.27 Information on employees

The number of employees is presented in the following table:

	31.12.2016	31.12.2015
Managers	237	287
Employees	9,654	9,625
Sales representatives	2,151	2,651
Others	16	23
Total	**12,058**	**12,586**

The staff expenses are presented in the following table:

(€ million)	31.12.2016	31.12.2015
Wages and salaries	215	200
Compulsory social security contributions	63	54
of which State-defined contribution pension plan	23	18
Others	53	21
of which Contribution to private pension funds	1	2
Total	**331**	**275**

According to functional area accounting, staff costs are distributed to their respective functional areas and presented within applicable acquisition costs, claims handling costs, administrative expenses and other expenses.

Compulsory social security contributions mainly comprise contributions to state-defined contribution pension plans.

Other expenses include the costs of the Group's health and social programs (e.g., health program for managers, medical check-up for employees and social benefits).

F.28 Hedge accounting

F.28.1 Fair value hedge

Foreign currency risk hedging
Since 1 October 2008, hedge accounting has been applied by some of the Group companies to foreign currency risks (FX risk). The Group applies the fair value hedge.

The Group's investment strategy results in an investment portfolio, which consists of securities denominated in different currencies. On the other hand, the currency of the Group's liabilities is the functional currency of individual subsidiaries. Following the Group's risk policy, all these instruments are dynamically hedged into the functional currency of their respective subsidiaries via FX derivatives.

Hedge accounting is applied selectively for individual subsidiaries. For the entities that apply hedge accounting, foreign currency hedging is in place for chosen foreign currency investments (i.e., bonds, investment fund units, equities, etc.) and insurance liabilities to fully hedge the implied FX risk. The process in place guarantees high effectiveness in hedging.

The FX difference on hedged financial assets and liabilities and hedging instruments, except for equities classified in the available for sale portfolio, is reported in the profit or loss account according to IAS 39. FX revaluation on AFS equities included within the hedge accounting is reported in the income statement either as "Other income" – "Gains on foreign currencies" or "Other expenses" – "Losses on foreign currencies".

Hedged items
Hedge accounting is applied in each subsidiary individually. In general, the hedged items consist of selected non-derivative financial assets and financial liabilities denominated or exposed in foreign currencies (with respect to the functional currency of each subsidiary) except for:
a) Financial assets backing unit-linked products
b) Other particular exclusions predefined by the investment management strategy

Hedged items include financial assets classified in the available for sale category, , other investments, cash and cash equivalents and insurance liabilites.

Hedging instruments
Hedging instruments are defined as all FX derivatives except for options and starting from 1.10.2015 also selected financial liabilities in foreign currency (such as sell-buy transactions).

As at 31 December, hedged items and hedging instruments were as follows:

(€ million)	Fair value as at 31.12.2016	FX gain/loss for the period from 1.1. to 31.12.2016
Hedged items		
Equities, bonds, investment funds units	1,713	16
Term deposits, current bank accounts and other	86	(1)
Insurance liabilities	12	–
Hedging instruments		
Derivatives	(36)	(10)
Financial liabilities (Sell-buy operations)	(249)	(4)

(€ million)	Fair value as at 31.12.2015	FX gain/loss for the period from 1.1. to 31.12.2015
Hedged items		
Equities, bonds, investment funds units	1,646	25
Term deposits, current bank accounts and other	40	–
Insurance liabilities	7	–
Hedging instruments		
Derivatives	(1)	(31)

Assessment of hedging effectiveness and possible adjustment of the dynamic hedging strategy is performed by the Group on a monthly basis. In every month of 2016 and 2015, the Group's hedging was evaluated as effective.

Interest rate risk hedging

Since 1 July 2011, hedge accounting has been applied to derivatives hedging an interest rate exposure of interest-bearing financial assets by some of the Group companies. The Group uses fair value hedging.

The Group has implemented a risk management strategy for interest rate risk. The objective of the investment and hedging strategy is to manage the overall interest rate risk position on a continuous basis. The Group achieves this objective through a dynamic strategy. Hedge accounting is applied selectively for individual subsidiaries.

Change in the fair value of interest rate derivatives and FVTPL interest-bearing financial assets is reported in the profit or loss account according to IAS 39. Change in the fair value of AFS interest-bearing financial assets attributable to the interest rate risk is within the hedge accounting reported in the profit or loss account either as other income from financial instruments and other investments or other expenses for financial instruments and other investments.

Hedged items:
The Group designates a group of fixed income instruments as a hedged item. Hedged items include financial assets classified in the available for sale category. The hedged items do not include financial liabilities.

Hedging instruments:
Hedging instruments are defined as a group of interest rate derivatives. The derivatives are designated as hedging instruments in their entirety.

Assets and derivatives according to this definition can be clearly identified at any time. As at 31 December, hedged items and hedging instruments were as follows:

(€ million)	Fair value as at 31.12.2016	Change in fair value attributable to interest rate risk for the period from 1.1. to 31.12.2016
Fixed income instruments	1,149	6
Derivatives	(50)	(3)

(€ million)	Fair value as at 31.12.2015	Change in fair value attributable to interest rate risk for the period from 1.1. to 31.12.2015
Fixed income instruments	1,046	(11)
Derivatives	(55)	12

Assessment of hedging effectiveness and possible adjustment of the dynamic hedging strategy is performed by the Group on a monthly basis. In every month of 2016 and 2015, the Group's hedging was evaluated as effective.

F.28.2 Cash-flow hedge

Foreign currency risk hedging

As a result of their real estate rent operations, most of the Companies' transactions are denominated in foreign currencies. In terms of the Companies' overall currency risk management strategy, they minimize their exposure to changes in cash flows from rental contracts by entering into loans denominated in a foreign currency.

Hedged items:

The hedged items are expected payments (cash inflows) in euros from lease contracts concluded in euros. During the period of validity of the existing rental contracts, the cash inflows are constituted by payments related to these contracts. As the Companies intend to continue entering into lease contracts denominated in euros, the expected future lease contracts that will be entered into after the existing contracts have expired are also presented as a hedged item. The future lease payments are modelled over the depreciation period of the building.

Hedging instruments:

The Companies hedge the leasing receivables by foreign currency loans received and used for the acquisition and operation of the real estate owned by the company. The loan is being extended. In the event that the loan is not extended, the Companies expect to get a new loan in the same currency that will be used to repay the current loan. This assumption is based on the fact that rental contracts denominated in euros, will be a sufficient guarantee for receiving a new loan in euros.

Since 1 June 2010, a cash-flow hedge has been applied by the Group to foreign currency risks (FX risk). Hedge accounting is applied selectively for individual subsidiaries; as at 31 December 2014 the cash-flow hedge was applied by three real estate companies – City Empiria, Solitaire and Pařížská 26. In 2015 the hedging relation between hedged and hedging items of City Empiria was terminated.

Prospective effectiveness test

(€ million)	31.12.2015
Loan balance – actual	19
Loan balance – theoretical	21
The amount of the loan used as hedging instrument	19
PV of lease payments	21
PV od hedged lease payments	19
Ratio of rent payments to hedging item	**100%**
Is the hedging prospectively effective?	**Yes**

As the present value of future cash flows is higher than the loan balance, only the present value up to the loan balance should be taken into the effectiveness test.

Retrospective effectiveness test

The retrospective effectiveness is measured as the ratio of payments that are expected by the model to arrive and rental income that is actually obtained. The Company has to obtain at least the expected amount of rental payments in order for the hedging to be effective.

(€ million)	31.12.2015
Cumulative values	
Value of modelled CF from rent	3
Received rent volume	3
Received rent volume – cumulative	4
Is the hedging retrospectively effective?	**Yes**

During 2016, entities Solitaire and Pařížská 26 ceased to use hedge accounting as the external loans denominated in foreign currencies, which were used as hedging instruments, were repaid. The hedging reserve will be gradually released in the following years based on the development of cash flows of the former hedged instrument.

F.29 Offsetting financial instruments

The following tables provide details relating to the effect or potential effect of netting arrangements, including the rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities.

As at 31 December 2016, financial assets were as follows:

31.12.2016				Related amounts not set off in the balance sheet		
(€ million)	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilites set off in the balance sheet	Net amounts of financial assets presented in the balance sheet	Financial instruments	Cash collateral received	Net amount
Derivative financial assets	11	–	11	(8)	–	3
Receivable from derivative collateral paid	69	–	69	(69)	–	–
Total	**80**	**–**	**80**	**(77)**	**–**	**3**

As at 31 December 2015, financial assets were as follows:

31.12.2015				Related amounts not set off in the balance sheet		
(€ million)	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilites set off in the balance sheet	Net amounts of financial assets presented in the balance sheet	Financial instruments	Cash collateral received	Net amount
Derivative financial assets	20	–	20	(7)	–	13
Receivable from derivative collateral paid	36	–	36	(36)	–	–
Total	**56**	**–**	**56**	**(43)**	**–**	**13**

As at 31 December 2016, financial liabilities were as follows:

31.12.2016				Related amounts not set off in the balance sheet		
(€ million)	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets set off in the balance sheet	Net amounts of financial liabilites presented in the balance sheet	Financial instruments	Cash collateral paid/ Reinsurance receivables	Net amount
Derivative financial liabilities	(111)	–	(111)	8	68	(35)
Total	**(111)**	**–**	**(111)**	**8**	**68**	**(35)**

As at 31 December 2015, financial liabilities were as follows:

31.12.2015				Related amounts not set off in the balance sheet		
(€ million)	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets set off in the balance sheet	Net amounts of financial liabilites presented in the balance sheet	Financial instruments	Cash collateral paid/ Reinsurance receivables	Net amount
Derivative financial liabilities	(81)	–	(81)	7	36	(38)
Total	**(81)**	**–**	**(81)**	**7**	**36**	**(38)**

Financial assets and liabilities are offset in the consolidated statement of financial position when the Group has a legally enforceable right to offset and has the intention to settle the asset and liability on a net basis, or to realise the asset and settle the liability simultaneously.

The Group is subject to an enforceable master netting arrangement in the form of an ISDA agreement with a derivative counterparty. Under the terms of this agreement, offsetting derivative contracts is permitted only in the event of bankruptcy or default of either party to the agreement. In order to manage the counterparty credit risk associated with derivative trades, the parties have executed a collateral support agreement.

F.30 Off balance sheet items

F.30.1 Legal

As at the release date of the consolidated financial statements, there was a legal case concerning the decision of the 2005 General Meeting of the Parent Company to approve a squeeze-out of minority shareholders and a pending consideration paid on the squeeze-out. Based on legal analyses carried out by external legal counsel, the management of the Company believes that this case does not give rise to any contingent future liabilities for the Company.

F.30.2 Commitments

As at 31 December 2016, the Group had a commitment under investment agreements of €105 million (2015: €53 million) to make an additional contribution into the private equity funds. Till 2016, the Group already invested €50 million into these private equity funds. The commitment of €72 million ceases in 2020 and commitment of €33 million ceases in 2019.

The Group had contractual leasing payments as shown in Note F.23.

F.30.3 Pledged assets and collaterals

As at 31 December 2016, the Group had pledged approximately €404 million (2015: €128 million) of assets as collateral. In particular, €81 million has been pledged against the bank loan provided to Green Point Offices a.s. and €320 million has been pledged in repurchase agreements (REPO). The outstanding balance of the loan as at 31 December 2016 is €24 million and fair value of the guaranteed liabilities in repurchase agreements amounted to €249 million.

Furthermore, the Group has received financial assets as collateral for approximately €371 million (2015: €246 million), in particular for transactions in bonds and loans.

F.30.4 Guarantees

When negotiating terms and conditions in respect of acquisition of real estate properties the Group receives guarantees given by the seller of the property. The guarantees usually refer to ownership rights and potential claims raised against the owner of the property.

Furthermore, the Group in the context of its business in some Countries receives guarantees given by third parties.

The Group guarantees minimum investment yield of 0% on an annual basis for plan holders of the Transformed fund and has to ensure that the value of assets in the Fund is always equal to or greater than the value of liabilities.

F.30.5 Other contingencies

Participation in nuclear pools

As a member of the National Nuclear Pools, the Group is jointly and severally liable for the obligations of the pools. This means that in the event that one or more of the other members are unable to meet their obligations to the pool, the Group would take over the uncovered part of this liability, pro-rata to its own net retention for the contracts in question. Management does not believe that the risk of another member being unable to meet its obligations to the pool to be material to the financial position of the Group. In addition, the potential liability of the Group for any given insured risk is contractually capped at twice the Group's net retention for that risk.

The subscribed country net retention is as follows:

Czech Republic

(€ million)	31.12.2016	31.12.2015
Liability	8	8
Fire, lightning, explosion, aircraft („FLEXA“) and break down of operations	25	25
Transportation risk	5	5
Technical insurance and breakdown of operations	13	12
Total	**51**	**50**

Slovakia

(€ million)	31.12.2016	31.12.2015
Liability	2	2
Fire, lightning, explosion, aircraft („FLEXA“) and break down of operations	4	4
Transportation risk	2	2
Total	**8**	**8**

Hungary

(€ million)	31.12.2016	31.12.2015
Liability	1	1
Fire, lightning, explosion, aircraft („FLEXA“) and break down of operations	2	2
Technical insurance and breakdown of operations	2	2
Total	**5**	**5**

Bulgaria

(€ million)	31.12.2016	31.12.2015
Liability	1	–
Total	**1**	**–**

Membership in the Czech and Slovak Insurance Bureaus
As a member of both the Czech and Slovak Insurance Bureaus ("the Bureaus") related to the MTPL insurance in each country, the Group is committed to guaranteeing the MTPL liabilities of the Bureaus. For this purpose, the Group makes contributions to a guarantee fund for each Bureau based on the calculations of the relevant Bureau.

In the event of a fellow member of the Bureau being unable to meet its liabilities arising from MTPL due to insolvency, the Group may be required to make additional contributions to the guarantee fund. Management considers the risk of this to be immaterial to the financial position of the Group.

F.31 Related parties

This chapter contains information about all important transactions with related parties, excluding those which are described in other parts of the notes.

F.31.1 Identity of related parties

The ultimate parent company is Assicurazioni Generali S.p.A.

Related parties are Generali CEE's shareholders, entities outside the Group controlled by them, its associates and joint ventures, key management personnel, their close family members and other parties that are controlled, jointly controlled or significantly influenced by such individuals. Entities in which such individuals hold significant voting power are also considered related parties.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, either directly or indirectly.

Key management personnel of the Group comprise the members of the Board of Directors.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely to the legal form.

F.31.2 Transactions with key management personnel of the Group

The following table shows the short-term employee benefits for the members of Generali CEE Holding B.V. Board of Directors.

(€ thousands)	Board of Directors			
	Related to the board membership		Related to employment contract	
	2016	2015	2016	2015
Short-term employee benefits	–	2	2,353	2,255
Long-term employee benefits	–	–	895	320
Contribution to State-defined contribution pension plans	–	–	320	234

Short-term employee benefits include wages, salaries, allowances provided for membership in the statutory bodies, bonuses and other benefits such as medical care and cars. Bonuses are conditional upon achievement of specific targets linked to profitability levels of the Group's insurance business; these targets have been largely met in the current financial year.

There were no termination benefits paid to the key management personnel of the Group either in 2016 or in 2015.

F.31.3 Related party transactions

The related parties fall into the following groups:

Group 1 – Enterprises directly consolidated within the group of the ultimate parent company.

Group 2 – Other related parties.

31.12.2016 (€ million)	notes	Group 1	Group 2
Receivables from insurance and reinsurance business		12	–
Reinsurance assets	i	131	–
Other financial assets	ii	420	–
Other assets		24	–
Total assets		**587**	**–**
Payables from insurance and reinsurance business		(85)	–
Technical provisions		(2)	–
Other financial liabilities		–	–
Other liabilities		(33)	–
Total liabilities		**(120)**	**–**

Notes:
i. The balances with companies in Group 1 mainly comprise technical provisions ceded to Generali Holding Vienna group companies for €20 million and technical provisions ceded to Assicurazioni Generali S.p.A. for €93 million.
ii. The balances with companies in Group 1 include cash pooling operations with Assicurazioni Generali S.p.A. for €286 million and investment in investment fund unit with BG Fund Management Luxembourg S.A. amounting to €79 million (mainly via unit-linked portfolio).

31.12.2015 (€ million)	notes	Group 1	Group 2
Receivables from insurance and reinsurance business		7	–
Reinsurance assets	i	127	–
Other financial assets	ii	293	–
Other assets		22	–
Total assets		**449**	**–**
Payables from insurance and reinsurance business		(17)	–
Technical provisions		(1)	–
Other financial liabilities		(56)	–
Other liabilities		(29)	–
Total liabilities		**(103)**	**–**

Notes:
i. The balances with companies in Group 1 mainly comprise technical provisions ceded to Generali Holding Vienna group companies for €28 million and technical provisions ceded to Assicurazioni Generali S.p.A. for €91 million.
ii. The balances with companies in Group 1 include cash pooling operations with Assicurazioni Generali S.p.A. for €285 million.

31.12.2016 (€ million)	notes	Group 1	Group 2
Income from insurance and reinsurance business		60	–
Income from financial activities		3	–
Other income		1	–
Total income		**64**	**–**
Expenses from insurance and reinsurance business	i	(154)	–
Expenses from financial activities		(3)	–
Other expenses		(9)	–
Total expenses		**(166)**	**–**

Notes:
i. Group 1 mainly includes ceded premiums to Assicurazioni Generali S.p.A under reinsurance contracts for €111 million.

31.12.2015 (€ million)	notes	Group 1	Group 2
Income from insurance and reinsurance business		60	–
Income from financial activities		1	–
Other income		1	–
Total income		**62**	**–**
Expenses from insurance and reinsurance business	i	(149)	–
Expenses from financial activities		(1)	–
Other expenses		(8)	–
Total expenses		**(158)**	**–**

Notes:
i. Group 1 mainly includes ceded premiums to Assicurazioni Generali S.p.A under reinsurance contracts for €104 million.

G. Subsequent events

The Group has identified no significant events that have occurred since the end of the reporting period up to 10 May 2017.

III. Company Financial Statements for the Year Ended 31 December 2016

COMPANY STATEMENT OF FINANCIAL POSITION

The statement of financial position was prepared prior to profit appropriation.

(€ million)	Note	31.12.2016	31.12.2015
Non-current assets		**4,337**	**4,252**
Intangible assets		**–**	**1**
Financial fixed assets	**D.1**	**4,337**	**4,251**
Investments in group companies		4,337	4,251
Current assets	**D.2**	**445**	**428**
Receivables	D.2.1	3	2
Loans	D.2.2	334	373
Securities	D.2.3	80	45
Cash and cash equivalents	D.2.4	24	7
Other assets	D.2.5	4	1
Total assets		**4,782**	**4,680**
Shareholder's equity	**D.3**	**4,773**	**4,672**
Paid-up capital and share premiums reserve	D.3	3,935	3,956
Other reserves	D.3	838	716
Current liabilities	**D.4**	**9**	**8**
Financial liabilities	D.4.1	2	–
Other liabilities	D.4.2	7	8
Total equity and liabilities		**4,782**	**4,680**

COMPANY INCOME STATEMENT

(€ million)	Note	2016	2015
Result from investments in Group companies after tax		401	354
Other income and expenses after tax	E.1	(87)	(90)
Result of the period		**314**	**264**

Notes to the Company Financial Statements

A. General Information

The Company financial statements of Generali CEE Holding B.V. should be read in conjunction with the consolidated financial statements.

A.1 Description of the Company

Generali CEE Holding B.V. or "the Company" was incorporated under Dutch law as a limited liability company on 8 June 2007. The Company is listed in the Commercial Register kept by the Chamber of Commerce of the city of Amsterdam under Registration Number 34275688 and is based in Diemerhof 42, 1112XN Diemen, The Netherlands.

Generali CEE Holding was established under the laws of the Netherlands and as at 31 December 2016 was fully owned by Assicurazioni Generali S.p.A. ("Generali") which is the Company's ultimate parent company.

The Company was founded for the purpose of integrating the business activities of Generali Group and PPF Group (former minority shareholder of the Company). The Company's business activities are consulting services in the entrepreneurial, financial, economic and organizational fields and their procurement throughout the companies in the Group.

A.2 Statutory body

The statutory body of the Company was as at 31 December 2016 as follows:

Chairman: Valter Trevisani
Members: Luciano Cirinà
Gregor Pilgram
Mario Greco (until 8 February 2016)
Nikhil Srinivasan (until 8 January 2017)

After the end of the reporting period, two new members were appointed:
Luigi Lubelli (appointed on 14 March 2017)
Martin Sturzlbaum (appointed on 14 March 2017)

The Company founded a branch (Generali CEE Holding B.V., organizační složka) in the Czech Republic which was entered into the Commercial Register kept by the Municipal Court in Prague, Section A, Insert 59992 on 30 January 2008 under Identification Number 28239652 and is situated in Na Pankráci 121/1658, 140 21 Prague 4, Czech Republic. As at 31 December 2016, the Chief Executive Director of the branch was Mr. Luciano Cirinà.

The Company is subject to Dutch and Czech corporate income taxation, due to its branch in the Czech Republic. Since all the assets and activities of the Company have been transferred to the Czech branch, Czech tax law has primacy for the Company's tax status.

B. Basis of preparation

These financial statements are prepared in accordance with the financial reporting requirements included in Part 9 of Book 2 of the Netherlands Civil Code. The principles of valuation and determination of results described in the consolidated financial statements prepared under International Financial Reporting Standards (IFRS) as endorsed by the European Commission are also applicable to the individual financial statements. Investments in Group companies and investments in associates are initially recognised at cost and subsequently accounted for by the equity method of accounting.

The accounting policies with regard to presentation and disclosures are in accordance with the financial reporting requirements included in Part 9 of Book 2, of the Netherlands Civil Code. The income statement has been drawn up in accordance with Section 402, Book 2, of the Dutch Civil Code.

The financial statements will be adopted by the Annual General Meeting which is expected to take place in May 2017. Expectations are that the financial statements will be adopted without any changes.

C. Accounting policies

C.1 Functional and presentation currency

The functional currency of the Company is the Czech koruna (CZK), the domestic currency of the Czech Republic. The amounts in the financial statements are presented in euros (€), if not stated otherwise.

C.2 Investments in group companies

Investments in group companies are entities (including intermediate subsidiaries and special purpose entities) over which the Company has control. Subsidiaries are recognised from the date on which control is transferred to the Company or its intermediate holding entities. They are derecognised from the date that control ceases.

There are three conditions of control (according to the standard IFRS 10 Consolidated Financial Statements) which have to be met for considering an entity as controlled:
(a) Power over the investee
(b) Exposure, or right to variable returns
(c) The ability to affect those returns through power over the investee.

The Company applies the acquisition method to account for acquiring subsidiaries, consistent with the approach identified in the consolidated financial statements. The consideration transferred for the acquisition of a subsidiary is the fair value of assets transferred, liabilities incurred to the former owners of the acquiree and the equity interests issued by the Company. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in an acquisition are measured initially at their fair values at the acquisition date and are subsumed in the net asset value of the investment in group companies. Acquisition-related costs are expensed as incurred.

Investments in group companies are measured at net asset value. Net asset value is based on the measurement of assets, provisions and liabilities and determination of profit based on the principles applied in the consolidated financial statements.

The Company's share of the net income of Group companies is included in results relating to investments in Group companies in the Income Statement. Unrealised revaluations within consolidated Group companies are presented in the related equity items in the Company financial statements.

When an acquisition of an investment in a group company is achieved in stages, any previously held equity interest is remeasured to fair value on the date of acquisition. The remeasurement against the book value is accounted for in the income statement.

When the Company ceases to have control over a subsidiary, any retained interest is remeasured to its fair value, with the change in carrying amount to be accounted for in the income statement.

When parts of investments in group companies are bought or sold, and such a transaction does not result in the loss of control, the difference between the consideration paid or received and the carrying amount of the net assets acquired or sold, is directly recognised in equity.

C.3 Investments – recognition of losses

When the Company's share of losses in an investment equals or exceeds its interest in the investment (including separately presented goodwill or any other unsecured non-current receivables, being part of the net investment) the Company does not recognise any further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the investment. In such case, the Company will recognise a provision.

C.4 Investments – unrealised gains and losses

Unrealised gains on transactions between the Company and its investments in consolidated subsidiaries are eliminated in full based on the consolidation principles. Unrealised gains on transactions between the Company and its investments in associates are eliminated to the extent of the Company's share in these investments.

Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the assets transferred.

C.5 Current assets

Current assets include securities, derivative contracts, loans and receivables (term deposits included), cash and cash equivalents.

Current assets are recognised in the statement of financial position when the Company becomes a party to the contractual provisions of the instrument. For standard purchases and sales of financial assets, the Company's policy is to recognise them using settlement-date accounting. Any change in the fair value of an asset to be received during the period between the trade date and the settlement date is accounted for in the same way as if the Company used trade-date accounting. Financial instruments are measured initially at fair value plus transaction costs directly attributable to the acquisition or issue of the financial instrument.

Current assets are derecognised when the rights to receive cash flows from them have expired or where they have been transferred and the Company has also transferred substantially all risks and rewards of ownership.

C.5.1 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than classified as securities.

After initial recognition at fair value, loans and receivables are measured at amortised cost using the effective interest method less provision for impairment.

C.5.2 Securities

Securities are those non-derivative financial assets that are not classified as loans and receivables.

After initial recognition, the Company measures securities at their fair values, without any deduction for transaction costs that it may incur upon sale or other disposal, with the exception of instruments that do not have a quoted market price on an active market and whose fair value cannot be reliably measured which are stated at cost, including transaction costs, less impairment losses.

Any revaluation gain or loss is recognised in other comprehensive income with the exception of impairment losses and, in the case of monetary items such as debt securities, foreign exchange gains and losses. When securities are derecognised, the cumulative gain or loss previously recognised in other comprehensive income is recognised in the income statement. Where these instruments are interest-bearing, interest calculated using the effective interest rate method is recognised in the income statement. Dividend income is recognised in the income statement as other investment income.

C.5.3 Derivative contracts

All derivatives in a net receivable position (positive fair value) are reported as financial assets.

All derivatives in a net payable position (negative fair value) are reported as financial liabilities.

C.5.4 Other receivables

Other receivables include all other receivables not related to tax. They are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less a provision for impairment.

C.5.5 Cash and cash equivalents

Cash consists of cash in hand and demand deposits with banks and other financial institutions and term deposits due within 15 days. Cash equivalents are 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.

C.5.6 Term deposit with credit institution

Term deposits with credit institutions consist of deposits with banks and other financial institutions with a term longer than 15 days.

C.6 Share based payments

Employees of the Company receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (equity-settled transactions). The Company has no obligation to settle the share-based transaction; rather the transaction will be settled by shares issued by Assicurazioni Generali S.p.A. (shareholder).

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made. That cost is recognised together with a corresponding increase in retained earnings in equity. The cumulative expense is recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the best estimate of the number of equity instruments that will ultimately vest.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions for which vesting is conditional upon a market or non-vesting condition.

When the terms of an equity-settled award are modified, the minimum expense recognised is the expense had the terms not been modified and if the original terms of the award are met. An additional expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

When an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expenses not yet recognised for the award are recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if there was a modification of the original award as described in the previous paragraph.

D. Notes to the company statement of financial position

D.1 Financial fixed assets

Investments in Group companies comprise the following:

(€ million)	31.12.2016	31.12.2015
Investments in group companies	4,337	4,251
Total investments in subsidiaries and associates	**4,337**	**4,251**

Identification of group companies, their country of residence and proportion of ownership interest is provided in Note C.1 of the consolidated financial statements.

Changes in Group companies comprise the following:

(€ million)	2016	2015
Carrying amount as at beginning of reporting period	**4,251**	**4,042**
Additional investments in group companies	66	47
Disposal of group companies	(99)	(96)
Dividend distribution	(304)	(241)
Other movements in group companies equity	22	145
Result of group companies	401	354
Carrying amount as at end of reporting period	**4,337**	**4,251**

Additional investments in group companies is represented by the acquisition of Generali Insurance AD from Assicurazioni Generali S.p.A (64.97% share) and from Generali Bulgaria Holding AD (34.81% share). The shares were transferred in November 2016 and, as a result, the total of the Company's shareholding interest in the entity amounts to 99.78%. The total purchase price amounted to €66 million, of which €43 milllion was payable to Assicurazioni Generali S.p.A and €23 million to Generali Bulgaria Holding AD.

In 2015, additional investments in group companies consists mainly of capital increase in Generali Życie Towarzystwo Ubezpieczeń S.A. of €37 million and acquisition of non-contolling interest in Romania and Montenegro from other group companies.

Disposal of group companies is presented by the liquidation of Generali Bulgaria Holding AD (€97 million) in 2016 and by the liquidation of Iberian Structured Investments I B.V. (€94 million) and Delta Generali Holding d.o.o. (€2 million) in 2015.

Other movements in group companies equity primarily comprise changes in the share premium reserve, the revaluation reserve arising from changes in the fair value of available for sale financial instruments held by the Group companies and changes in the currency translation reserve arising from differences between functional currencies and the presentation currency.

The list of Group companies is presented in the consolidated financial statements (see Note C.1 in the consolidated financial statements).

D.2 Current assets

D.2.1 Receivables

Receivables comprise the following:

(€ million)	31.12.2016	31.12.2015
Receivables from clients and suppliers	2	2
Receivables from derivatives collateral	1	–
Total	**3**	**2**

All receivables are due within one year.

D.2.2 Loans

(€ million)	31.12.2016	31.12.2015
Loans	334	373
Total	**334**	**373**

Loans consists of cash-pooling operated by Assicurazioni Generali S.p.A. of €286 million (2015: €285 million), reverse repurchase agreement of €19 million (2015: €41 million) and loan provided to City Empiria, a.s. of €29 million (2015: €33 million).

Changes in company loans provided were as follows:

(€ million)	2016	2015
Balance as at beginning of reporting period	**373**	**10**
Redemptions	(40)	(4)
Increases	1	–
New loans	–	367
Balance as at end of reporting period	**334**	**373**

During 2016, loans provided to Generali Bulgaria Holding AD of €9 million, Generali Insurance AD of €2 million and Generali Osiguranje Srbija A.D.O of €3 million were repaid. Other decreases in 2016 mainly relate to reverse repurchase agreements which decreased by €22 million compared to 2015.

New loans provided in 2015 refer to: the introduction of new cash-pooling operated by Assicurazioni Generali S.p.A of €285 million, a loan provided to City Empiria of €33 million and reverse repurchase agreement of €41 million.

The loans are due within 2017 except for the loan provided to City Empiria which is due within two years.

D.2.3 Securities

Securities as at 31 December comprise:

(€ million)	31.12.2016	31.12.2015
Quoted securities	**48**	**38**
Government bonds	19	4
Corporate bonds	29	34
Unquoted securities	**32**	**7**
Unquoted equities	32	7
Total	**80**	**45**

Change in company securities were as follows:

(€ million)	2016	2015
Balance as at beginning of reporting period	**45**	**275**
Investments	43	43
Revaluation in equity	1	5
Revaluation in income statement	–	(1)
Exchange differences	–	6
Sold	(9)	(283)
Balance as at end of reporting period	**80**	**45**

New investments in 2016 mainly relate to the increase of unquoted equities represented by an increase of participation in Lion River I N.V. by €25 million to €32 million.

D.2.4 Cash and cash equivalents

(€ million)	2016	2015
Balance as at beginning of reporting period	**7**	**6**
Increase /(decrease) in cash at bank and in hand	17	1
Balance as at end of reporting period	**24**	**7**

No restrictions are applicable to cash balances.

D.2.5 Other assets

Other assets comprise the following:

(€ million)	31.12.2016	31.12.2015
Accrued income and prepayments	2	1
Tax receivables	2	–
Total	**4**	**1**

D.3 Shareholder's equity

The following table shows the roll-forward of shareholder's equity:

(€ million)	Paid-up and called capital	Share premium reserve	Revaluation reserves	Currency translation reserve	Cash flow hedge reserve	Retained earnings	Result of the period	Total
Balance as at 31.12.2014	**–**	**3,954**	**266**	**(225)**	**(4)**	**77**	**267**	**4,335**
Transfer of net gain 2014						267	(267)	–
Balance after transfer	**–**	**3,954**	**266**	**(225)**	**(4)**	**344**	**–**	**4,335**
Revaluation – financial assets AFS			2					2
Currency translation differences				4				4
Other movements in subsidiaries equity			57	85	1	2		145
Other changes						(4)		(4)
Other comprehensive income	**–**	**–**	**59**	**89**	**1**	**(2)**	**–**	**147**
Net gain 2015							264	264
Total comprehensive income for the period	**–**	**–**	**59**	**89**	**1**	**(2)**	**264**	**411**
Acquisition of subsidiary from entity under common control		2						2
Dividends to shareholders						(76)		(76)
Balance as at 31.12.2015	**–**	**3,956**	**325**	**(136)**	**(3)**	**266**	**264**	**4,672**
Transfer of net gain 2015						264	(264)	–
Balance after transfer	**–**	**3,956**	**325**	**(136)**	**(3)**	**530**	**0**	**4,672**
Revaluation – financial assets AFS			1					1
Currency translation differences				(7)				(7)
Other movements in subsidiaries equity		(21)	33	7		3		22
Other comprehensive income	**–**	**(21)**	**34**	**–**	**–**	**3**	**–**	**16**
Net gain 2016							314	314
Total comprehensive income for the period	**–**	**(21)**	**34**	**–**	**–**	**3**	**314**	**330**
Allocation to reserve for share-based payments						1		1
Dividends to shareholders						(230)		(230)
Balance as at 31.12.2016	**–**	**3,935**	**359**	**(136)**	**(3)**	**304**	**314**	**4,773**

The following table provides details of the distribution restrictions of equity:

(€ million)	31.12.2016	31.12.2015
Not available for distribution to shareholders	**433**	**431**
– Share capital	–	–
– Share premium reserve – portion not available for distribution	157	178
– Revaluation – financial assets AFS	415	392
– Translation reserve	(136)	(136)
– Cash flow hedge reserve	(3)	(3)
Available for distribution to shareholders	**4,340**	**4,241**
– Share premium reserve – portion available for distribution	3,778	3,778
– Revaluation – financial assets AFS	(56)	(67)
– Retained earnings	618	530
Total shareholder's equity	**4,773**	**4,672**

D.3.1 Paid-up and called capital

Authorized share capital amounts to €0.5 million and is divided into 500,000 shares at €1.0 par value, of which 100,000 have been issued and fully paid.

D.3.2 Revaluation reserve

The revaluation reserve includes a positive revaluation reserve from the available for sale securities of the Group companies for €415 million (2015: €392 million) which is not available for distribution.

D.3.3 Profit distribution

On 29 December 2014 and 12 January 2015 the Company's shareholders adopted decisions whereby they declared interim dividends of €100 million and €50 million respectively, paid out of the 2014 profit.

On 5 June 2015, the Company's shareholders adopted a decision to distribute out of the profit for the financial year 2014 a final dividend amounting to €26 million.

On 12 July 2016 the Company's shareholders adopted decisions whereby they declared final dividends of €230 million, paid out of the 2015 profit.

On 9 February 2017, the Company' shareholders adopted decision to distribute dividends of €285 million, paid out of the 2016 profit.

D.4 Current liabilities

D.4.1 Financial liabilities

Financial liabilities consist of derivatives amounting to €2 million.

D.4.2 Other liabilities

Other liabilities consist of the following:

(€ million)	31.12.2016	31.12.2015
Payables to clients and suppliers	1	1
Payables related to taxation	1	2
Accrued charges	5	5
Total	**7**	**8**

E. Notes to the company income statement

E.1 Other income and expenses

Other income and expenses can be analyzed as follows:

(€ million)	2016	2015
Interests and other investment income	5	5
Income from Investments	–	1
Income from subsidiaries	–	9
Other income	5	5
Total income	**10**	**20**
Expenses from subsidiaries	72	89
Administration costs	20	18
Currency losses	1	–
Other expenses	3	1
Total expenses	**96**	**108**
Income taxes	**1**	**2**
Other income and expenses	**(87)**	**(90)**

Interest and other investment income consists of:

(€ million)	2016	2015
Interests from loans	2	1
Interests from term deposits	2	–
Interest income from corporate bonds	1	2
Other investment income	–	2
Total Interests and other investment income	**5**	**5**

The line “Expenses from subsidiaries” relates to the dissolution of Generali Bulgaria Holding AD in 2016 and to the dissolution of Iberian Structured Investments B.V. in 2015.

In 2015, the line “Income from subsidiaries” consists of liquidation surplus distributed to the Company after dissolution of Iberian Structured Investments B.V.

The line “Other income” consists of income from the Group companies for rendering consultancy services.

E.2 Off-balance sheet items

E.2.1 Commitments

As at 31 December 2016, the Company had a commitment under investment agreements of €58 million (2015: €53 million) to make an additional contribution into the private equity funds.

E.2.2 Pledged assets and collaterals

Furthermore, the Company has received financial assets as collateral for approximately €20 million (2015: €0 million), in particular for repo operations.

E.3 Share-based payments

The detailed description of share-based payments for the Company's employees including vesting period, conditions and valuation is presented in the consolidated financial statements (see Note F.26 in the consolidated financial statements).

As at 31 December 2016, an expense recognised in relation to this plan amounted to €1 million (2015: €1 million).

E.4 Employees

Number of employees:

	31.12.2016	31.12.2015
Managers	31	24
Employees	85	87
Total	**116**	**111**

Employee expenses were €15 million (2015: €14 million) and are recognised among Administration Costs (Note E.1). Further information about employees is provided in Note F.27 of the consolidated financial statements. All employees of the Group work outside the Netherlands.

E.5 Company directors

Further information about the remuneration of Company directors is provided in Note F.31.2 of the consolidated financial statements.

E.6 Transactions with related parties

All investments in the Group companies and other investments disclosed in the consolidated financial statements qualify as related parties. Information on related party transactions is provided in Note F.31 of the consolidated financial statements.

E.7 Audit fees

Audit fees related to the audit of the financial statements for the Company and its subsidiaries for 2016 amounted to €2.8 million, net of VAT (2015: €2.7 million) and are due to the Ernst & Young network of firms. The other services provided by the audit firm have been immaterial.

E.8 Subsequent events

Information on subsequent events is provided in Note G of the consolidated financial statements.

10 May 2017

Signed by the Board of Directors:

Valter Trevisani
(Chairman of the Managing Board)

Luciano Cirinà
(Managing Director)

Gregor Pilgram
(Managing Director)

Luigi Lubelli
(Managing Director)

Martin Sturzlbaum
(Managing Director)

F. Other information

F.1 Profit appropriation

Provisions in the Articles of Association governing the appropriation of profit (Article 22):

- Distributions can only take place up to the amount of that part of the company's net assets which exceeds the aggregate of the issued capital and reserves which must be maintained by virtue of the law.
- Distribution of profits shall take place upon adoption of the Annual Accounts from which it appears that such distribution is allowed.

On 9 February 2017, the Company' shareholders adopted decision to distribute dividends of €285 million, paid out of the 2016 profit. For further details please refer to note D.3.3.

F.2 Independent auditor's report

Independent auditor's report

To: the board of directors of Generali CEE Holding B.V.

Report on the audit of the financial statements 2016 included in the annual report

Our opinion

We have audited the financial statements 2016 of Generali CEE Holding B.V., based in Amsterdam. The financial statements include the consolidated financial statements and the company financial statements.

In our opinion:

- The accompanying consolidated financial statements give a true and fair view of the financial position of Generali CEE Holding B.V. as at 31 December 2016, and of its result and its cash flows for 2016 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.
- The accompanying company financial statements give a true and fair view of the financial position of Generali CEE Holding B.V. as at 31 December 2016, and of its result for 2016 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The consolidated financial statements comprise:

- The consolidated statement of financial position as at 31 December 2016
- The following statements for 2016: the consolidated income statement, the consolidated statements of comprehensive income, changes in equity and cash flows
- The notes comprising a summary of the significant accounting policies and other explanatory information

The company financial statements comprise:

- The company balance sheet as at 31 December 2016
- The company profit and loss account for 2016
- The notes comprising a summary of the accounting policies and other explanatory information

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the "Our responsibilities for the audit of the financial statements" section of our report.

We are independent of Generali CEE Holding B.V. in accordance with the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Report on other information included in the annual report

In addition to the financial statements and our auditor’s report thereon, the annual report contains other information that consists of:

- The management board’s report including the letter from the Chairman and CEO, the economic and insurance market development and the holding’s management
- Other information pursuant to Part 9 of Book 2 of the Dutch Civil Code

Based on the following procedures performed, we conclude that the other information:

- Is consistent with the financial statements and does not contain material misstatements
- Contains the information as required by Part 9 of Book 2 of the Dutch Civil Code

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements. By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of the other information, including the management board’s report in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Description of responsibilities for the financial statements

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, management is responsible for assessing the company’s ability to continue as a going concern. Based on the financial reporting frameworks mentioned, management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. Management should disclose events and circumstances that may cast significant doubt on the company’s ability to continue as a going concern in the financial statements.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all material errors and fraud.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgment and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included e.g.,:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management
- Concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company to cease to continue as a going concern
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities. Decisive were the size and/or the risk profile of the group entities or operations. On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial information or specific items.

We communicate with management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit.

Amsterdam, 10 May 2017

Ernst & Young Accountants LLP

signed by J. Niewold

Annual Report 2016

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