Generali CEE Holding B.V.

Annual Report 2018

GENERALI

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Contents

Letter from the Chairman and CEO

Jaime Anchústegui

The year 2018 was an outstanding year full of challenges and changes. First of all there was the significant enlargement of our perimeter. Due to the new regional structure of the Generali Group, the Regional Office of Generali in Prague is in charge of the Austrian market as of 1 January 2018. Consequently the Regional Office was renamed as Austria, CEE & Russia Regional Office showing also that the responsibilities were extended to the Russian market. In our region we managed to strengthen our presence to become one of the top insurance companies of the entire area. Twelve countries belong to our scope under the new regional structure: Austria, Bulgaria, Croatia, Czech Republic, Hungary, Montenegro, Poland, Romania, Russia, Serbia, Slovakia and Slovenia.

Generali Group operations in the Austria, CEE & Russia Region are led by Generali CEE Holding and rank second in the Czech Republic, Hungary and Serbia, third in Austria, Slovakia and among the top ten in the other countries. In terms of volumes, main insurance markets are Austria, Czech Republic, Hungary, Poland and Slovakia. The contribution of the other markets has improved during the last year, resulting in an increase of the premium income on the total volume of the area.

Our business has shown very solid performance – in the region, we are the leading insurance group by technical profitability and in terms of net result we are the second biggest contributor to the Generali Group. In 2018 we also contributed significantly to the successful performance of the Group with an operating result worth of €776 million which is 16% of the Generali Group's result. The outstanding results were supported by the positive technical development in both P&C and Life insurance business. Austria, CEE & Russia Region reported the best combined ratio of the Group (88.1%) thanks to the fact that both Austria and CEE region achieved the best historical P&C technical performance. Life gross written premiums of the region increased by 1.0% reaching €2.6 billion and in the P&C segment we managed to grow by 6.2% to €3,889 million.

In the view of the new Group's Strategy Generali 2021, we took our opportunities for strategic acquisitions – Adriatic Slovenica and KD Funds in Slovenia, Concordia and Union Investment TFI in Poland and the strategic bancassurance partnership with UniCredit. These M&A transactions will strengthen our footprint in the region, especially the acquisition of Adriatic Slovenica, which moves the Generali Group into 2nd place in the Slovenian market. We also managed to go forward on the Russian market by opening our Representative Office in Moscow in October 2018 and strengthening our relationship with Ingosstrakh.

Luciano Cirinà

Our priorities for the next three years are very clear: We will fully focus on our client's needs as we want to become a life-time partner to customers, offering high-class, professional, tailored-made insurance and investment solutions. In our region we want to grow through all business lines by leveraging our agent networks and distribution agreements, supported by favourable market environment including economic growth and underpenetrated markets. We also continue to optimize our product mix by focusing on the non-motor P&C business. Important priority for us is to further automatize and digitalize our Operating model. Our distribution network represents our strong competitive advantage and we need to support our sales agents with the digital tools in order to further deliver high level of services to our customers. Therefore we maintain our focus on investment into digital capabilities through modernization of our IT infrastructure.

Generali CEE Holding and its subsidiaries are fully aware of the importance of sustainability and therefore we strive to integrate it into our daily business. We pay special attention to topics such as Climate change, Responsible investment and We live the communities. The Human Safety Net initiative – a global humanitarian movement aiming to empower disadvantaged members of our society – was activated in seven countries of our region in 2018 and the rest of the countries will join The Human Safety Net family in 2019.

We are looking forward to the new challenges ahead of us in order to reach our business targets. We have paved our way based on the individual support of our employees and partners. With their contribution we feel very confident and positive in our future journey.

Jaime Anchústegui
Chairman, Generali CEE Holding B.V.
CEO International, Generali Group

Luciano Cirinà
Austria, CEE & Russia Regional Officer
CEO of Generali CEE Holding B.V

Economic and Insurance Market Development

GENERAL ECONOMIC SITUATION IN 2018

Global economic growth decelerated in 2018. The slowdown was driven by most of the key regions of the global economy, including the Eurozone or China. The U.S. economy represented a few major exceptions with stronger GDP growth. The global activity was affected by the growing tensions in the international trade, by slower growth or political uncertainties in some of the key Emerging Markets economies and by political risks including Brexit. Growth in the Eurozone was hit also by new regulation in car industry and by sharp swings in the weather. On a positive side, the labour market situation has been improving. The Eurozone full-year 2018 GDP growth decelerated from 2.4% to 1.8%.

The CEE region maintained a very solid performance and GDP growth has actually accelerated in many cases. The regional GDP growth is shielded by strong domestic demand, which helped the region to resist the worsening external conditions. Household consumption receives support from the labour market developments (strong wage growth, declining unemployment), while investment expenditures are driven by the business cycle (firms have to invest in order to maintain their production capacity) as well as by inflow of funds from the EU budget. Exports remained solid even in the late 2018 but their future performance will be affected by developments in the global economy and international trade.

The strong GDP growth and the related capacity utilization lead to growing price pressures, although inflation picture was still mixed across the region in 2018 with different implications for monetary policy. Some of the regional central banks were tightening their policy: particularly the Czech National Bank (CNB) and in first half of 2018 also the central bank in Romania. Macroeconomic balances (public finance, balance of payments' current account) remained solid in most of the countries.

The Czech GDP growth decelerated from 4.5% to 3.0% in 2018. The slowdown was caused by weaker performance of exports and inventories, while domestic demand remained strong or even accelerated, particularly investment expenditure. The Czech economy however still operated above its potential, which led to increase in underlying inflationary pressures. For 2019 we expect some further moderation of GDP growth due to slower growth of exports and most likely also of investment expenditure.

The Polish full-year 2018 GDP growth exceeded 5%. Similarly to several other countries from the region, the growth was driven mainly by domestic demand (household consumption, investment expenditure). The less constructive external conditions should drive the Polish economy towards a weaker growth in 2019, to area slightly above 3.5%. However, if the government introduces fiscal stimulus presented in 1Q 2019, the full-year 2019 GDP growth may approach 4%.

The Hungarian economy was a positive surprise in terms of a clear acceleration of GDP growth in 2018, to 4.9% over the whole year. The acceleration was driven by domestic demand (investment, household consumption). Consumption has been a key contributor already for several years, being supported by the labour market developments and also by government's social/pro-family policies. Still, GDP growth should decelerate in 2019 due to both household consumption and investment expenditure.

The growth of Slovak economy surpassed 4% in 2018 thanks to the strong domestic demand. The contribution of net exports was low, as the launch of the JLR (Jaguar Land Rover) factory and strong demand boosted imports. The "JLR factory" effect will boost growth also in 2019, but the external headwinds are building up and will dampen growth dynamic during the year and in 2020.

Romania's GDP slowed substantially but from unsustainable level and the growth pace at 4.1% in 2018 is still solid. However, the structure remains rather weak due to high contribution from household consumption, which continues to be supported by series of fiscal stimuli. It led to deepening of macroeconomic imbalances, such as broadening of the current account deficit and more importantly worsening of the fiscal position. The government pushed sector taxes which had negative impact on Romanian assets in general so the government promised to revise it.

In Bulgaria, GDP growth decelerated to 3.1% in 2018 after weaker exports related to external factors. However, strong private consumption on a back of supportive labour market conditions and strong creation of fixed investments implies relatively balanced structure of the growth. The country also initiated application process for the Eurozone's membership but low income level could leads to delay in the actual membership.

Serbia enjoyed strong economic growth of 4.3% in 2018. The growth structure remains broad based but worth mentioning is recovery of household consumption and particularly strong investments inflow as attractiveness of the country among investors is rising. However the record GDP growth was also influenced by strong output from less predictable agriculture and signs of slowdown are already visible.

Croatian GDP slowed to 2.6% in 2018 but series of tax adjustments, including gradual tax cuts is positive for consumption. Fiscal policy also remains prudent although public debt level is still quite high (above 70% of GDP). Improved fiscal position and stable growth trajectory resulted to improved rating assessment, and the country should be rated as investment grade soon.

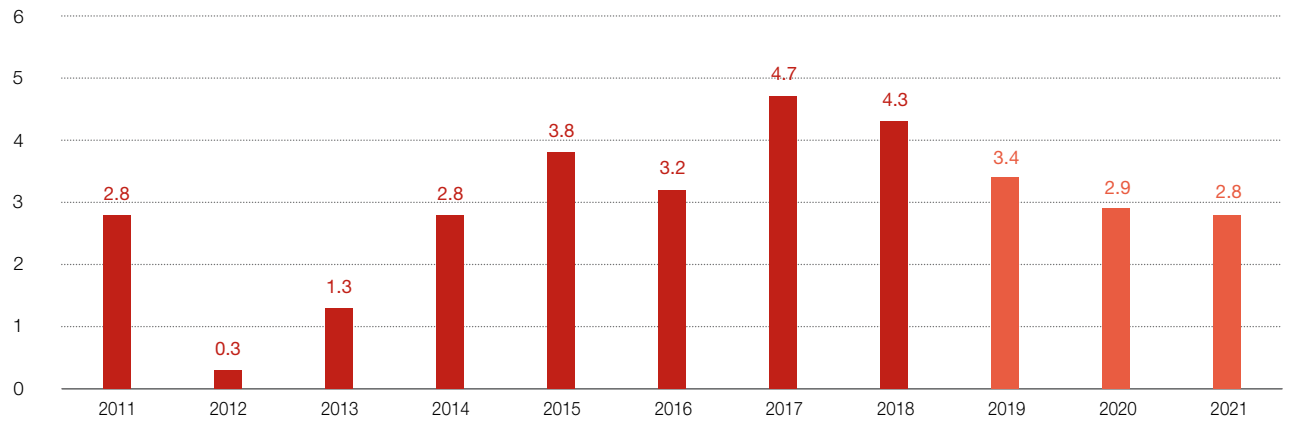
In Montenegro, GDP remains strong and above 4%, driven by infrastructure investments. However, a slowdown is expected after the key project will be accomplished. On the other hand, it will ease pressure on the budget position.

Slovenia recorded robust growth of 4.5% in 2018 that was driven by both strong domestic demand and net exports despite the slowdown among major trade partners. In 2019, the GDP growth is set to decline due to the weakening of external demand and should become more domestic driven.

ECONOMIC CONDITIONS

All in all, GDP growth in the CEE region (in that area where Generali CEE Holding is present) provided a very solid picture in 2018. The economic growth is expected to decelerate in coming years but should still remain solid. The expected deceleration will result from a weaker growth abroad but also from the fact that many economies of the region are already operating above their potential and the current robust pace of growth is not sustainable in the long term.

Real GDP growth in CEE region (%)

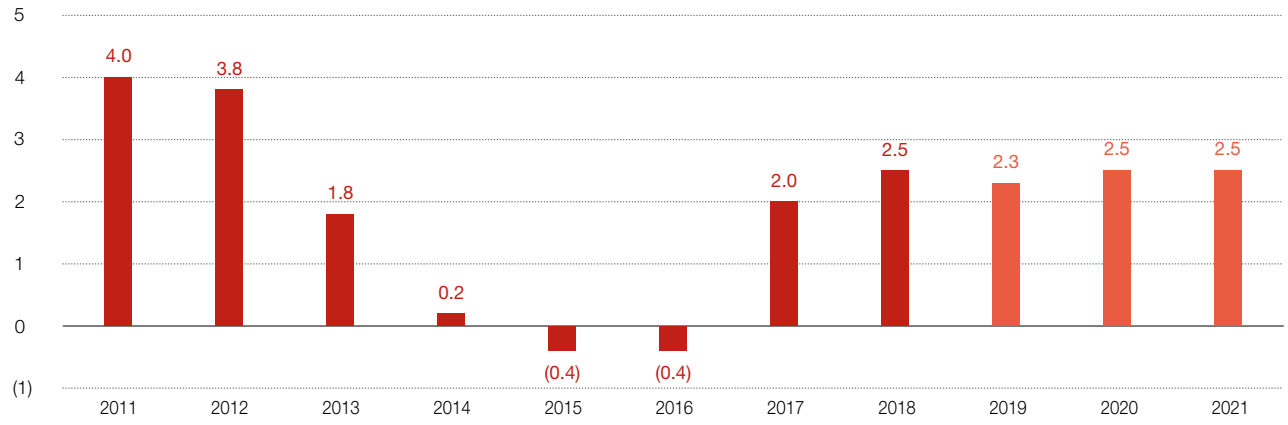


Note: Countries included are Bulgaria, Croatia, Czech Republic, Hungary, Montenegro, Poland, Romania, Serbia, Slovakia, Slovenia

Real GDP growth (%)	2016	2017	2018	2019f	2020f	2021f
CEE overall	3.2	4.7	4.3	3.4	2.9	2.8
Bulgaria	3.9	3.8	3.1	3.0	2.8	2.6
Croatia	3.5	2.9	2.6	2.5	2.3	2.2
Czech Republic	2.4	4.5	3.0	2.7	2.7	2.7
Hungary	2.3	4.4	4.9	3.7	3.0	2.8
Montenegro	2.9	4.7	4.2	2.8	3.0	2.5
Poland	3.0	4.8	5.1	3.6	3.0	3.0
Romania	4.8	7.0	4.1	3.5	3.0	2.8
Serbia	3.3	2.0	4.3	3.3	3.5	3.0
Slovakia	3.2	3.2	4.1	4.0	3.0	2.5
Slovenia	3.1	4.9	4.5	3.2	2.5	2.0

Inflation picture is somewhat mixed across the region. In some of the countries it led to monetary policy response, i.e. to interest rate hikes (the Czech Republic, Romania), while for example Poland continues to report inflation at low levels and well below the target, which allows the Polish central bank to keep its policy stance unchanged. The CNB was the leader in monetary policy tightening among advanced economies in 2018, as it delivered five interest rate hikes during the year. Romania launched monetary policy tightening cycle in the first half of 2018 with the economy showing clear signals of overheating but the last interest rate hike was delivered in May 2018 and rates stood on hold since then.

Inflation in CEE region (%)



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

Inflation (%)	2016	2017	2018	2019f	2020f	2021f
CEE overall	(0.4)	2.0	2.5	2.3	2.5	2.5
Bulgaria	(0.8)	2.1	2.8	3.0	2.8	2.6
Croatia	(1.1)	1.1	1.5	1.2	1.5	1.8
Czech Republic	0.7	2.5	2.1	2.3	2.0	1.9
Hungary	0.4	2.4	2.9	3.1	3.0	3.0
Montenegro	0.1	2.8	2.6	2.3	1.9	2.0
Poland	(0.7)	2.0	1.7	1.8	2.5	2.6
Romania	(1.6)	1.3	4.6	3.3	3.0	3.0
Serbia	1.2	3.0	2.0	2.6	3.0	3.0
Slovakia	(0.5)	1.4	2.5	2.4	2.5	2.0
Slovenia	(0.1)	1.6	1.9	1.5	2.0	1.8

Public finance developments (the fiscal balance) remained quite favourable in most countries of the region, to a large extend thanks to the business cycle (strong economic growth) and also due to the effort to improve tax collection. Romania is an exception, as the generous fiscal policy lead to further worsening of the public finance position. Public indebtedness remains quite stabilized in the region and in most cases it even declines.

The CEE currencies were hit by global factors during 2018, including the growing trade protectionism, weaker growth in the Eurozone, the EUR–USD exchange rate development or political risks related to both Emerging Markets and the EU. The external factors had negative impact for most of 2018. Still, the Czech crown (the main operating currency of Generali CEE Holding) managed to firm by 2.6% against the euro over the whole year 2018. Performance of other currencies in the region was mixed, with the Polish zloty being almost flat (the full-year 2018 average vs. full-year 2017 average), while the Hungarian forint lost more than 3% against the euro and the Romanian leu weakened by almost 2%.

CEE INSURANCE MARKET DEVELOPMENT

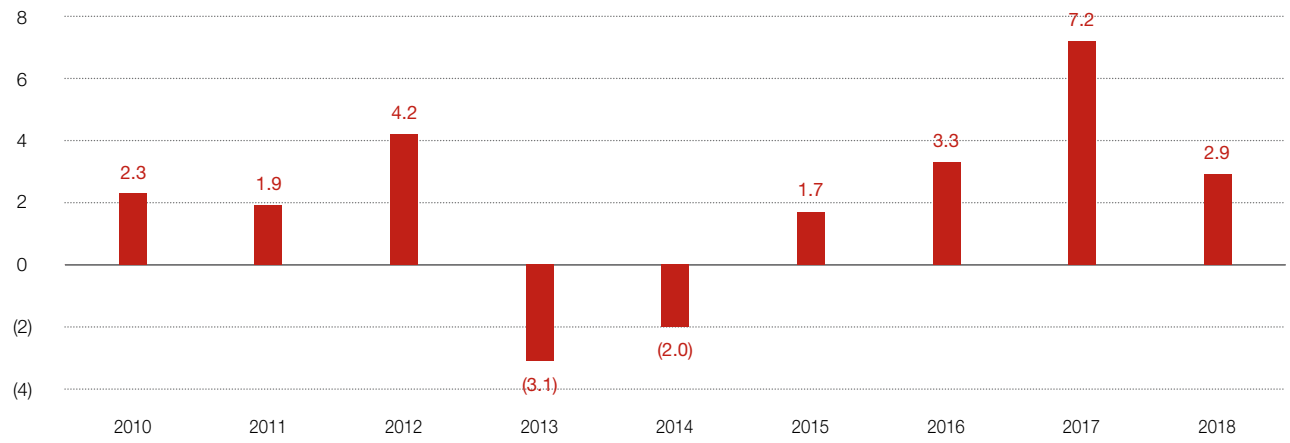
Over last nine years insurance markets in CEE region had been showing steady development. During this period there were only two years of reaching negative rate. After significantly accelerating increase from previous year, the growth returned to stable pace of growth.

In 2018 CEE market gained solid overall growth with positive contribution of almost all CEE markets thanks to fair macroeconomic conditions. Accordingly Non-Life segment sustained positive development from last years. Considering Life segment, slightly positive trend from previous year has been overturned and market turned back to drop of premiums.

The highest growth on CEE markets in 2018 was recognized mainly on smaller Balkan markets. However, also other markets have been following growing trend. Both, Non-Life Motor and Non-Motor insurance have been developing fairly with all countries reporting growth. Significant growth on Bulgarian market is fully driven by Non-Life. Exceptional growth reported in MTPL has been caused by increase of average premium due to regulatory changes, in particular additional contribution to the National bureau of Bulgarian motor insurers. Growth in average premium together with increasing number of policies sold positively affected also development of Non-Life premiums on Croatian market.

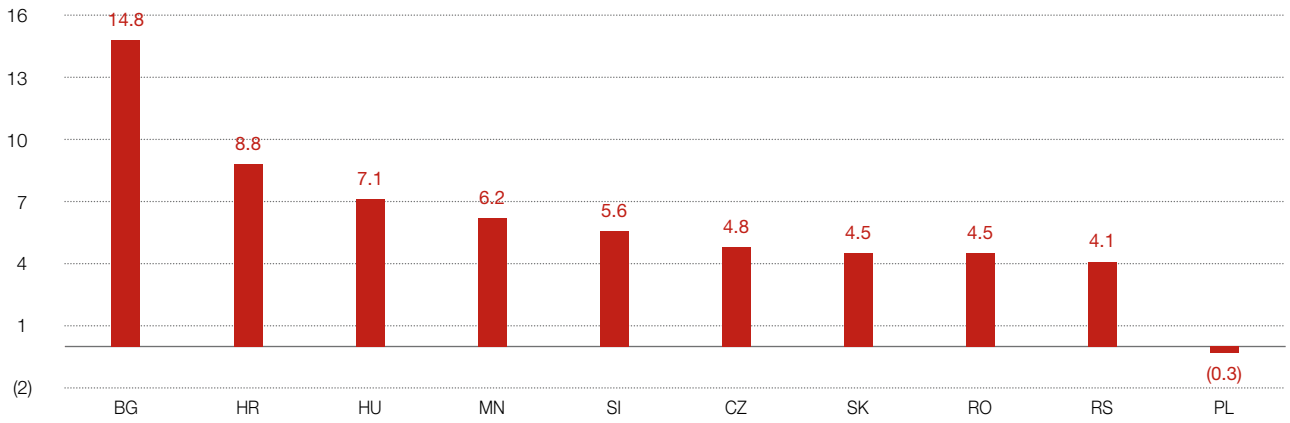
Moreover, solid growth has been recognized in Croatia also in case of Life premiums. In contrary, lower average premium caused MTPL to fall and eventually weakened the growth in Romania. Slovakia continue to face negative conditions in terms of new levy on non-life insurance premium, which resulted in re-pricing in tariffs. Although insurance market in the Czech Republic remained on positive track, Single Life premiums still persisted to fall already fourth year in the row with no sign of improvement. Heavy drops of Single Life premiums on Polish market predominated favour trend in Non-Life, especially in Casco and Non-Motor, and caused Poland to represent only decreasing CEE market.

CEE insurance market growth (%)



All in all the entire CEE insurance market reached €33.6 billion in 2018 (considering the countries with the presence of Generali CEE Holding) of which Non-Life segment represents 65% and Life segment represents 35%.

Insurance market growth in 2018 (%)

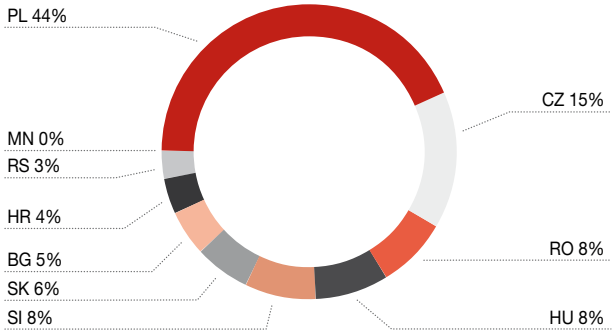


Note: Bulgaria (BG), Croatia (HR), Czech republic (CZ), Hungary (HU), Montenegro (MN), Poland (PL), Romania (RO), Serbia (RS), Slovak republic (SK), Slovenia (SI)

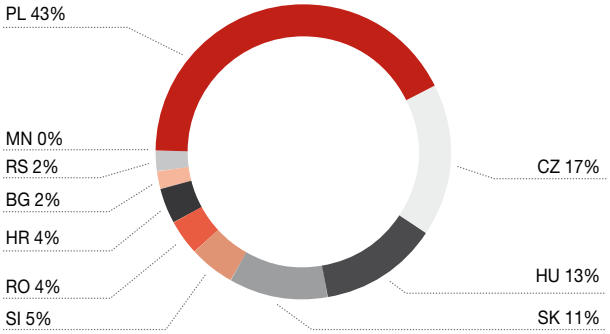
CEE INSURANCE MARKET DEVELOPMENT BY SEGMENT

CEE insurance market is economically dominated by Central European countries. The biggest market is Poland which represents 44% of Non-Life premium volume and 43% of the Life premium volume.

CEE Non-life market structure (2018)



CEE Life market structure (2018)



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

Non-Life market is keeping solid growth (+7.8%) which is reflecting stable positive evolution related to all countries. In general, Motor insurance is on positive rebound trend since 2014 when five years lasting continuous decrease in premiums stopped. Motor premiums have been keeping growth ever since, mostly as a result of increasing prices in several countries together with positive trend in new car sales. Trend of MTPL average premium is connected to regulatory changes, currently most significantly in Bulgaria and Slovakia. However, the revision of tariffs can be observed also on other markets. In Poland, MTPL profitability has grown notably for the second consecutive year and the emerging pressure on prices caused average premium to decrease. Another market with average premium decreasing constantly over the year has been Romania. Non-Motor segment (Property, Commercial, Accident, Health and other insurance) grew fairly in all of the CEE countries with even accelerating pace of growth over the last three years.

After the signs of recovery from previous year, Life premiums in CEE countries returned to decrease (-5.1%). Unstable development of Life Single is highly influenced by volatility in Single Unit-Linked sales in Poland, where market has been strongly affected by decreasing demand on deposit products and tightened regulatory environment. The similar trend could have been observed on Slovakian market, where Single Life premium also started to fall again after favourable previous year. In the Czech Republic, Life market is keeping slight growth, which has been initiated during last year after three years of ongoing decrease in premiums. The overturned trend is fully attributable to improved development of Life Regular premiums. Increase of Life premiums on Romanian market became much weaker due to decreasing Single Unit-Linked sales and also higher baseline of premium in comparison to previous year. Among markets with stable positive Life development over the last three years are Hungary, Slovenia and Montenegro.

In general, the situation in CEE region has been stabilized on positive track in terms of improved economic indicators, positive trend in car sales and another factors with beneficiary effect on growing total premiums on all CEE markets. The driver of the growth is mainly represented by Non-Life while Life segment continues to follow negative rates driven by reduction of Single Life business. Looking ahead, given robust and sustainable economic background, insurance markets in the CEE region are expected to continue in a stable development and to achieve favourable growth rates also in 2019.

The Holding's Management

BOARD OF DIRECTORS

Jaime Anchústegui Melgarejo
appointed on 26 November 2018)

Cristiano Borean
(appointed on 26 November 2018)

Heike Ottemann-Toyza
(appointed on 26 November 2018)

Luciano Cirinà

Gregor Pilgram

Luigi Lubelli
(until 31 August 2018)

Martin Sturzlbaum
(until 15 November 2018)

EXECUTIVE COMMITTEE

Luciano Cirinà
Chief Executive Officer

Josef Beneš
Chief Investment Officer

Gianluca Colocci
Mergers & Acquisitions

László Ilics
Chief Distribution Officer

Walter Kupec
Chief Insurance Officer

Gregor Pilgram
Chief Financial Officer

Thomas Plank
Chief Operations Officer

Miroslav Singer
Institutional Affairs & Economics

Marcela Středová
Chief Risk Officer

Luciano Cirinà

Chief Executive Officer

Luciano Cirinà has been based in Prague since March 2013. He is currently responsible of the Group's business in the Austria, CEE & Russia Region. Luciano is 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. He is currently Regional CIO for the Austria, CEE & Russia Region 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 graduated from the Columbia University New York.

Walter Kupec

Walter Kupec was appointed as Chief Insurance Officer of Generali CEE Holding B.V. in January 2018. His career in the insurance industry began in 1980 with Zurich in Vienna as an Underwriter and later as Chief Underwriting Officer Austria, Head of Reinsurance and Risk Engineering. He was appointed as Member of Zurich's Board in 2004. Walter joined Generali Austria in 2007 as Member of the Board. He is currently Chief Insurance Officer for P&C of Generali Versicherung. On 1 January 2018, he became a member of the Executive Committee of Generali CEE Holding as Chief Insurance Officer for the Austria, CEE & Russia Region keeping his roles in Austria.

Gianluca Colocci

Gianluca Colocci is a member of the Executive Committee of Generali CEE Holding with responsibility for Mergers & Acquisitions. He has been appointed as Group Head of Mergers & Acquisitions in June, 2014. He started his professional career as Management Consultant in the financial services industry within a worldwide consultancy firm. He joined Generali Group in 1995 as 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.

László Ilics

László Ilics was appointed as Chief Distribution Officer of Generali CEE Holding B.V. in January 2018 keeping his roles in Hungary. He is an internationally experienced manager especially with technical expertise in non-life insurance but also in marketing and distribution. As Chief Distribution Officer he is responsible for coordinating all the distribution issues. He is Board Member of Generali Hungary and Chief Insurance and Distribution Officer. A few years ago he supported the Group in the Czech Republic as Chief Non-life Insurance Officer.

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 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.

Miroslav Singer

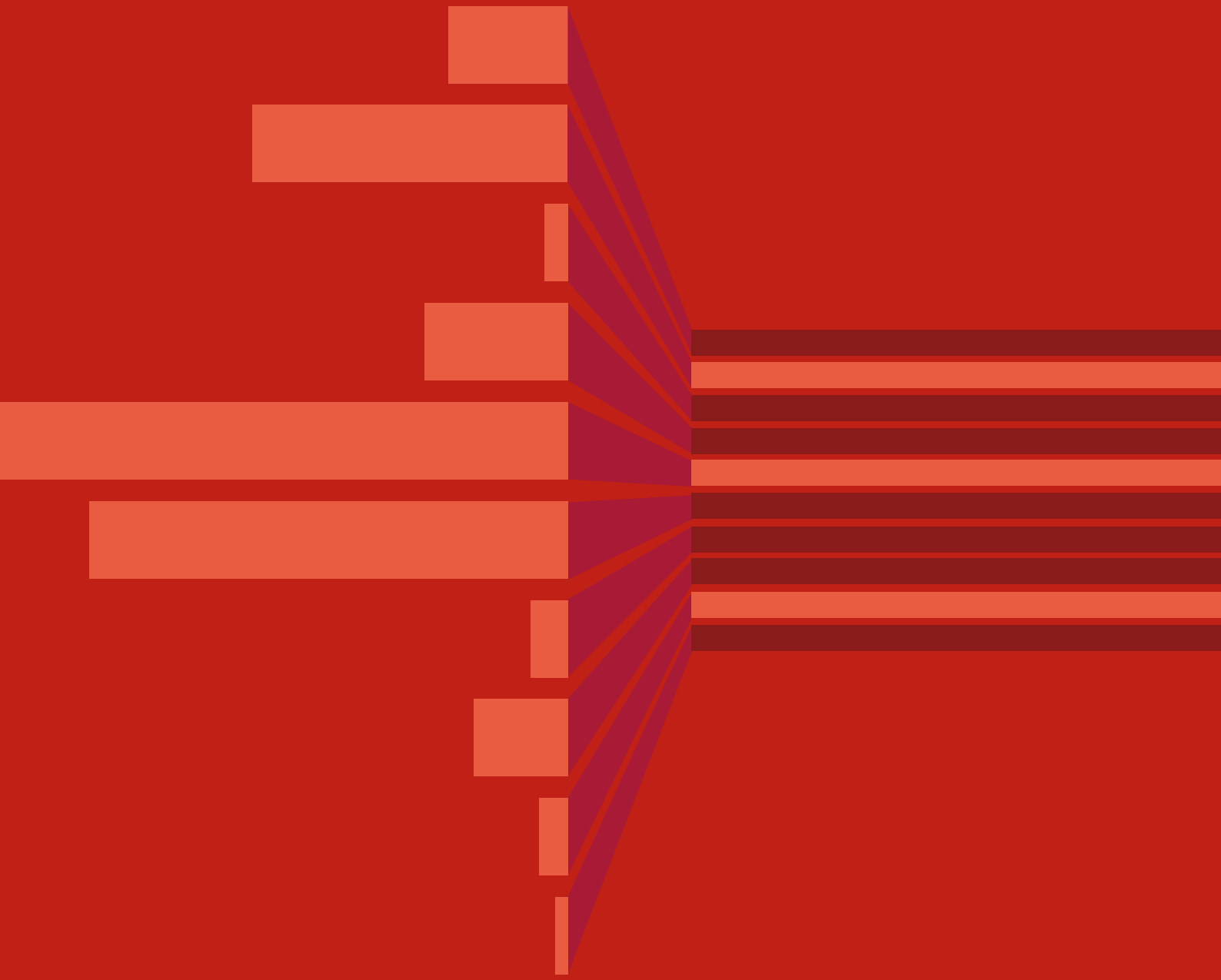
Miroslav Singer was appointed as new member the Executive Committee of Generali CEE Holding B.V as of 1 January 2018. Miroslav Singer joined Generali CEE Holding in January 2017 as Director for Institutional Affairs and Chief Economist of Generali CEE Holding. He became also Chairman of the Supervisory Board of Česká pojišťovna. Miroslav served as Governor of the Czech National Bank (CNB) from 2010 till 2016 and from 2005 till 2010, he was a CNB Board Member and Vice Governor. Prior to this, he worked as a deputy director, researcher and lecturer at the Economic Institute of the Charles University in Prague and the Center for Economic Research and Graduate Education of the Czech Academy of Science between 1991 and 1995. He also held management posts at the financial and industrial group Expandia, later becoming its CEO in 1995, until 2001. From 2001 until 2005 Miroslav Singer was a director at PriceWaterhouseCoopers. After graduating in mathematical methods in economics at University of Economics, he completed his postgraduate thesis at the University of Pittsburgh and was awarded a PhD in 1995.

Thomas Plank

Thomas Plank was appointed as Chief Operations Officer of Generali CEE Holding B.V. in January 2018. He is COO and Member of the Extended Board of Generali Austria. He joined the Group in 2008 after working at Zurich in Vienna as Chief Information Officer from 1998. He began his career as software developer and project manager with IT companies. On 1 January 2018, he became a member of the Executive Committee of Generali CEE Holding as Chief Operations Officer for the Austria, CEE & Russia Region keeping his roles in Austria. After graduating in business informatics he completed his postgraduate thesis at the University of Vienna and was awarded a PhD in 1994.

Marcela Středová

Marcela Středová was appointed Chief Risk Officer of Generali CEE Holding and member of the Executive Committee in 2017. Prior to this appointment, she had worked as Chief Actuary of Generali CEE Holding as well as of Česká pojišťovna and Generali Pojišťovna since 2013. She started her career in the insurance industry in 2000 and joined our Group company Česká pojišťovna as actuary in 2002. Marcela Středová studied at the Faculty of Mathematics and Physics at Charles University in Prague (doctorate exam: Specialization: Econometrics, Insurance) and holds an Executive MBA degree of the US Business School Prague.



Financial Section

Contents

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 11 countries – Bulgaria, Croatia, the Czech Republic, Hungary, Montenegro, Poland, Romania, Russia, Serbia, Slovakia and Slovenia.

The Group's companies in these countries take care of more than 12 million clients and hold total assets of €19 billion. Generali CEE Holding is a key part of the Generali Group, an independent Italian insurance group, with a strong international presence. Established in 1831, it is one of the largest global insurance providers, present in 50 countries and with 2018 total premium income of more than €66 billion. With nearly 71,000 employees serving 61 million customers, the Group has a leading position in Western Europe and an increasingly significant presence in the markets of Central and Eastern Europe as well as in Asia.

In 2018 the Generali Group's operating result reached €4,857 million, up 3.0%. Operating result increased thanks to improvements in all Group business segments.

Generali CEE Holding business has shown very solid performance – in CEE & Russia Region, and is the best insurance group by technical profitability and in terms of net result is the second biggest contributor to the Generali Group. In 2018 contributed significantly also to the successful performance of the Group with an operating result worth of €540 million which is 11% of the Generali Group's result. The outstanding results were supported by the positive technical development in both P&C and Life business. CEE & Russia Region reported combined ratio of the Group (86.2%). Life gross written premiums of the region reached €1,031 million and in the P&C segment managed to reached €2,262 million.

Generali CEE Holding oversees a business segment that is now the Generali Group's fourth largest market, and its importance is likely to grow. The organizational unit of Generali CEE Holding is based in Prague with 113 employees from 14 nationalities.

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 P&C segment its portfolio ranges from mass market coverage such as motor, home, accident & health, to sophisticated commercial and industrial risk coverage. The ambition of the Group is to be a life-time partner to its customers, offering innovative, personalized solutions thanks to its unmatched distribution network. Generali will lead the European insurance market for individuals, professionals and SMEs, while building a focused, international Asset Management platform and pursuing opportunities in high potential markets. 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 region.

Generali CEE Holding and its companies employ more than 11,000 people (of which more than 2,200 salaried sales professionals) and cooperation with more than 10,000 tied agents.

GROUP HIGHLIGHTS

Gross Written Premium

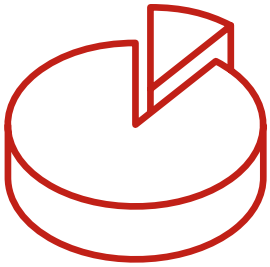
€3,293 million

31% Life segment

69 % P&C segment

Operating result

€540 million



of which is

11%

of the Generali Group's operating result

Net profit

(+8%)

€358 million

Combined ratio

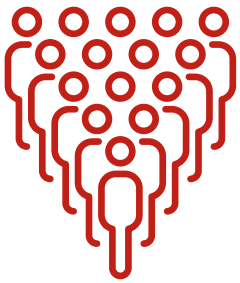
86.2%

Our people

11,772

Our clients

12 million



B. FINANCIAL PERFORMANCE

In 2018, Generali CEE Holding maintained its financial position and further improved its profitability. At the end of 2018, the consolidated shareholder's equity attributable to Generali CEE Holding amounted to €4.8 billion (2017: €4.9 billion) and total assets amounted to €19.1 billion.

The consolidated profit of the Group attributable to the equity holders of the parent amounted to €358 million, overachieving the previous year result by €28 million. Operating result grew by €55 million to €540 million in 2018 which is above planned targets.

P&C gross written premiums went up by 7.4% in 2018 (an increase by €156 million) and reached €2,262 million. The growth is attributable mainly to Motor insurance lines in the Czech Republic (+ €61 million), Hungary (+ €12 million) and Slovakia (+ €8 million) stemming from intensified cooperation with car retailers and leasing providers. Also, macroeconomic situation and consequent increase in number of new cars sales contributed to favorable development of premiums in this segment.

Generali CEE Holding further enhanced its technical profitability succeeding to decrease combined ratio to 86.2% in 2018.

Life insurance premiums amounted to €1,031 million. Operating result of life insurance segment amounted to €242 million, increasing by €12 million compared to 2017. Low interest rate environment was still pushing down the interest income from fixed income instruments in 2018.

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.

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

more than
450
employees

P&C market share
8.1%

gross written premium
€ 86.7 million

145
branches
and 15 specialized
claims centers

BULGARIA

Generali Bulgaria
With more than 450 employees in Bulgaria (including Generali Insurance AD, Generali Zakrila Medical and Dental Centre and GP Reinsurance) and the 8.1% P&C market share Generali Bulgaria is one of the major international insurers in Bulgaria.

Its operations include Generali Insurance AD (P&C insurance) and Generali Zakrila Medical and Dental Centre – an outpatient medical facility.

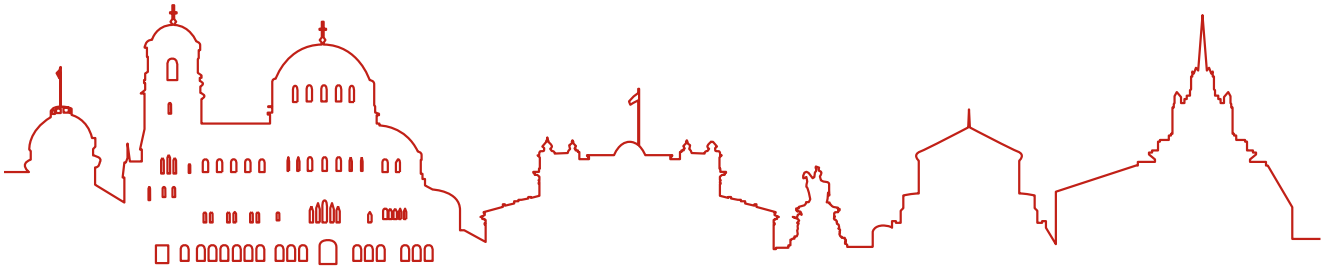
The company has 145 offices and client desks throughout the country. For better service of the liquidation process and convenience for the clients, the company has 15 specialized claims centres in the bigger cities of the country.

The insurance products of Generali Bulgaria are offered by 580 agents and 271 brokers.

In 2018, Generali Bulgaria is taking 7th position on the insurance market with gross written premium €86.7 million.

The company is taking leading position in Accident insurance with 26% market share, Property insurance with 15% market share and Agriculture insurance with 25% market share. Second position on Travel insurance with 15% market share and Technical insurance with 18% market share. Also 22% market share on Health insurance

GP Reinsurance
GP Reinsurance EAD is a captive reinsurer based in Sofia, fully owned by Generali CEE Holding B.V. It provides P&C reinsurance solutions within the Group. In October 2017 the company acquired a license also for life reinsurance. The activity of GP Reinsurance EAD in 2018 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 activities. The Company provides reinsurance services to companies from all countries of Generali CEE Holding. GP Reinsurance recorded gross written premium in P&C and life combined of €885 million and profit after tax amounted to €140 million in 2018.



650
employees

insurance company with the highest growth rates on the market
7.3%

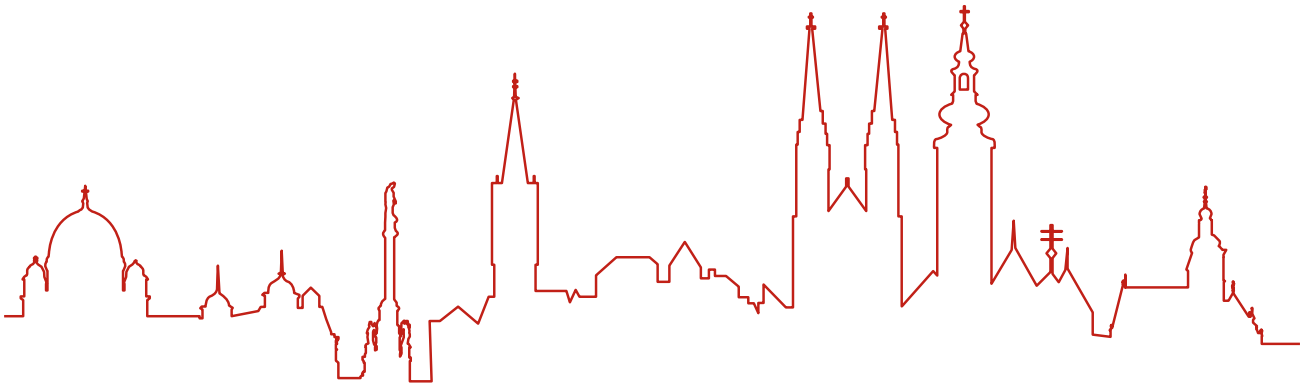
gross written premium
€ 97 million

79
branches

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 10th consecutive year, despite the challenging economic environment. By creating a new market perspectives on its own, Generali osiguranje gives a special importance to the innovation and a competitiveness of its products, as well as to the development of the distribution network – from its own and exclusive network as a vital sales functions, to the successful multi-channel partnerships with banks, brokers and agencies – of which all are conditions for a further market step up.

Dedicated to the continuity of the trend of a constant development and a growth, Generali osiguranje in 2018 achieved significant results, especially in the segment of the supplementary health insurance, positioning itself as the insurer that provides to its clients a desired level of health care, while a positive response from their side gives additional confidence in starting the new successful chapter. Further to it, 650 employees gathered in the network of 79 offices throughout the country are taking care of the company's clients. Generali gained a market share of 7.3% which is result of growth, both in Life and P&C segments. Due to this, gross written premiums recorded a total increase by 26.1% to €97 million.



Česká pojišťovna – one of the most significant on the Czech market

more than
3,400
employees

total market share
21.5%

more than
3 million
clients

gross written premium exceeded
€ 1 billion

CZECH REPUBLIC

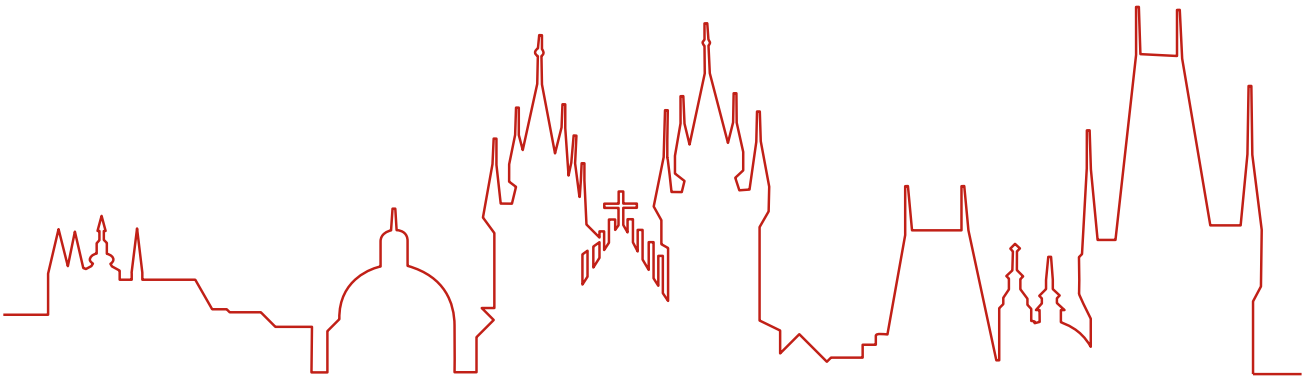
Česká pojišťovna
Česká pojišťovna is one the most significant insurers on the Czech market. As a composite insurance company with a wide range of both Life and P&C insurance products the company's insurance portfolio includes almost 7 million policies. In 2018, the total market share of Česká pojišťovna measured the methodology of the Czech Insurers Association (ČAP) reached 21,5%, in Life insurance it was 17,1% and in P&C insurance 23,7%. The position of Česká pojišťovna as the strong and traditional insurer was confirmed by the company's financial results for the last year, when premium written exceeded €1 billion. Gross written premiums in P&C insurance amounted to €784 million in 2018. Premiums written in Life insurance reached €291 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. The volume of client savings under management reached €4.3 billion at the end of 2018. The pension company cares for more than 1.1 million clients, of which a quarter of a million receive a pension contribution from their employer.

Generali Investments CEE
Generali Investments CEE offers comprehensive products and services to individual investors and institutions in the area of collective investment and asset management. The company manages Czech mutual funds denominated in the Czech koruna and an Irish umbrella of investment funds offered in CZK, EUR and PLN. The major institutional clients include insurance, reinsurance companies, and pension funds within the Generali CEE Holding Group. 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 €11.6 billion (as at 31 December 2018), representing a market share of 21.8%.

Generali Pojišťovna a.s.
Generali Pojišťovna is the sixth largest insurance company on the Czech market with a market share of 6.9%. Total GWP reached €358 million thanks to the following contributions by segment: €115 million in Life and €243 million in the P&C segment.



1,430
employees

market share
14.8%

908 thousand
clients

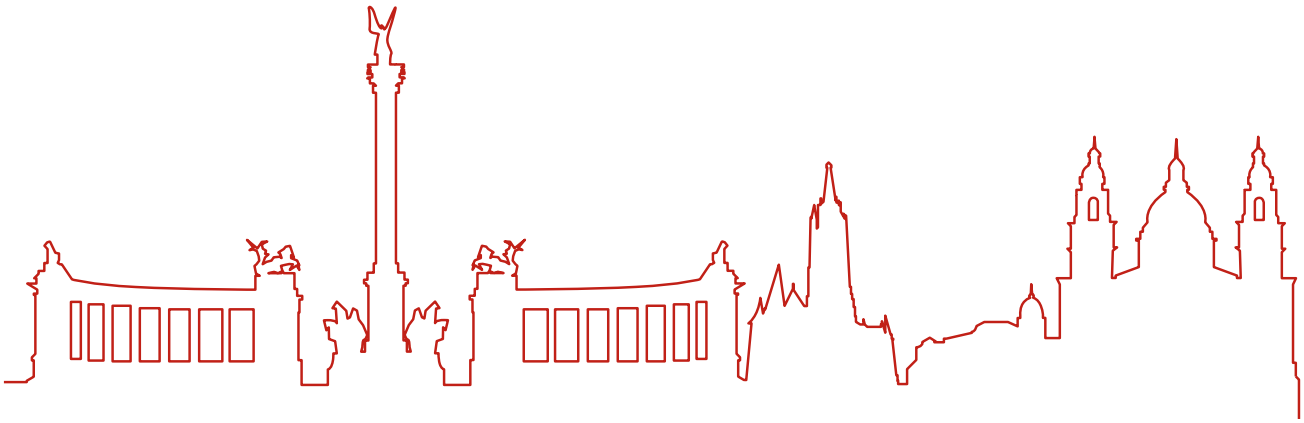
gross written
premium increased to
€ 464 million

HUNGARY

Generali Biztosító
With a market share of 14.8% in 2018 based on total direct GWP from the Hungarian National Bank (MNB) statistics, the Hungarian Generali Group – including Generali Biztosító, Genertel and European Travel Insurer – is number 2 on the Hungarian insurance market. Due to its innovative business attitude and responsible financial management, the company boasts the trust of more than 908,000 clients. Generali operates with approximately 1,430 employees and around 1,400 tied agents.

The Hungarian Generali Group confirmed its stability while achieving growth both in Life and in the P&C insurance segments.

The group recorded 7.1% growth of gross written premiums amounting to €464 million in total. In the P&C segment GWP amounted to €323 million (+10.0%) and in Life to €141 million (+0.9%, regular premium: +1.5%, single: -3.1%).



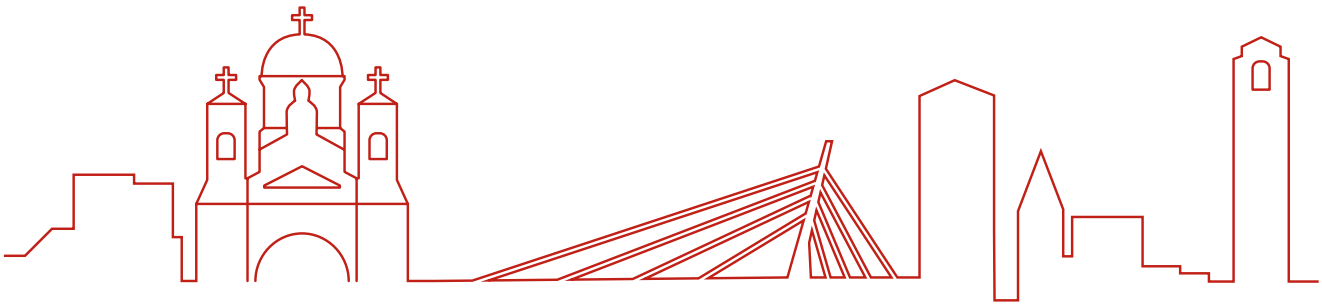
126
employees

P&C market share
15.4%

gross written premium
€ 11.1 million

MONTENEGRO

Generali Osiguranje Montenegro
Generali Osiguranje Montenegro is the 4rd largest insurance company among P&C companies operating in Montenegro, with a full range of P&C insurance products including motor insurance, property, accident, travel, health and aviation. The company is offering its services with 126 employees and 66 agents at more than 73 points of sale throughout the country. In 2018, Generali's market share in P&C was 15.4% and the gross premiums written reached €11.1 million.



Generali Group is the 5th largest insurance group in Poland

1,600
employees

gross written premium
€ 633 million

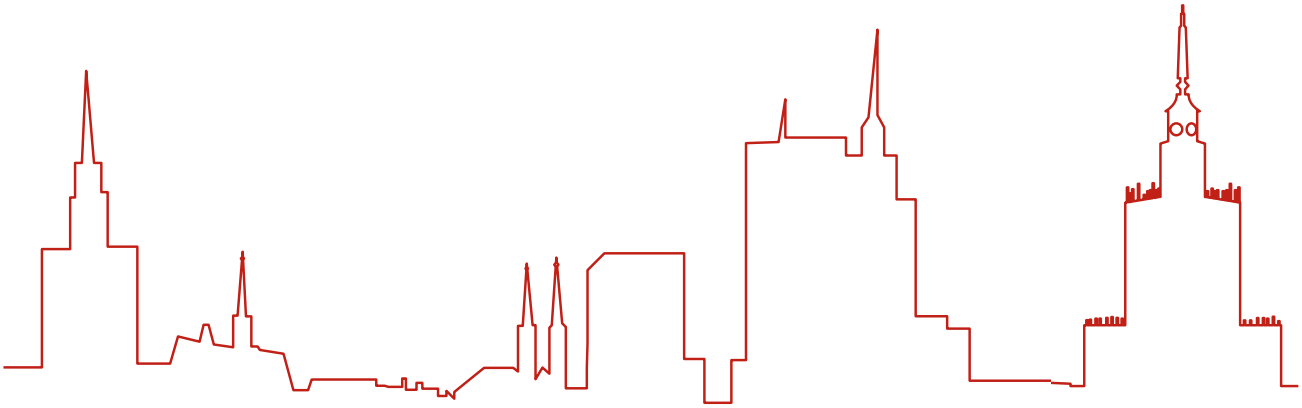
life insurance
€ 198 million

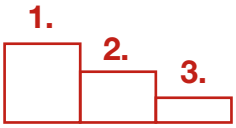
P&C
€ 435 million

POLAND

Generali a Generali Życie
Generali Group has been present in Poland since 1998. It provides insurance life, non-life and pension products to individuals and commercial entities. At the end of 2018 Generali acquired Concordia Polska (specialising in agriculture insurance) and Concordia Capital (life protection), which joined the group of existing 4 companies: Generali Towarzystwo Ubezpieczeń S.A., Generali Życie Towarzystwo Ubezpieczeń S.A., Generali Powszechne Towarzystwo Emerytalne S.A. Generali Finance Sp. z o.o. In 2018, thanks to the acquisition of Concordia Polska, Generali Group ranked 5th insurance group on the Polish market (a strong rise from 9th position in 2017). The acquisition of an asset management company: Union Investment is awaiting a regulatory approval. Generali Poland aims at long-term cooperation with clients by providing comprehensive protection of their assets at every stage of their lives.

Generali Poland reported €633 million of GWP in 2018 and was a working place for 1,600 employees. P&C Gross Written Premiums totaled €435 million, while Life insurance premiums amounted to €198 million. Generali Poland has successfully implemented the strategy of profitable growth and expansion in non-motor segments.





Leadership position in terms of profitability and underwriting efficiency

447
employees

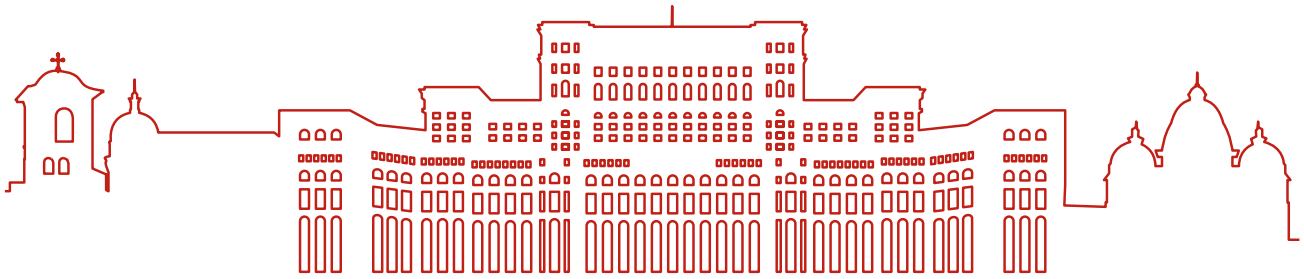
gross written premium
€ 137 million

ROMANIA

Generali Rumunsko Asigurare Reasigurare
With a long history on the local market, between 1835 and 1948, the Generali Group returned to Romania in 1993 with a greenfield operation and is currently one of the top three most trusted insurers in the country.

Benefitting from the strong international background and the expertise of the group and with the help of its 447 employees and more than 1,200 sales representatives, Generali Romania ranks among the top 10 local insurance companies in terms of GWP, with €137 million in 2018, and holds a leadership position in terms of profitability and underwriting efficiency.

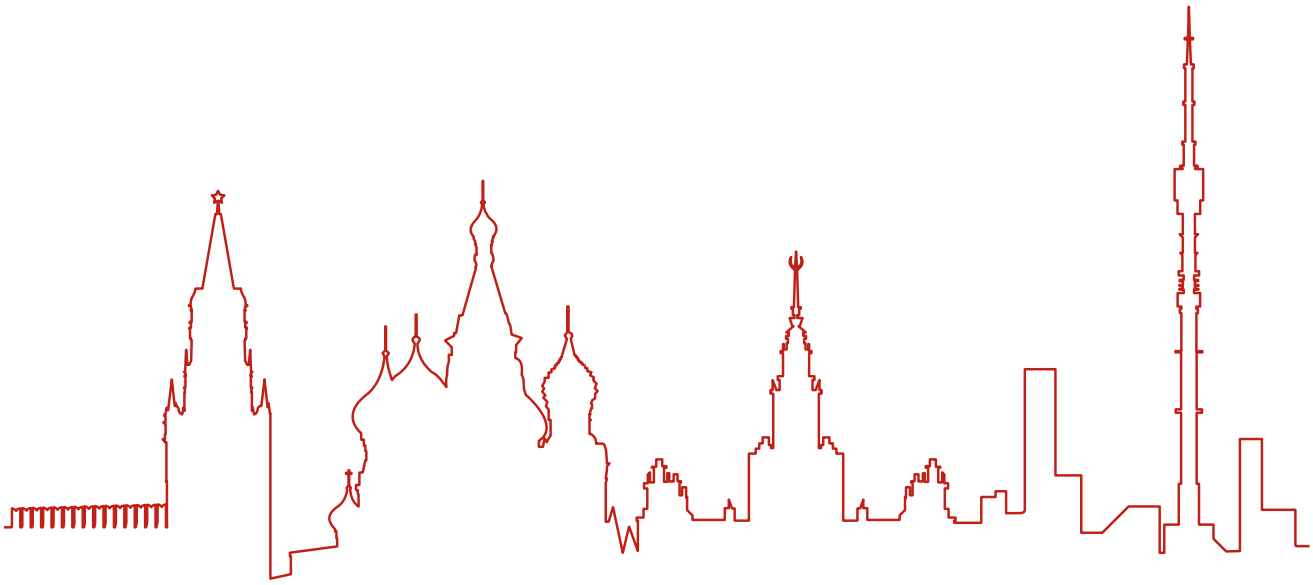
The company's portfolio consists of a wide range of life and P&C products tailored to meet the current protection needs of retail and corporate customers. Generali Romania values its ability to identify the local consumers' needs and to provide coverage at an adequate price, while always providing services of the highest quality.



New
representative office
in Russia

RUSSIA

Generali Russia & CIS
Generali Russia & CIS (Commonwealth of Independent States) is an affiliate of Generali CEE Holding, registered in February 2018 to represent Generali in the area. Generali has also established an operating entity – Generali Insurance Brokers Russia & CIS – an insurance and reinsurance intermediary that will sustain financially the development of the operations in the area gaining direct experience and know-how on the Russian insurance market and bringing international standard practices and innovative solutions to the market. In October 2018, Representative Office in Moscow was opened by Generali.



more than
1,500
employees

51
branches

gross written premium
€ 181.2 million

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 P&C, agriculture, travel and motor vehicle insurance. Headquartered in Belgrade, the company network consists of 51 branches spread in 3 regional centres across Serbia, with 1,200 points of sale and over 1,500 employees. In 2018 Generali Osiguranje Srbija continued its growth in P&C and in life regular business achieving record results in terms profitability.

In 2018, gross written premiums amounted to €181.2 million. Life insurance premiums reached €62.8 million (+15.3%), P&C premiums increased by +5.0% to €118.4 million.

621
employees

114
branches

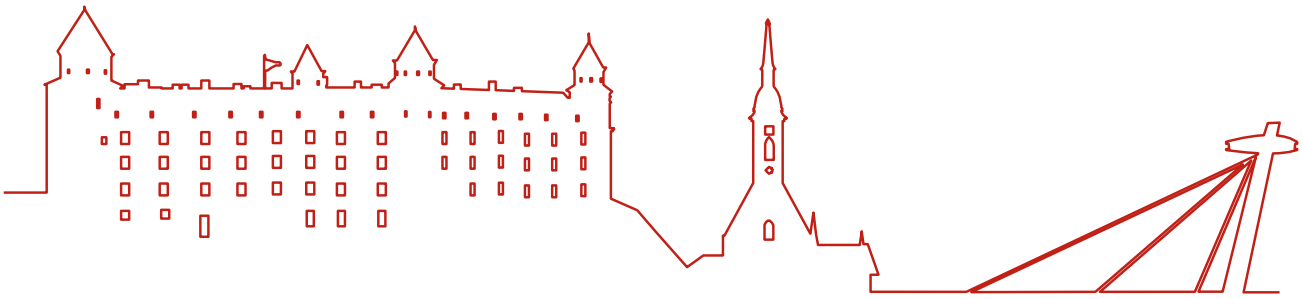
gross written premium
€ 246 million

third position
on the market with
9.9%
market share

SLOVAKIA

Generali Poisťovňa, a.s.
Generali Poisťovňa, a.s. the third biggest insurance company in Slovakia, provides prompt and professional services thanks to its 621 employees and almost 600 internal sales representatives. There are 114 points of sale all over Slovakia.

Gross written premiums experienced an increase in both main insurance segments. In P&C it grew by remarkable 10.5% to €144 million and in Life insurance by 8.0% to €102 million. Total GWP then amounted to €246 million. Generali kept the third position on the market with a share of 9.9% (excluding investment contracts).



447
employees

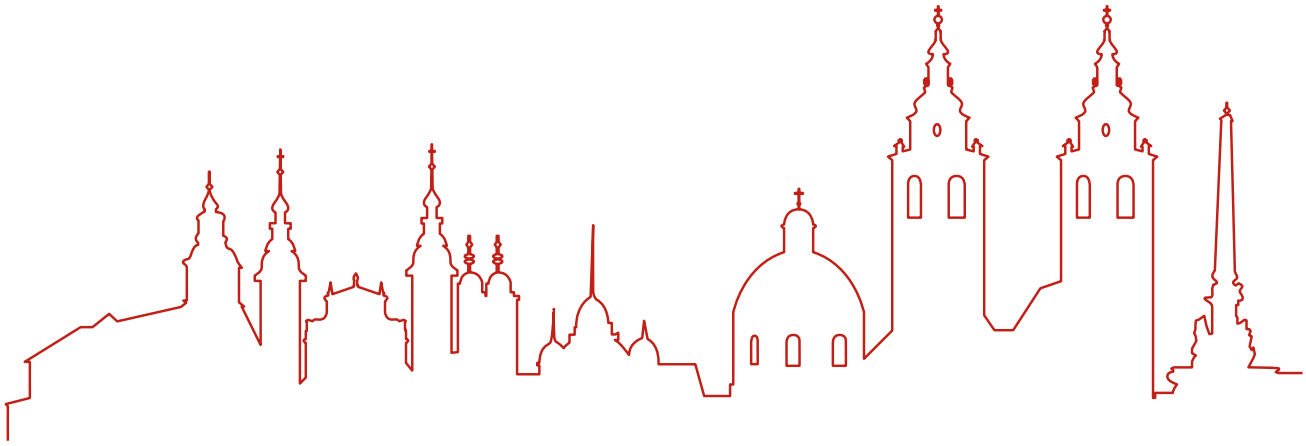
more than
200 thousand
clients

gross written premium
€ 102.3 million

market share
4.7%

SLOVENIA

Generali Zavarovalnica d.d.
Generali is one of the largest insurance companies in Slovenia, with a broad range of products in P&C as well as in life insurance and the biggest international insurance company in the country. It has more than 200,000 clients and 447 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 €102.3 million which means a 3.1% increase with growth in both P&C (3%) and life segment (3.3%). With a market share that reached 4.7%, the company holds the sixth position on the Slovenian insurance market.



E. SUSTAINABILITY

Generali CEE Holding and its subsidiaries are fully aware of the importance of sustainability and therefore we strive to integrate it into our 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 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 Group's guiding values, as stated also in the Group Policy for the Environment and Climate.

In February 2018 Generali approved the climate change strategy which is available on generali.com website. The Generali Group has a clear climate change strategy which is in line with the principles of the Paris Pledge for Action defined under COP 21. The strategy includes actions in investments and underwriting, which represent the Group's core activities. With regard to investments, Generali, as asset owner will increase its exposure to green businesses and will gradually divest from coal related companies. In the case of underwriting, the range of offered products with environmental value will increase, keeping only the minimum level of exposure to the coal sector. The share in the portfolio of products related to the renewable energy sector will be increased and the offer of products with environmental value for the retail client and the SME sector will be expanded. Generali's current involvement in coal-related activities is minimal in relation to the total value of GWP.

As a proof of this, the Group's new three-yearly business strategy 'Generali 2021' is aligned with our sustainability commitments. Generali has undertaken to increase premiums from social and green products by 7% – 9% and allocate 4.5 billion for green and sustainable investments by the end of 2021.

Insurance companies of Generali CEE Holding are also active towards communities. The Human Safety Net initiative – a global humanitarian movement aiming to empower disadvantaged members of our society – was activated in seven countries of our region in 2018 and the rest of the countries will join The Human Safety Net family in 2019. Two out of three The Human Safety Net's programmes were launched in various companies in the region. They target key social issues affecting communities including: creating equal life opportunities for children from disadvantaged backgrounds and saving newborns from the debilitating and potentially fatal consequences of asphyxia.

The Human Safety Net, powered by Generali, is based on the idea that communities of 'people helping people' can bring about sustainable change, creating a positive ripple effect. It reflects Generali's commitment to contribute towards a healthy, resilient and sustainable society where people can develop and flourish to their full potential.

All companies of Generali CEE Holding 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 Annual Integrated Report 2018 and the Charter of Sustainability Commitments are available on www.generali.com website. In accordance with EU Directive 95/2014/EU Article 19a par. 3 the Group does not disclose non-financial information in its consolidated financial statements as it is included in the consolidated financial statements of its ultimate parent company Assicurazioni Generali S.p.A.

F. OUTLOOK FOR OPERATIONS

In 2018 Eurozone economy entered into the sixth year of continuous growth. Compared to 2017 the achieved growth rate was smaller and lower than originally expected ending at year over year GDP growth of 1.9%. GDP is expected to grow further in next years but due to political uncertainty, sluggish global demand and other economic risks at lower pace than in past years. Data published by European commission expects growth rate of 1.3% for 2019 and 1.6% for 2020. Unemployment rate which is currently at historically lowest levels is expected to stay constant throughout the next year. Taking into account that compensation per employee is expected to grow slightly more than inflation rate, public demand can continue in growth for 2019, but at lower pace.

The macroeconomic outlook for CEE region is positive despite of expected growth figures to slow down after two years of growth above long-term potential. Countries such as Czech Republic or Hungary, which are strongly integrated into regional production chains, will be hit by less favourable external environment. Expected GDP growth rates are lower than achieved in 2018 but still above Eurozone average with the range of 2.5% to slightly above 4%. Consumption levels are expected to remain strong, but slightly below levels achieved in 2018. Main factors behind expected lower levels are increased inflation in majority of countries, less room for increase of public spending and expected wage freeze in public sector in Poland. Period of low borrowing costs together with continuation of EU fundging will contribute to solid investment levels also in 2019. Monetary conditions are expected to remain relatively accommodative. Due to expected stable inflation and weaker economic outlook, central banks will probably hold rates in 2019 close to current levels.

CEE insurance market continued in significant overall growth in 2018 with positive contribution of nearly all CEE markets. The only declining trend was observed in Poland which experienced drop of 0.3% as a result of bad performance within life segment. P&C segment continued in positive development from past years while situation in life segment is more heterogeneous with few countries still experiencing continuous decline.

We expect CEE insurance markets to register a moderate growth in 2019 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 more or less stable or slightly declining.

Concerning Group results, the overall premium volume will present a moderate growth compared to 2018; such development will be driven by the Non Life segment, whereas Life premiums will be flat or stagnating.

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 2018, confirming the high level of profitability experienced in 2018.

Prague, 13 May 2019
The Board of Directors

II. Consolidated Financial Statements for the Year Ended 31 December 2018

ACRONYMS

Acronym	
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
DDM	Dividend discount model
D&O	Directors and officers liability
DPF	Discretionary participation features
DPL	Deferred Policyholder Liability
ECAI	External Credit Assessment Institutions
ECL	Expected credit loss
ESMA	European Securities and Markets Authority
EU	European union
FV	Fair value
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
GAAP	Generally accepted accounting principles
GDP	Gross Domestic Product
GWP	Gross written premium
IAS	International accounting standards
IASB	International accounting standards board
IBNR	Incurred but not reported

Acronym	
IFRIC	Interpretation of International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IRR	Internal rate of return
IRS	Interest rate swap
ISDA	International Swaps and Derivatives Association
LAT	Liability adequacy test
LTI	Long-term incentive
MTPL	Motor Third Party Liability
NAV	Net assets value
NCI	Non-Controlling Interest
OCI	Other comprehensive income
P&C	Property and Casualty
PPA	Purchase price allocation
PPE	Property, plant and equipment
PVFP	Present value of future profit
RBNS	Reported but not settled
REPO	Repurchase operations
ROE	Return on Equity
RORC	Return on Risk Capital
S&P	Standard & Poor's
SFCR	Solvency and Financial Condition Report
TSR	Total Shareholders‘ Return
ULAE	Unallocated Loss Adjustment Expenses
VOBA	Value of business acquired
WHT	Withholding tax

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December

(€ million)	Note	2018	2017
Total assets		**19,104**	**19,299**
Intangible assets	**F.1**	**2,245**	**2,286**
Goodwill	F.1.1	1,431	1,431
Other intangible assets	F.1.2	814	855
Tangible Assets	**F.2**	**83**	**84**
Land and buildings (own use)	F.2.1	64	67
Other tangible assets	F.2.2	19	17
Investments	**F.3**	**15,302**	**15,583**
Investment properties	F.3.1	463	404
Investments in associates and joint ventures	F.3.2	15	13
Held to maturity investments	F.3.3	36	45
Loans and receivables	F.3.4	2,069	2,215
Available for sale financial assets	F.3.5	10,589	10,578
Financial assets at fair value through profit or loss	F.3.6	2,130	2,328
of which financial assets relating to unit-linked policies	F.3.6	1,978	2,155
Reinsurance assets	**F.4**	**460**	**299**
Receivables	**F.5**	**432**	**407**
Receivables arising out of direct insurance operations		284	231
Receivables arising out of reinsurance operations		55	41
Trade and other receivables		82	92
Current income tax receivables		11	43
Other assets	**F.6**	**271**	**236**
Deferred acquisition costs	F.6.1	207	184
Deferred tax assets	F.25.1	42	23
Other assets – other		22	29
Cash and cash equivalents	**F.7**	**311**	**404**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December

(€ million)	Note	2018	2017
Total shareholder's equity and liabilities		**19,104**	**19,299**
Shareholder's equity	**F.8**	**5,052**	**5,158**
Shareholder's equity attributable to the Group		**4,814**	**4,922**
Share capital		–	–
Other reserves		4,814	4,922
Shareholder's equity attributable to non-controlling interests		**238**	**236**
Other provisions	**F.9**	**48**	**53**
Insurance liabilities	**F.10**	**7,258**	**7,202**
Financial liabilities	**F.11**	**5,877**	**6,106**
Financial liabilities at fair value through profit or loss		296	421
Financial liabilities at amortized cost		5,581	5,685
Payables	**F.12**	**534**	**426**
Payables arising out of direct insurance operations		230	196
Payables arising out of reinsurance operations		127	81
Current income tax payables		16	8
Other payables		161	141
Other liabilities	**F.13**	**335**	**354**
Deferred tax liabilities	F.25.1	149	162
Other liabilities – other		186	192

The notes on pages 46 to 153 are an integral part of these financial statements.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December

(€ million)	Note	2018	2017
Total income		**3,428**	**3,471**
Net earned premiums revenue	**F.14**	**3,034**	**2,840**
Insurance premium revenue		3,347	3,098
Insurance premium ceded to reinsurers		(313)	(258)
Fee and commission income and income from financial service activities	**F.15**	**44**	**46**
Net income/(losses) from financial instruments at fair value through profit or loss	**F.16**	**(131)**	**164**
of which net income/(losses) from financial investments relating to unit-linked policies		(105)	110
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**	**402**	**337**
Interest revenue calculated using the effective interest method		284	249
Income – other		38	40
Realized gains		46	42
Unrealized gains		24	1
Reversal of impairment losses		10	5
Other income	**F.19**	**80**	**82**
Total expenses		**(2,993)**	**(3,069)**
Net insurance benefits and claims	**F.20**	**(1,696)**	**(1,818)**
Claims paid and change in insurance provisions		(1,890)	(1,927)
Reinsurers' share		194	109
Fee and commission expenses and expenses from financial service activities	**F.21**	**(7)**	**(9)**
Expenses from other financial instruments and investment properties	**F.22**	**(127)**	**(135)**
Interest expense		(55)	(43)
Expense – other		(13)	(12)
Realized losses		(31)	(8)
Unrealized losses		(11)	(51)
Impairment losses		(17)	(21)
Acquisition and administration costs	**F.23**	**(881)**	**(839)**
Commission and other acquisition costs		(649)	(607)
Investment management expenses		(4)	(4)
Other administration costs		(228)	(228)
Other expenses	**F.24**	**(286)**	**(268)**
EARNINGS BEFORE TAXES		**435**	**402**
Income taxes	F.25	(77)	(71)
NET PROFIT OF THE YEAR		**358**	**331**
Result of the period attributable to the equity holders of the parent		358	330
Result of the period attributable to non-controlling interests		–	1

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December

(€ million)	Note	2018	2017
Net profit of the year		**358**	**331**
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	(252)	(238)
Available for sale financial assets' revaluation reclassified to profit or loss	F.8, F.18, F.22	(16)	(35)
Available for sale impairment losses reclassified to income statement	F.8, F.22	7	2
Available for sale change in deferred policyholders liabilities/assets	F.8	122	149
Currency translation differences	F.8	(44)	198
Changes in cash flow hedge reserve	F.8	–	1
Total gains and losses recognised directly in equity		**(183)**	**77**
Tax on items taken directly to or transferred into equity	F.8	22	22
Other comprehensive income, net of tax		**(161)**	**99**
Total comprehensive income		**197**	**430**
Attributable to:			
– equity holders of Parent Company		195	429
– non-controlling interests		2	1

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

(€ million)	Note	Share capital and additional paid-in capital	Revaluation – financial assets AFS	Other capital reserves	Cumulative currency translation difference	Cash flow hedge reserve	Retained earnings	Attributable to equity holders of Parent Company	Attributable to non-controlling interests	Total
Balance as at beginning of reporting period		**3,602**	**408**	**143**	**(122)**	**(3)**	**745**	**4,773**	**4**	**4,777**
Net profit for the year							330	330	1	331
Available-for-sale financial assets revaluation in equity	F.8		(238)					(238)		(238)
Available-for-sale financial asset realised revaluation reclassified to income statement	F.8		(35)					(35)		(35)
Available-for-sale impairment losses reclassified to income statement	F.8		2					2		2
Available for sale change in deferred policyholders' liabilities	F.8		149					149		149
Currency translation differences	F.8				198			198		198
Changes in cash flow hedge reserve	F.8					1		1		1
Tax on items of other compehensive income	F.8		22					22		22
Total comprehensive income		**–**	**(100)**	**–**	**198**	**1**	**330**	**429**	**1**	**430**
Acquisition of participation with non-controlling interest	C.1.1							–	231	231
Allocation to reserve for share-based payments							5	5		5
Dividends to shareholders	F.8.1						(285)	(285)		(285)
Balance as at end of reporting period		**3,602**	**308**	**143**	**76**	**(2)**	**795**	**4,922**	**236**	**5,158**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

(€ million)	Note	Share capital and additional paid-in capital	Revaluation – financial assets AFS	Other capital reserves	Cumulative currency translation difference	Cash flow hedge reserve	Retained earnings	Attributable to equity holders of Parent Company	Attributable to non-controlling interests	Total
Balance as at beginning of reporting period		**3,602**	**308**	**143**	**76**	**(2)**	**795**	**4,922**	**236**	**5,158**
Net profit for the year							358	358	–	358
Available-for-sale financial assets revaluation in equity	F.8		(254)					(254)	2	(252)
Available-for-sale financial asset realised revaluation reclassified to income statement	F.8		(16)					(16)		(16)
Available-for-sale impairment losses reclassified to income statement	F.8		7					7		7
Available for sale change in deferred policyholders' liabilities	F.8		122					122		122
Currency translation differences	F.8				(44)			(44)		(44)
Changes in cash flow hedge reserve	F.8					–		–		–
Tax on items of other compehensive income	F.8		22					22		22
Total comprehensive income		**–**	**(119)**	**–**	**(44)**	**–**	**358**	**195**	**2**	**197**
Acquisition of participation with non-controlling interest	C.1.1							–	–	–
Allocation to reserve for share-based payments							5	5		5
Other changes							2	2		2
Dividends to shareholders	F.8.1						(310)	(310)		(310)
Balance as at end of reporting period		**3,602**	**189**	**143**	**32**	**(2)**	**850**	**4,814**	**238**	**5,052**

CONSOLIDATED STATEMENT OF CASH FLOWS (indirect method)

For the period from 1 January to 31 December

(€ million)	Note	2018	2017
Cash flow from operating activities			
Earnings before taxes		**435**	**402**
Adjustments for:			
Depreciation and amortisation	F.22, F.24	49	40
Amortisation of PVFP and impairment losses on goodwill and PVFP	F.24	58	61
Impairment and reversal of impairment of current and non-current assets	F.18, F.22	7	16
Gain/loss from revaluation of financial securities, investment property and financial liabilities at FVTPL	F.16, F.18, F.22	115	(146)
Interest expense	F.22	55	43
Interest income	F.18	(284)	(249)
Dividend income	F.18	(14)	(18)
Net Interest income from financial instruments at FVTPL	F.16	(12)	(2)
Income/expenses not involving movements of cash		(16)	(2)
Share based payments reserve		–	3
Change in loans and receivables		146	(1,449)
Change in receivables		(25)	(11)
Change in reinsurance assets		(161)	(44)
Change in other assets, prepayments and accrued income		(16)	(9)
Change in payables		108	50
Change in financial liabilities for investment contract with DPF		147	378
Change in financial liabilities at FVTPL		(125)	(13)
Change in liabilities to banks		(241)	1,508
Change in deposits received from reinsurer		(10)	6
Change in insurance liabilities		56	308
Change in other liabilities, accruals and deferred income		(6)	12
Change in other provisions	F.10	(5)	1
Interest received		229	175
Dividends received	F.18	14	18
Purchase of financial assets at FVTPL		(5,790)	(6,419)
Purchase of financial assets available for sale		(1,524)	(1,759)
Proceeds from financial assets at FVTPL		5,942	6,893
Proceeds from financial assets available for sale		1,307	924
Cash flows arising from taxes on income		(63)	(99)
Net cash flow from operating activities		**376**	**618**

(€ million)	Note	2018	2017
Cash flow from investing activities			
Purchase of tangible assets and intangible assets		(72)	(53)
Purchase of investment property		(61)	(33)
Net cash flow from acquisition of subsidiaries, associates and joint ventures, net of cash acquired	B.1	(26)	(222)
Provided loans		–	(5)
Proceeds from disposals of tangible and intangible assets		4	2
Net cash flow from investing activities		**(155)**	**(311)**
Cash flow from financing activities			
Repayment of loans	F.11	–	(14)
Interest paid		(1)	–
Dividends paid to shareholders	F.8.1	(310)	(285)
Net cash flow from financing activities		**(311)**	**(299)**
Net increase (decrease) in cash and cash equivalents		**(90)**	**8**
Cash and cash equivalents as at beginning of reporting period	**F.7**	**404**	**379**
Effect of exchange rate changes on cash and cash equivalents		(3)	17
Cash and cash equivalents as at end of reporting period	**F.7**	**311**	**404**

Notes to the Consolidated 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 P&C 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 2018 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 8 June 2007 under the laws of the Netherlands, with its registered office in De Entree 91, 1101 BH Amsterdam, 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 2018 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 13 May 2019.

A.2. Statutory body

The Board of Directors as at the end of the reporting period consists of:
Members: Luciano Cirinà
Jaime Anchústegui Melgarejo (appointed on 26 November 2018)
Gregor Pilgram
Cristiano Borean (appointed on 26 November 2018)
Heike Otteman-Toyza (appointed on 26 November 2018)

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.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, held-for-sale assets that are stated at the lower of FVLCS and historical cost, items subject to fair value hedging that are remeasured to fair value to the extend of the hedged risk.

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.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern.

C. GENERAL CRITERIA FOR DRAWING UP THE CONSOLIDATED 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 line by line 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 2018

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 d.d.	Croatia	HRK	100.00	100.00
Generali Pojišťovna a.s.	Czech Republic	CZK	100.00	100.00
ČP Distribuce 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
Námestí Republiky 3a, s.r.o.	Czech Republic	CZK	100.00	100.00
Mustek Properties s.r.o.	Czech Republic	CZK	100.00	100.00
Office Center Purkyňova, a.s.	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 ZDRAVI a.s.	Czech Republic	CZK	100.00	100.00
Generali Investments CEE, Investiční Společnost, a.s.	Czech Republic	CZK	100.00	100.00
Generali Distribuce a.s.	Czech Republic	CZK	100.00	100.00
Acredité s.r.o.	Czech Republic	CZK	100.00	100.00
Generali Real Estate Fund CEE a.s., investiční fond	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 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	91.00	91.00
Generali CEE New Economies Fund	Ireland	EUR	86.00	86.00
Generali CEE Emerging Europe Fund	Ireland	EUR	70.00	70.00
Generali CEE Emerging Europe Bond Fund	Ireland	EUR	100.00	100.00
GW Beta B.V. (previously GW Beta Limited)	The Netherlands	EUR	49.00	100.00
Generali osiguranje Montenegro	Montenegro	EUR	100.00	100.00
Generali Towarzystwo Ubezpieczeń S.A.	Poland	PLN	100.00	100.00
Generali Zycie Towarzystwo Ubezpieczeń 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

Company	Country	Functional currency	Proportion of ownership interest	Proportion of voting rights
Concordia Capital SA*	Poland	PLN	96.30	96.30
Concordia Polska Towarzystwo Ubezpieczen Wzajemnych*	Poland	PLN	98.76	98.76
PL Investment Jerozolimskie I SP. Z o.o.	Poland	PLN	100.00	100.00
Cleha Invest Sp. z o.o.	Poland	PLN	100.00	100.00
SIBSEN Invest sp. z o.o.*	Poland	PLN	100.00	100.00
Generali SAF Pensii Private S.A.	Romania	RON	100.00	100.00
SC Generali Romania Asigurare Reasigurare S.A.	Romania	RON	99.97	99.97
Generali Russia and CIS*	Russia	RUB	49.00	49.00
LLC Generali Insurance Brokers – Russia and CIS*	Russia	RUB	49.00	49.00
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 Poisťovňa, a.s.	Slovakia	EUR	100.00	100.00
Green Point Offices a.s.	Slovakia	EUR	100.00	100.00
VÚB Generali d.s.s., a.s.**	Slovakia	EUR	50.00	50.00
Generali Zavarovalnica d.d.	Slovenia	EUR	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

* Entity acquired in 2018

** Joint-venture

For the year ended 31 December 2017

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 d.d.	Croatia	HRK	100.00	100.00
Generali Pojišťovna a.s.	Czech Republic	CZK	100.00	100.00
ČP Distribuce 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
Námestí Republiky 3a, s.r.o.	Czech Republic	CZK	100.00	100.00
Mustek Properties s.r.o.	Czech Republic	CZK	100.00	100.00
Office Center Purkyňova, a.s.*	Czech Republic	CZK	100.00	100.00
Česká pojišťovna, a.s.	Czech Republic	CZK	100.00	100.00

Company	Country	Functional currency	Proportion of ownership interest	Proportion of voting rights
Penzijní společnost CP, a.s. (including Transformed Fund)	Czech Republic	CZK	100.00	100.00
Česká pojišťovna ZDRAVI a.s.	Czech Republic	CZK	100.00	100.00
Generali Investments CEE, Investiční Společnost, a.s.	Czech Republic	CZK	100.00	100.00
FINHAUS a.s.	Czech Republic	CZK	100.00	100.00
Acredité s.r.o.	Czech Republic	CZK	100.00	100.00
Generali Real Estate Fund CEE a.s., investiční fond	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 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	88.48	88.48
Generali CEE New Economies Fund	Ireland	EUR	84.32	84.32
Generali CEE Emerging Europe Fund	Ireland	EUR	85.68	85.68
Generali CEE Emerging Europe Bond Fund	Ireland	EUR	99.56	99.56
GW Beta Limited*	Jersey	USD	49.00	100.00
Generali osiguranje Montenegro	Montenegro	EUR	100.00	100.00
Generali Towarzystwo Ubezpieczeń S.A.	Poland	PLN	100.00	100.00
Generali Zycie Towarzystwo Ubezpieczeń 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
Cleha Invest Sp. z o.o.*	Poland	PLN	100.00	100.00
Generali SAF Pensii Private S.A.	Romania	RON	100.00	100.00
SC Generali Romania Asigurare Reasigurare S.A.	Romania	RON	99.97	99.97
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 Poisťovňa, a.s.	Slovakia	EUR	100.00	100.00
Green Point Offices a.s.	Slovakia	EUR	100.00	100.00
VÚB Generali d.s.s., a.s.**	Slovakia	EUR	50.00	50.00
Generali Zavarovalnica d.d.	Slovenia	EUR	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

* Entity acquired in 2017

** Joint-venture

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 2018 is provided below.

Acquisition of Concordia Capital SA and Concordia Polska TUW (Poland)

In November 2018, the Group acquired full control of the Polish life insurance company Concordia Capital SA and the non-life insurance company Concordia Polska TUW. Concordia has been providing insurance services in Poland for 20 years and it is one of the leading players in the agricultural insurance segment. The Group has acquired these companies as an important step to strengthen its position in the Region.

In accordance with IFRS 3, the Group performed a purchase price allocation exercise ("PPA") based on which the acquired assets and assumed liabilities of the acquired business were restated to their respective fair values. The difference between the fair value of the insurance liabilities and the value of the insurance liabilities measured using the Group's existing accounting policies was recognised as a VOBA asset. The excess of the purchase price over the fair values of identified assets and liabilities resulted in the recognition of goodwill.

The fair value of the identifiable assets and liabilities of Concordia Capital SA and Concordia Polska TUW as at the date of acquisition were:

(€ million)	Concordia Capital SA	Concordia Polska TUW
Fair value of assets	**34**	**180**
Intangible assets	8	2
Tangible Assets	–	1
Investments	25	104
Reinsurance assets	–	40
Receivables	–	25
Other assets	–	4
Cash and cash equivalents	1	4
Fair value of liabilities	**18**	**151**
Insurance liabilities*	14	102
Financial liabilities	–	3
Payables	1	41
Other liabilities	3	5
Fair value of identifiable net assets	**16**	29

* The insurance liabilities are measured using the Group's existing accounting policies and recognised VOBA asset is presented under Intangible assets.

Goodwill arising from the acquisition has been recognised as a result of the excess of the purchase price over the fair value of the identifiable net assets as follows:

(€ million)	Concordia Capital SA	Concordia Polska TUW
Consideration	22	31
Total effective ownership acquired	96.30%	98.76%
Fair value of identifiable net assets	16	29
Goodwill (according to full goodwill method)	**6**	**2**

The Group has measured the NCIs at its proportionate share of the net assets acquired.

Opening of Generali office in Russia
Generali Russia & CIS is an affiliate of Generali CEE Holding, registered in February 2018 to represent Generali in the area. Generali has also established an operating entity – Generali Insurance Brokers Russia & CIS – an insurance and reinsurance intermediary that will sustain financially the development of the operations in the area gaining direct experience and know-how on the Russian insurance market and bringing international standard practices and innovative solutions to the market. In October 2018, Representative Office in Moscow was opened by Generali.

Acquisition of real estate project in Warsaw (PL)
In October 2018, the Group acquired from S+B Gruppe AG, Vienna, an investment vehicle SIBSEN Invest sp. z o.o. owning office building in central Warsaw at Senatorska street, also known as Jabłonowski Palace. The acquisition price amounted to €30 million.

The palace was originally built in 1773 and for a time served as Warsaw City Hall. It was destroyed in World War II and rebuilt in the late 90s. It now comprises 17,700 sqm of office space on five above-ground floors, all of which is currently occupied by mBank.

This operation is in line with Generali Real Estate's strategy of investing in the main European cities.

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.

Detailed information about significant transactions with subsidiaries of the Group for the year ended 31 December 2017 is provided below.

Acquisition of GW Beta Limited
In September 2017, the Group acquired for strategic reasons from companies within the Generali Group 100% of voting shares and 49% economic shares in special purpose vehicle GW Beta Limited owning equity participations classified as AFS investment. The acquisition price amounted to €222 million and as a result of this transaction the Group recorded non-controlling interest of 51% amounting to €231 million.

Acquisition of real estate project in Warsaw (PL)
In July 2017, the Group acquired from international project developer S+B Gruppe AG, Vienna, an investment vehicle Cleha Invest sp. z o.o., that owns offices and retail premises in the centre of Warsaw – the kroLEWska office building. The acquisition price amounted to €27 million.

The building is located in the heart of Warsaw's business center, the Central Business District, and represents a top-class real estate development project. The office and retail asset comprises around 6,000 sqm and is almost completely leased out.

The building has been developed with high standards: a state-of-the-art facade, flexible office floor plans and wide terrace surfaces with efficient usage possibilities. KroLEWska holds a LEED Platinum certification and has been awarded as the most sustainable building in Poland in its category.

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.

Acquisition of Group occupied regional office center
Another acquisition of real estate assets occured in March 2017, when the Group purchased an office building Office Center Purkyňova. The building is located in Brno, Czech Republic, in Kralovo Pole district and its primarily occupied by regional operational center of Group subsidiary Česká pojišťovna. The acquisition price amounted to €12 million.

The total building's gross lettable area is 11,747 sqm divided across 5 above ground and 2 below ground floors. Vast majority of the space is dedicated to office (83%) followed by storage (12%).

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.

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 S.p.A.

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, unless it can be clearly demonstrated that this is not the case.

If the investment of the Group in an entity exceeds 20% but the Group has no significant influence over the entity, the investment cannot be classified as associate. In assessment about classification of any investments as associates, the Group considered mainly their participation in policy-making processes, including participation in decisions about dividends or other distributions of the investee. Additionally, the group assessed also the following additional criteria:
a) representation on the board of directors or equivalent governing body of the investee;
b) material transactions between the entity and its investee;
c) interchange of managerial personnel; or
d) provision of essential technical information.

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 and pension 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% and simultaneously the Group controls the respective investment management company. 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.

In case that the direct interest held by the Group in the investment fund is less than 40%, investment is not consolidated and is reported in available for sale financial assets or in financial assets at fair value through profit or loss as mutual fund units.

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.

Group consolidates Transformed pension fund in Czech republic as
a) the Group is entitled to a profit share,
b) makes the investment decisions,
c) guarantees at least zero result of accounting period attributable to policyholders and at least zero equity and
d) likelihood of losses or negative equity of the Transformed pension fund isn't remote given the respective portfolio structure, which based on the Group assessment fulfils the definition of control.

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 difference between the fair value of the insurance liability and the value of the insurance liabilities measured using the Group's existing accounting policies is recognised as an asset. This asset, which is referred to as the Present Value of Future Profits (PVFP) or value of business acquired (VOBA), 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 with the exception of intangible assets recognized as a result of established cooperation with UniCredit Bank where amortization period is equal to contractual period which is 5 or 15 years depanding on particular contract. 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 brand is a significant intangible asset held by the Group and is directly connected to its operations. As far as the Group has no intention to discontinue the usage of the brand, the brand is assumed to have indefinite useful life.

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	1.66–20.00
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. 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:

a) that the Group upon initial recognition designates as at fair value through profit or loss;
b) that the Group designates as available for sale;
c) 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.

Selling more than an insignificant amount of held-to-maturity securities, other than in the exceptional circumstances (e.g. due to worsened credit quality of the security or close to its maturity), casts doubt on the entity's intent and ability to hold investments to maturity. As a consequence, the entity is prohibited from using held-to-maturity classification for any financial assets for two financial years. All its held-to-maturity investments are then reclassified as available for sale and measured at fair value.

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".

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.

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 and employee benefit assets, 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.

With reference to real estate, considering the Group business, real estate investments classified as investment properties can be considered as a current asset expected to be realised or is intended for sale within the entity's normal operating cycle, therefore cannot be classified as held for sale.

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 and other reserves

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:
a) identification of the characteristics of products (option, discretionary participation feature, etc.) and services rendered;
b) determination of the level of insurance risk in the contract; and
c) 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 guarantees 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.

The Group, among the other similar classes of potential legal disputes, monitors and assesses thoroughly whether some liabilities should be recognized in Czech Republic under Act No. 229/2002 Coll. as amended by subsequent changes.

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 gain/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.

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) that are not 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 income from other financial instruments.

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:

a) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
b) 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;
c) 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:

a) independent evaluation by a third party – the adequacy of the price results from evaluations, reports or fairness opinions issued by independent third parties;
b) price based on the amount of Shareholder's equity;
c) 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, etc.).

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.
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 independent valuation provided by third party and is based on the market value of the property determined by 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 (€ million):

Description	Fair value as at 31 December 2018	Valuation technique(s)	Non-market observable input(s)	Range
Equities	614	discounted cash flow technique	discount rate	5.0 – 15.0%
			growth rate	1.0 – 4.0%
Bonds Government	67	discounted cash flow technique	level of yield	66 – 156 bps
Bonds Corporate	118	discounted cash flow technique	level of credit spread	63 – 425 bps
Unit-linked investments	30	net asset value	value of underlying instruments	n/a
Investment property	514	external valuation expert	similar transactions	94 – 1,800 €/per sqm

Description	Fair value as at 31 December 2017	Valuation technique(s)	Non-market observable input(s)	Range
Equities	560	discounted cash flow technique	discount rate	5.0 – 15.0%
			growth rate	1.0 – 4.0%
Bonds Government	68	discounted cash flow technique	level of yield	(40) – 80 bps
Bonds Corporate	115	discounted cash flow technique	level of credit spread	(200) – 2,740 bps
Unit-linked investments	30	net asset value	value of underlying instruments	n/a
Investment property	435	external valuation expert	similar transactions	100 – 2,400 €/per sqm

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:

a) 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.
b) 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 Corporate bonds and Government bonds in amount of €185 million (2017: €183 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 by €-21 to €+27 million (2017: €-24 to €+31 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.

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:

a) 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);
b) in respect of accounts receivable;
c) 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 2018 and as at 31 December 2017 according to the LAT were 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 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. 2018		31. 12. 2017	
	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	9	6
Pension growth rate	100 bp	10	7	8	5

Sensitivity of MTPL annuities for Generali

(€ million)		31. 12. 2018		31. 12. 2017	
	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	2	3	1
Pension growth rate	100 bp	3	2	3	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. Standards, interpretations and amendments to existing standards relevant for the Group and applied in the reporting period

IFRS 15 Revenue from Contracts with Customers including Clarifications to IFRS 15 issued in April 2016 (effective for annual periods beginning on or after 1 January 2018)
IFRS 15 replaces all existing revenue requirements in IFRS (IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue – Barter Transactions Involving Advertising Services) and applies to all revenue arising from contracts with customers. It also provides a model for the recognition and measurement of disposal of certain non-financial assets including property, equipment and intangible assets. The standard outlines the principles an entity must apply to measure and recognise revenue. The core principle is that an entity will recognise revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group is a predominantly insurance group. The revenues arising from this business are defined by IFRS 4 “Insurance contracts”, the other revenues arising from the sale of goods and services different from financial and insurance services, and arising from asset management are defined and disciplined by IFRS 15. These revenues are included in the income statement item “Fee and commission income and income from financial service activities” or “Other income”.

The asset/liabilities arising from contracts with customers are not significant, in particular due to the above illustrated business. The Group assessed the economic and accounting effects of the standard and there are not significant impacts on the economic and financial position.

Amendments to IFRS 2, Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018, not yet endorsed by the EU).
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.

D.6.2. 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 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.

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

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2018 or later, and which the Group has not early adopted.

IFRS 9, Financial Instruments (effective for annual periods beginning on or after 1 January 2018, unless overlay or deferral approach is adopted – see D.6.4)
IFRS 9 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

Classification and measurement of financial assets
All financial assets are measured at fair value on initial recognition, adjusted for transaction costs, if the instrument is not accounted for at fair value through profit or loss (FVTPL). Debt instruments are subsequently measured at FVTPL, amortised cost, or fair value through other comprehensive income (FVOCI), on the basis of their contractual cash flows and the business model under which the debt instruments are held. There is a fair value option (FVO) that allows financial assets on initial recognition to be designated as FVTPL if that eliminates or significantly reduces an accounting mismatch. Equity instruments are generally measured at FVTPL. However, entities have an irrevocable option on an instrument-by-instrument basis to present changes in the fair value of non-trading instruments in other comprehensive income (OCI) without subsequent reclassification to profit or loss.

Classification and measurement of financial liabilities
For financial liabilities designated as FVTPL using the FVO, the amount of change in the fair value of such financial liabilities that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation in OCI of the fair value change in respect of the liability's credit risk would create or enlarge an accounting mismatch in profit or loss. All other IAS 39 Financial Instruments: Recognition and Measurement classification and measurement requirements for financial liabilities have been carried forward into IFRS 9, including the embedded derivative separation rules and the criteria for using the FVO.

Impairment
The impairment requirements are based on an expected credit loss (ECL) model that replaces the IAS 39 incurred loss model. The ECL model applies to debt instruments accounted for at amortised cost or at FVOCI, most loan commitments, financial guarantee contracts, contract assets under IFRS 15 and lease receivables under IAS 17 Leases. Entities are generally required to recognise 12-month ECL on initial recognition (or when the commitment or guarantee was entered into) and thereafter as long as there is no significant deterioration in credit risk. However, if there has been a significant increase in credit risk on an individual or collective basis, then entities are required to recognise lifetime ECL. For trade receivables, a simplified approach may be applied whereby the lifetime ECL are always recognised.

Hedge accounting
Hedge effectiveness testing is prospective, without the 80% to 125% bright line test in IAS 39, and, depending on the hedge complexity, will often be qualitative. A risk component of a financial or non-financial instrument may be designated as the hedged item if the risk component is separately identifiable and reliably measureable. The time value of an option, any forward element of a forward contract and any foreign currency basis spread can be excluded from the hedging instrument designation and can be accounted for as costs of hedging. More designations of groups of items as the hedged item are possible, including layer designations and some net positions.

In July 2015 the IASB took a decision to amend IFRS 4 to permit an entity to exclude from profit or loss and recognise in other comprehensive income the difference between the amounts that would be recognised in profit or loss in accordance with IFRS 9 and the amounts recognised in profit or loss in accordance with IAS 39, subject to meeting certain criteria.

In September 2015 the IASB decided to propose a package of temporary measures in relation to the application of the new financial instruments Standard (IFRS 9) before the new insurance contracts Standard comes into effect.

The Group has chosen to apply the temporary exemption from IFRS 9 for annual periods beginning on or after 1 January 2018 as its activities are predominantly connected with insurance as at 31 December 2015 (see note D.6.6).

IFRS 16 – Leases (effective for annual periods beginning on or after 1 January 2019)
The new standard constitutes an innovation in that it established that leases be reported in entities‘ balance sheet, thus enhancing the visibility of their assets and liabilities. IFRS 16 repeals the distinction between operating leases and finance leases (for the lessee), requiring that all lease contracts be treated as finance leases.

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

The Group does not estimate material impact of shareholders’ equity deriving from the application of the requirements of the new standard compared to the current rules of IAS 17. However, an increase of assets and liabilities is expected, deriving from the new accounting of operating leases of lessees. Moreover, expenses for operating lease payments will be sptlit into two components: depreciation of right of use assets and interest expenses on lease liabilities.

On first time adoption of the standard, the Group will adopt the simplified retrospective approach, with the cumulative effect of initially applying the standard recognized at the date of initial application. Estimated impact on the balance sheet of the company is €82 million on amount of right-of-use assets, €81 million on lease liabilities and €1 million on retained earnings.

The new standard will take effect on 1 January 2019.

IAS 17, IFRIC 4, SIC 15 and SIC 27 will be superseded by IFRS 16.

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

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

Amendments to IAS 28, Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019)

IFRIC Interpretation 23 Uncertainty over Income Tax Treatments (effective for annual periods beginning on or after 1 January 2019)
The interpretation is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12.

Annual Improvements 2015 – 2017
In the 2015 – 2017 annual improvements cycle, the IASB issued, in December 2017, amendments to four standards (IFRS 3, IFRS 11, IAS 12 and IAS 23). The changes are effective on 1 January 2019.

D.6.5. Amendment to current IFRS 4 Insurance contracts and new IFRS 17 Insurance contracts

On 12 September 2016, the IASB issued amendments to IFRS 4 providing two options for entities that issue insurance contracts within the scope of IFRS 4:

a) an option that permits entities to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets; this is the so-called overlay approach;
b) an optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4; this is the so-called deferral approach.

The Group intends to apply the deferral approach (see Note D.6.6).

In May 2017 the Board issued the new Standard for insurance contracts, IFRS 17 Insurance Contracts (not yet endorsed by the EU), replacing IFRS 4 Insurance Contracts. IFRS 17 has an effective date of 1 January 2022 but companies can apply it earlier.

The standard retain the IFRS 4 definition of an insurance contract but amend the scope to exclude fixed fee service contracts but some financial guarantee contracts may now be within the scope of the proposed standard.

The standard would require an insurer to measure its insurance contracts using a current measurement model. The measurement approach is based on the following building blocks: a current, unbiased and probability-weighted average of future cash flows expected to arise as the insurer fulfils the contract; the effect of time value of money; an explicit risk adjustment and a contractual service margin calibrated so that no profit is recognised on inception.

The Group is considering the implications of the standard, the impacts on the Group and the timing of their adoption by the Group. The Group is not considering early application of the standard.

D.6.6. Temporary exemption from IFRS 9

The Group applies the temporary exemption (deferral approach) from IFRS 9 in accordance with the amendment to IFRS 4 “Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts Financial Instruments”.

The Group qualifies for the temporary exemption from the application of IFRS 9. The carrying amount of liabilities related to the insurance business (€10,442 million), is higher than 90% of the carrying amount of the total liabilities (€11,203 million) as at 31 December 2015.

In particular, liabilities linked to insurance business as at 31 December 2015 are listed below:

- Insurance liabilities (€6,693 million)
- Financial liabilities at amortized cost related to investment contracts with DPF (€3,244 million)
- Financial liabilities at fair value through profit or loss related to investment contracts (€306 million)
- Other (€199 million)

Please find below, in accordance to the amendment to IFRS 4, the disclosures related to financial instruments at 31 December 2018.

Fair value and change in fair value of financial assets within the scope of IFRS 9 with detail of instruments that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding:

(€ million)	Fair value as at 31 December 2018	Fair value change from 31 December 2017
Financial assets managed on fair value basis and held for trading*	**2,130**	**(99)**
Investment fund units	117	(12)
Derivatives	26	(10)
Investments back to policies where the risk is borne by the policyholders and pension funds**	1,978	(77)
Bonds managed on fair value basis	9	–
Available for sale financial assets (AFS), held to maturity and loans and receivables***	**12,693**	**(238)**
Financial assets give rise on specified dates to cash flows that are solely payments of principal and interest	11,642	(200)
Bonds	9,636	(200)
Reverse repurchase agreements	1,931	–
Term deposits with credit institutions	39	–
Other loans***	36	–
Financial assets do not give rise on specified dates to cash flows that are solely payments of principal and interest	1,051	(38)
Equity instruments	718	(2)
Bonds	–	–
Investment fund units	333	(36)
Total	**14,823**	**(337)**

*, ** fair value change of financial assets measured at fair value through profit or loss is provided in the relative sections in the notes

*** Policy loans of €4 million are excluded from scope

With reference to credit risk, the carrying amounts in accordance with IAS 39 by risk rating grade of financial assets with contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding are provided below.

Carrying amount by risk rating grade of bonds and term deposits that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding:

As at 31 December 2018 (€ million)	Bonds	Term deposits with credit institutions
AAA	124	–
AA	4,282	–
A	1,932	23
BBB	2,395	12
Not investment grade	870	3
Not rated	30	1
Total	**9,633**	**39**

In addition to bonds and term deposits presented in the table above, financial assets that envisage cash flows represented solely by principal and interest payments also include other loans and repurchase agreements (reverse REPO). Other loans portfolio consists of receivables from banks and loan provided to Group company with low credit risk. Repurchase agreements are mainly with bank counterparties with high credit ratings.

The carrying amount of bonds that do not have low credit risk, considered as exposure with a rating lower that investment grade, in €900 million.

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.

The Company mainly uses following instruments to mitigate individual risks:

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.

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 2018, those investments with market risk affecting the Group were totaled €10,804 million at market value.

(€ million)	31. 12. 2018		31. 12. 2017	
	Total fair value	Weight (%)	Total fair value	Weight (%)
Equities	1,101	10.2%	1,152	10.6%
Bonds	9,710	89.9%	9,664	89.2%
Derivatives	(7)	(0.1)%	14	0.2%
Total	**10,804**	**100.0%**	**10,830**	**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 affect 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, derivatives and bond investment fund units. The table below summarises the breakdown of their carrying amount by company.

Interest rate risk exposure

(€ million)	31. 12. 2018		31. 12. 2017	
	Amount	Weight (%)	Amount	Weight (%)
Česká pojišťovna, Czech Republic	1,953	20.1%	2,211	22.6%
Penzijní společnost ČP including Transformed fund, Czech Republic	3,774	38.9%	3,644	37.3%
GP Reinsurance EAD, Bulgaria	834	8.6%	869	8.9%
Generali Towarzystwo Ubezpieczeń, Poland	575	5.9%	572	5.9%
Generali Pojišťovna, Czech Republic	430	4.4%	437	4.5%
Generali Biztosító Rt, Hungary	384	4.0%	407	4.2%
Generali Osiguranje Srbija, Serbia	434	4.5%	396	4.1%
Generali Poisťovňa, Slovakia	274	2.8%	273	2.8%
Generali Romania Asigurare Reasigurare S.A., Romania	202	2.1%	212	2.2%
Generali Osiguranje, Croatia	235	2.4%	208	2.1%
Generali Zavarovalnica d.d., Slovenia	180	1.9%	175	1.8%
Generali Zycie Towarzystwo Ubezpieczeń, Poland	97	1.0%	122	1.2%
Generali CEE Holding B.V., The Netherlands	19	0.2%	31	0.3%
Other companies	312	3.2%	205	2.1%
Total	**9,703**	**100.0%**	**9,762**	**100.0%**

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

(Years)	31. 12. 2018	31. 12. 2017
Generali Poisťovňa, Slovakia	3.7	4.3
Česká pojišťovna, Czech Republic	6.1	6.5
Penzijní společnost ČP including Transfermed fund, Czech Republic	5.2	5.4
Generali Romania Asigurare Reasigurare S.A., Romania	3.6	3.8
Generali Pojišťovna, Czech Republic	5.3	5.1
Generali Zycie Towarzystwo Ubezpieczeń, Poland	3.9	4.0
Generali Biztosító Rt, Hungary	3.7	3.7
Generali Towarzystwo Ubezpieczeń, Poland	3.4	3.4
GP Reinsurance EAD, Bulgaria	4.1	3.9
Generali Zavarovalnica, Slovenia	4.0	4.5
Generali Osiguranje, Croatia	5.5	5.6
Generali Osiguranje Srbija, Serbia	4.6	4.5

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 2018 and 31 December 2017.

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. 2018		31. 12. 2017	
		Income Statement	Shareholder's Equity	Income Statement	Shareholder's Equity
100 bp parallel increase	Gross impact on interest income	–	–	–	–
	Gross impact on fair value	(10)	(373)	14	(334)
	Income tax charge / (credit)	2	33	(1)	31
	Total net impact	**(8)**	**(340)**	**13**	**(303)**
100 bp parallel decrease	Gross impact on interest income	–	–	–	–
	Gross impact on fair value	15	392	(8)	350
	Income tax charge / (credit)	(2)	(37)	1	(35)
	Total net impact	**13**	**355**	**(7)**	**315**

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. 2018		31. 12. 2017	
		Income Statement	Shareholder's Equity	Income Statement	Shareholder's Equity
100 bp parallel increase	Gross impact on interest income	–	–	–	–
	Gross impact on fair value	–	148	–	131
	Income tax charge / (credit)	–	–	–	–
	Total net impact	**–**	**148**	**–**	**131**
100 bp parallel decrease	Gross impact on interest income	–	–	–	–
	Gross impact on fair value	–	(144)	–	(126)
	Income tax charge / (credit)	–	–	–	–
	Total net impact	**–**	**(144)**	**–**	**(126)**

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:

- The limits for investments are set and carefully monitored for each business unit in its investment policy.
- The portfolio is diversified (limits are set per single counterparty exposure).

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

(€ million)	31. 12. 2018	31. 12. 2017
Unquoted equities at cost	–	1
Equities at fair value	718	669
Quoted	104	110
Unquoted	614	559
Investments in fund units	383	389
Total	**1,101**	**1,059**

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

(€ million)	31. 12. 2018		31. 12. 2017	
	Amount	Weight (%)	Amount	Weight (%)
Česká pojišťovna, Czech Republic	205	18.6%	189	17.9%
Penzijní společnost ČP including Transformed fund, Czech Republic	110	10.0%	121	11.4%
GP Reinsurance EAD, Bulgaria	85	7.7%	72	6.8%
Generali Biztosító Rt, Hungary	50	4.5%	52	5.0%
Generali Pojišťovna, Czech Republic	40	3.6%	46	4.3%
Generali Poisťovňa, Slovakia	14	1.3%	16	1.6%
Generali Towarzystwo Ubezpieczeń, Poland	14	1.3%	14	1.3%
Generali CEE Holding, The Netherlands	63	5.7%	46	4.3%
Other companies	520	47.3%	502	47.4%
Total	**1,101**	**100.0%**	**1,059**	**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 2018 and 2017.

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. 2018		31. 12. 2017	
		Income Statement	Shareholder's Equity	Income Statement	Shareholder's Equity
Equity price +10%	Gross impact on fair value	11	99	8	61
	Income tax credit	(2)	(21)	(2)	(8)
	Total net impact	**9**	**78**	**6**	**53**
Equity price -10%	Gross impact on fair value	(11)	(99)	(8)	(61)
	Income tax charge	2	21	2	8
	Total net impact	**(9)**	**(78)**	**(6)**	**(53)**

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. 2018		31. 12. 2017	
		Income Statement	Shareholder's Equity	Income Statement	Shareholder's Equity
Equity price +10%	Gross impact on fair value	–	(10)	–	(11)
	Income tax charge / (credit)	–	–	–	–
	Total net impact	**–**	**(10)**	**–**	**(11)**
Equity price -10%	Gross impact on fair value	–	10	–	11
	Income tax charge / (credit)	–	–	–	–
	Total net impact	**–**	**10**	**–**	**11**

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 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 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. 2018		31. 12. 2017	
	Amount	Weight (%)	Amount	Weight (%)
AAA	124	1.3%	110	1.1%
AA	4,282	44.4%	49	0.5%
A	1,933	20.1%	6,135	63.5%
BBB	2,404	24.9%	2,318	24.1%
Non-investment grade	870	9.0%	941	9.7%
Not-rated	32	0.3%	111	1.1%
Total	**9,645**	**100.0%**	**9,664**	**100.0%**

The portfolio of fixed income investments of the Group has been prudently composed: 78.6% of the securities are government issued (2017: 78.9%).

The distribution by rating class shows that the vast majority of fixed income investment is of a high rating standing, with more than 65% being greater than or equal to the "A" rating.

Large increase of share of AA rated bonds is mainly caused by the rating of Czech Republic which improved from A+ to AA-. Securities without a rating are shown as non-rated, eventhough 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. 2018		31. 12. 2017	
	Amount	Weight (%)	Amount	Weight (%)
AA	108	23.5%	93	31.2%
A	260	56.5%	161	53.8%
BBB	1	0.2%	1	0.3%
Not-rated	91	19.8%	44	14.7%
Total	**460**	**100.0%**	**299**	**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. 2018		31. 12. 2017	
	Amount	Weight (%)	Amount	Weight (%)
A	23	59.0%	3	10.7%
BBB	12	30.7%	4	14.3%
Non-investment grade	3	7.7%	17	60.7%
Not-rated	1	2.6%	4	14.3%
Total	**39**	**100.0%**	**28**	**100.0%**

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. 2018	31. 12. 2017	31. 12. 2018	31. 12. 2017
Neither past due nor impaired – carrying amount	**2,069**	**2,215**	**303**	**274**
Past due but not impaired – carrying amount	**–**	**–**	**41**	**52**
Individually impaired – carrying amount	**–**	**–**	**88**	**81**
Gross amount	1	1	188	192
up to 90 days after maturity	–	–	77	69
91 days to 180 days after maturity	–	–	13	19
181 days to 1 year after maturity	–	–	19	24
over 1 year after maturity	1	1	79	80
Allowance for impairment	(1)	(1)	(100)	(111)
Total	**2,069**	**2,215**	**432**	**407**

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. 2018	31. 12. 2017
Against individually impaired	1	1
Property	1	1
Against neither past due nor impaired	1,923	2,110
Debt securities	1,905	2,095
Other	18	15
Total	**1,924**	**2,111**

Concentrations of credit risk arise where groups of counterparties have similar economic characteristics that would cause their ability to meet their contractual obligations to be similarly affected by changes in economic or other conditions.

The following table shows the geographic concentration of credit risk of bonds and reverse repurchase agreements.

Geographic concentration:

(€ million)	31. 12. 2018		31. 12. 2017	
	Total fair value	Weight (%)	Total fair value	Weight (%)
Czech Republic	6,609	57.1%	6,831	58.0%
Russia	209	1.8%	238	2.0%
Poland	1,307	11.3%	1,278	10.9%
Hungary	566	4.9%	587	5.0%
Serbia	428	3.7%	391	3.3%
Romania	394	3.4%	402	3.4%
Other CEE countries	882	7.6%	919	7.8%
Other EU countries	756	6.6%	799	6.4%
The Netherlands	128	1.1%	146	1.2%
Germany	92	0.8%	78	0.7%
Austria	135	1.2%	121	1.0%
Other	401	3.5%	401	3.5%
USA	120	1.0%	118	1.0%
Other world countries	305	2.6%	264	2.2%
Total	**11,576**	**100.0%**	**11,774**	**100.0%**

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. 2018 (€ million)	Less than 1 year	Between 1 and 5 years	More than 5 years	Unspecified	Total
Investments excluding investment properties	**3,383**	**3,948**	**4,872**	**2,621**	**14,824**
Loans	**2,047**	**22**	**–**	**–**	**2,069**
Held to maturity	**19**	**15**	**2**	**–**	**36**
Available for sale	**1,198**	**3,659**	**4,681**	**1,051**	**10,589**
Bonds	1,198	3,659	4,681	–	9,538
Equities	–	–	–	718	718
Investment fund units	–	–	–	333	333
Financial assets at fair value through profit or loss	**119**	**252**	**189**	**1,570**	**2,130**
Bonds	–	4	5	–	9
Investment fund units	–	–	–	117	117
Unit-linked investments	113	238	174	1,453	1,978
Derivatives	6	10	10	–	26
Receivables	**409**	**4**	**19**	**–**	**432**
Cash and cash equivalents	**311**	**–**	**–**	**–**	**311**
Total financial assets	**4,103**	**3,952**	**4,891**	**2,621**	**15,567**

31. 12. 2017 (€ million)	Less than 1 year	Between 1 and 5 years	More than 5 years	Unspecified	Total
Investments excluding investment properties	**3,176**	**4,414**	**4,821**	**2,755**	**15,166**
Loans	**2,156**	**59**	**–**	**–**	**2,215**
Held to maturity	**8**	**32**	**5**	**–**	**45**
Available for sale	**879**	**4,056**	**4,609**	**1,034**	**10,578**
Bonds	879	4,056	4,609	–	9,544
Equities	–	–	–	670	670
Investment fund units	–	–	–	364	364
Financial assets at fair value through profit or loss	**133**	**267**	**207**	**1,721**	**2,328**
Bonds	–	4	5	–	9
Investment fund units	–	–	–	118	118
Unit-linked investments	124	255	173	1,603	2,155
Derivatives	9	8	29	–	46
Receivables	**383**	**3**	**21**	**–**	**407**
Cash and cash equivalents	**404**	**–**	**–**	**–**	**404**
Total financial assets	**3,963**	**4,417**	**4,842**	**2,755**	**15,977**

Residual contractual maturities of financial liabilities excluding financial liabilities related to investment contracts (2018: €4,221 million; 2017: €4,198 million)

31. 12. 2018 (€ million)	Less than 1 year	Between 1 and 5 years	More than 5 years	Total
Financial liabilities	**1,602**	**36**	**18**	**1,656**
Financial liabilities at fair value through profit or loss	**6**	**12**	**18**	**36**
Derivatives	3	12	18	33
Other	3	–	–	3
Financial liabilities at amortised cost	**1,596**	**24**	**–**	**1,620**
Net assets attributable to unit holders	22	–	–	22
Other	1,574	24	–	1,598
Payables	**534**	**–**	**–**	**534**
Other liabilities	**203**	**47**	**85**	**335**
Total financial liabilities	**2,339**	**83**	**103**	**2,525**

31. 12. 2017 (€ million)	Less than 1 year	Between 1 and 5 years	More than 5 years	Total
Financial liabilities	**1,859**	**40**	**8**	**1,908**
Financial liabilities at fair value through profit or loss	**11**	**15**	**8**	**35**
Derivatives	8	15	8	32
Other	3	–	–	3
Financial liabilities at amortised cost	**1,848**	**25**	**–**	**1,873**
Net assets attributable to unit holders	24	–	–	24
Other	1,824	25	–	1,849
Payables	**426**	**–**	**–**	**426**
Other liabilities	**215**	**43**	**96**	**354**
Total financial liabilities	**2,495**	**86**	**107**	**2,688**

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. 2018 (€ million)	Life insurance provisions – Gross direct insurance	Financial liabilities related to investment contracts	Total
Up to 1 year	579	1,469	2,048
Between 1 and 5 years	1,241	807	2,048
Between 6 and 10 years	836	552	1,388
Between 11 and 20 years	735	785	1,520
More than 20 years	688	608	1,296
Total	**4,079**	**4,221**	**8,300**

31. 12. 2017 (€ million)	Life insurance provisions – Gross direct insurance	Financial liabilities related to investment contracts	Total
Up to 1 year	576	1,437	2,013
Between 1 and 5 years	1,266	845	2,111
Between 6 and 10 years	863	565	1,428
Between 11 and 20 years	748	765	1,513
More than 20 years	723	586	1,309
Total	**4,176**	**4,198**	**8,374**

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

Provision for outstanding claims – Gross direct amount (€ million)	31. 12. 2018	31. 12. 2017
Up to 1 year	862	769
Between 1 and 5 years	592	596
Between 6 and 10 years	220	192
Between 11 and 20 years	220	164
More than 20 yaers	307	338
Total	**2,201**	**2,059**

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

2018 (€ million)	Saving & Pension	Protection	Unit Linked	Total
Czech Republic	136	190	118	444
Hungary	19	18	105	142
Slovakia	18	58	26	102
Poland	2	82	99	183
Serbia	52	11	–	63
Romania	7	16	1	24
Slovenia	6	7	14	27
Croatia	40	3	3	46
Total	**280**	**385**	**366**	**1,031**

2017 (€ million)	Saving & Pension	Protection	Unit Linked	Total
Czech Republic	151	178	114	443
Hungary	20	16	109	145
Slovakia	20	48	27	95
Poland	2	68	74	144
Serbia	43	10	–	53
Romania	7	6	1	14
Slovenia	7	6	13	26
Croatia	31	3	2	36
Total	**281**	**335**	**340**	**956**

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

2018 (€ million)		Non motor				
	Motor	Property	General liability	Accident, Health and Disability	Other	Total
Czech Republic	522	337	114	36	5	1,014
Hungary	121	137	33	27	9	327
Slovakia	84	34	8	11	1	138
Poland	209	68	16	25	17	335
Serbia	68	28	1	18	4	119
Romania	69	30	4	5	5	113
Slovenia	37	21	4	7	3	72
Bulgaria	50	17	1	11	2	81
Croatia	21	12	2	6	11	52
Other countries	8	2	–	1	–	11
Total	**1,189**	**686**	**183**	**147**	**57**	**2,262**

2017 (€ million)	Motor	Non motor				Total
		Property	General liability	Accident, Health and Disability	Other	
Czech Republic	461	322	108	35	10	936
Hungary	109	134	31	24	9	307
Slovakia	76	31	7	10	1	125
Poland	209	55	17	21	16	318
Serbia	66	24	1	17	2	110
Romania	79	28	4	4	4	119
Slovenia	37	19	4	7	3	70
Bulgaria	39	18	1	11	2	71
Croatia	20	11	2	5	2	40
Other countries	7	2	–	1	–	10
Total	**1,103**	**644**	**175**	**135**	**49**	**2,106**

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 and is excluded from the above table.

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.

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. 2018	31. 12. 2017
Liabilities with guaranteed interest*	**5,905**	**5,828**
between 0% and 1%	4,022	3,896
between 1% and 3%	793	749
between 3% and 4%	488	502
between 4% and 5%	466	537
more than 5%	136	144
Provisions without guaranteed interest	**2,100**	**2,250**
Provisions matched by specific assets**	**79**	**94**
Total	**8,084**	**8,172**

* 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 €2,144 million (2017: €2,206 million), provisions for unit-linked policies €1,719 million (2017: €1,768 million), and financial liabilities related to investment contracts with DPF €4,221 million (2017: €4,198 million).

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 2009 to 2018. 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)	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
Cumulative claim payments											
at the end of accident year	669	736	553	554	606	532	545	595	620	635	6,044
one year later	905	1,030	756	767	817	755	764	821	883		
two years later	950	1,077	795	809	859	822	812	871			
three years later	970	1,102	815	830	877	848	839				
four years later	983	1,115	825	842	886	862					
five years later	990	1,120	832	848	893						
six years later	995	1,126	836	852							
seven years later	998	1,129	840								
eight years later	1,001	1,131									
nine years later	1,003										
Estimate of cumulative claims costs											
at the end of accident year	1,165	1,298	1,048	1,070	1,116	1,050	1,110	1,208	1,271	1,350	11,685
one year later	1,136	1,272	993	1,016	1,054	1,067	1,071	1,137	1,220		
two years later	1,113	1,256	971	988	1,039	1,044	1,051	1,106			
three years later	1,104	1,246	955	976	1,026	1,029	1,027				
four years later	1,091	1,213	937	947	992	1,001					
five years later	1,076	1,204	924	930	979						
six years later	1,071	1,189	907	920							
seven years later	1,057	1,178	897								
eight years later	1,046	1,172									
nine years later	1,040										
Estimate of cumulative claims	**1,040**	**1,172**	**897**	**920**	**979**	**1,001**	**1,027**	**1,106**	**1,220**	**1,350**	**10,712**
Cumulative payments	**(1,003)**	**(1,131)**	**(840)**	**(852)**	**(893)**	**(862)**	**(839)**	**(871)**	**(883)**	**(635)**	**(8,809)**
Provisions for outstanding claims not included in underwriting years											126
Provisions not included in the claims development table											172
Accepted reinsurance											60
Amount recognised in the Statement of financial position											**2,261**

With reference to item Provision not included in the claims development table – majority of this amount is represented by ULAE provisions of all entities. Additionally It covers also provisions of small portfolios, which are not modelled by methods based on development triangles and also RBNS annuities arising from other LoBs than MTPL LoB.

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 2018:

Line of business / Treaty	Form of reinsurance	Leader
Property		
Property + Engineering per Risk	Excess of Loss	Assicurazioni Generali S.p.A.
Property Catastrophe	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	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 and other risks	Fronting	Assicurazioni Generali S.p.A.
Death and other risks	Quota Share	Assicurazioni Generali S.p.A.
Death and other risks	Surplus	Assicurazioni Generali S.p.A.
Death and other risks	Excess of Loss	Assicurazioni Generali S.p.A.
Death and other risks	Quota Share	General Cologne Re
Death and other risks	Surplus	München Re
Death and other risks	Surplus	Swiss Re
Mortgage/Personal loan insurance	Quota Share	Axa
Mortgage/Personal loan insurance	Quota Share	Assicurazioni Generali S.p.A
Individual life insurance	Surplus	Assicurazioni Generali S.p.A
Individual life insurance	Fronting	Assicurazioni Generali S.p.A
Individual life insurance	Quota Share	Assicurazioni Generali S.p.A
Individual life insurance	Quota Share	Hannover RE
Group life insurance	Quota Share	Assicurazioni Generali S.p.A
Personal accident	Surplus	Assicurazioni Generali S.p.A

As a part of its reinsurance strategy, the Group carries out regular monitoring of the financial position of its reinsurers, as shown in Note E.5.

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) with stable outlook and a Long-Term Issuer Credit Rating improved from „a" with positive outlook to „a+" with stable outlook, assigned by A.M. Best on 10 January 2019. 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.11. 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 2018, 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 both at the end of years 2018 and 2017. 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 2019.

F. NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION AND CONSOLIDATED INCOME STATEMENT

F.1. Intangible assets

(€ million)	31. 12. 2018	31. 12. 2017
Goodwill	**1,431**	**1,431**
of which Česká pojišťovna a.s.	1,063	1,071
of which Generali Towarzystwo Ubezpieczeń S.A.	10	10
of which Generali Poisťovňa, a.s.	314	314
of which Generali Osiguranje Srbija A.D.O.	19	19
of which Penzijní společnost České pojišťovny, a.s.	17	17
of which Concordia Capital SA	6	–
of which Concordia Polska Towarzystwo Ubezpieczen Wzajemnych	2	–
Other intangible assets	**814**	**855**
Software	87	78
Present value of future profits from portfolios acquired	501	556
of which Česká pojišťovna a.s.	434	488
of which Penzijní společnost České pojišťovny, a.s.	38	42
of which Generali Poisťovňa, a.s.	19	21
of which Concordia Capital SA	7	–
Others	3	5
Brand	213	219
Other intangible assets	13	2
Total	**2,245**	**2,286**

In November 2018, the Group acquired the Polish life insurance company Concordia Capital SA and the non–life insurance company Concordia Polska TUW. In accordance with IFRS 3, the Group performed a purchase price allocation exercise ("PPA") and recognised a VOBA asset for Concordia Capital SA of €7 million. The excess of the purchase price over the fair values of identified assets and liabilities resulted in the recognition of goodwill of €6 million and €2 million, respectively.

The remaining amortization period of the Present value of future profits from the portfolios acquired listed above is between 15 and 20 years.

In 2017, the management of the Group revised its plans for the former Proama insurance portfolio (currently managed under Generali Towarzystwo Ubezpieczeń S.A.) and in line with impairment test methodology as described below, an impairment charge €1 million was identified (see Note F.24). No impairment was recognized in 2018.

F.1.1. Goodwill

(€ million)	2018	2017
Gross book value as at beginning of reporting period	**1,626**	**1,565**
Accumulated impairment as at beginning of reporting period	**(195)**	**(194)**
Carrying amount as at beginning of reporting period	**1,431**	**1,371**
Business combinations	8	–
Impairment charge for the period	–	(1)
Foreign currency translation effects	(8)	61
Gross book value as at end of reporting period	**1,574**	**1,626**
Accumulated impairment as at end of reporting period	**(143)**	**(195)**
Carrying amount as at end of reporting period	**1,431**	**1,431**

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:

a) For forecasting the future cash flows of each cash-generating unit, the detailed information included in the last available Rolling Plan 2019 – 2021 has been considered. The main economic-financial data has been calculated for two additional years (2022 and 2023) on the basis of the growth rate in the last year of the Rolling Plan (2021) to extend the forecast period. Concerning non-life cash-generating units, the combined ratios considered are included within the range 86.3% – 95.9%.
b) 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.
c) 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.
d) Regarding the terminal value, applying a growth rate of 1.0% (2.0% for Poland) on the cash flows of the latest Plan year.
e) The post-tax discount rate of the future cash flows (between 6.01% and 9.83%) has been derived from the return rate of risk-free investments (between 0.91% and 4.73%), annual cost of capital (5.00%), size premium (1.00%) and beta (0.82).

Assumptions used in the impairment test of goodwill for the year 2018

	Combined ratio*	Long term growth rate	Discount rate
Česká pojišťovna, a.s. – Life	–	1.0%	7.10%
Česká pojišťovna, a.s. – Non-life	93.1%	1.0%	7.10%
Generali Towarzystwo Ubezpieczeń S.A.	94.9%	2.0%	7.93%
Generali poisťovňa, a.s. – Life	–	1.0%	6.01%
Generali poisťovňa, a.s. – Non-life	95.9%	1.0%	6.01%
Generali Osiguranje Srbija A.D.O. – Life	–	1.0%	9.83%
Generali Osiguranje Srbija A.D.O. – Non-life	86.3%	1.0%	9.83%
Penzijní společnost České pojišťovny, a.s.	–	1.0%	7.10%

Assumptions used in the impairment test of goodwill for the year 2017

	Combined ratio*	Long term growth rate	Discount rate
Česká pojišťovna, a.s. – Life	–	1.0%	6.77%
Česká pojišťovna, a.s. – Non-life	90.7%	1.0%	6.77%
Generali Towarzystwo Ubezpieczeń S.A.	95.5%	2.0%	8.15%
Generali poisťovňa, a.s. – Life	–	1.0%	5.80%
Generali poisťovňa, a.s. – Non–life	99.1%	1.0%	5.80%
Generali Osiguranje Srbija A.D.O. – Life	–	1.0%	13.76%
Generali Osiguranje Srbija A.D.O. – Non-life	85.7%	1.0%	13.76%
Penzijní společnost České pojišťovny, a.s.	–	1.0%	6.77%

* 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:

2018 (€ million)	Software	Present value of future profits	Brands	Other	Total
Gross book value as at beginning of reporting period	**386**	**1,348**	**219**	**9**	**1,962**
Accumulated amortization and impairment as at beginning of reporting period	**(308)**	**(792)**	**–**	**(7)**	**(1,107)**
Carrying amount as at beginning of reporting period	**78**	**556**	**219**	**2**	**855**
Increases	34	–	1	12	47
Decreases	(3)	–	–	–	(3)
Business combinations	3	7	–	–	10
Foreign currency translation effects	(2)	(4)	(2)	–	(8)
Amortisation and impairment of the period	(23)	(58)	(5)	(1)	(87)
Gross book value as at end of reporting period	**418**	**1,345**	**213**	**19**	**1,995**
Accumulated amortization and impairment as at end of reporting period	**(331)**	**(844)**	**–**	**(6)**	**(1,181)**
Carrying amount as at end of reporting period	**87**	**501**	**213**	**13**	**814**

2017 (€ million)	Software	Present Value of Future Profits	Brands	Other	Total
Gross book value as at beginning of reporting period	**343**	**1,278**	**207**	**8**	**1,836**
Accumulated amortization and impairment as at beginning of reporting period	**(274)**	**(692)**	**–**	**(7)**	**(974)**
Carrying amount as at beginning of reporting period	**69**	**586**	**207**	**1**	**863**
Increases	30	–	–	–	30
Decreases	(2)	–	–	–	(2)
Foreign currency translation effects	2	30	12	2	46
Amortisation and impairment of the period	(21)	(60)	–	(1)	(82)
Gross book value as at end of reporting period	**386**	**1,348**	**219**	**9**	**1,962**
Accumulated amortization and impairment as at end of reporting period	**(308)**	**(792)**	**–**	**(7)**	**(1,107)**
Carrying amount as at end of reporting period	**78**	**556**	**219**	**2**	**855**

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 2018 and 2017, no impairment losses were recognised in the consolidated statement of comprehensive income. Brands previously reported for Generali Osiguranje Srbija A.D.O. and Generali Osiguranje d.d. were derecognized in 2018 as these are no longer used by the Group.

Assumptions used in the impairment test of brand for the year 2018

	Česká pojišťovna, a.s.	Generali Osiguranje Srbija A.D.O.	Generali Osiguranje d.d.
Carrying amount (€ million)	**213**	**–**	**–**
Assumptions used in the impairment test:			
Royalty rate	1.45%	–	–
Long-term growth	1.0%	–	–
Cost of capital	7.10%	–	–

Assumptions used in the impairment test of brand for the year 2017

	Česká pojišťovna, a.s.	Generali Osiguranje Srbija A.D.O.	Generali Osiguranje d.d.
Carrying amount (€ million)	**214**	**2**	**3**
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	6.77%	13.76%	7.59%

F.2. Tangible assets

F.2.1. Land and buildings (own use)

(€ million)	31. 12. 2018	31. 12. 2017
Gross book value as at the beginning of reporting period	**103**	**90**
Accumulated depreciation and impairment as the beginning of reporting period	**(36)**	**(32)**
Carrying amount as at the beginning of reporting period	**67**	**58**
Foreign currency translation effects	(1)	1
Increases	2	1
Acquisitions	–	12
Decreases	(1)	–
Other changes	–	(1)
Depreciation of the period	(3)	(4)
Gross book value as at end of reporting period	**100**	**103**
Accumulated depreciation and impairment as at end of reporting period	**(36)**	**(36)**
Carrying amount as at end of reporting period	**64**	**67**
Fair value	**77**	**76**

F.2.2. Other tangible assets

(€ million)	2018	2017
Gross book value as at the beginning of reporting period	**67**	**68**
Accumulated depreciation and impairment as at the beginning of reporting period	**(51)**	**(50)**
Carrying amount as at the beginning of reporting period	**17**	**18**
Increases	11	7
Acquisitions	1	–
Decreases	(4)	(1)
Other changes	1	–
Depreciation of the period	(6)	(7)
Gross book value as at end of reporting period	**72**	**67**
Accumulated depreciation and impairment as at end of reporting period	**(53)**	**(51)**
Carrying amount as at end of reporting period	**19**	**17**
Fair value	**19**	**17**

F.3. Investments

F.3.1. Investment properties

(€ million)	2018	2017
Gross book value as at beginning of reporting period	**455**	**401**
Accumulated depreciation and impairment as at beginning of reporting period	**(51)**	**(39)**
Carrying amount as at beginning of reporting period	**404**	**362**
Foreign currency translation effects	(4)	18
Increases	14	3
Acquisitions	60	33
Other changes	(1)	–
Depreciation of the period	(9)	(8)
Net impairment loss of the period	(1)	(4)
Gross book value as at end of reporting period	**524**	**455**
Accumulated depreciation and impairment as at end of reporting period	**(61)**	**(51)**
Carrying amount as at end of reporting period	**463**	**404**
Fair value	**514**	**435**

In October 2018, the Group acquired from S+B Gruppe AG, Vienna, an investment vehicle SIBSEN Invest sp. z o.o. owning office building in central Warsaw at Senatorska street, also known as Jabłonowski Palace. It comprises 17,700 sqm of office space on five above–ground floors, all of which is currently occupied by mBank.

This operation is in line with Generali Real Estate's strategy of investing in the main European cities.

In 2017, the Group acquired one investment property. In June 2017, the Group purchased from S+B Gruppe AG, Vienna, a real estate entity Cleha Invest sp. z o.o. owning retail and office property located in the centre of Warsaw. The fair value of acquired property amounted to €33 million.

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 associates and joint ventures

(€ million)	31. 12. 2018	31. 12. 2017
Investments in associates and joint ventures consolidated at equity	**11**	**9**
VÚB Generali d.s.s., a.s.	9	9
Europ Assistance s.r.o.	1	–
Europ Assistance Magyarorszá Befektetésiés Tanácsa dó Kft .	1	–
Other investments	**4**	**4**
Total	**15**	**13**

Changes in associates and joint ventures consolidated at equity

(€ million)	2018	2017
Balance as at beginning of reporting period	**9**	**9**
Other changes	2	–
Balance as at end of reporting period	**11**	**9**

Summarised financial information for associates consolidated at equity

Summarised statement of financial position

(€ million)	VÚB Generali d.s.s., a.s.	
	31. 12. 2018	31. 12. 2017
Total assets	**17**	**19**
Investments	16	17
Cash and cash equivalents	1	2
Current assets	**17**	**19**
Total liabilities	**1**	**1**
Payables and other liabilities	1	1
Current liabilities	**1**	**1**
Net assets	**16**	**18**

Summarised statement of comprehensive income

(€ million)	VÚB Generali d.s.s., a.s.	
	2018	2017
Net gains/(losses) from the fees and commission	7	6
Other operating expense	(2)	(1)
Earnings before tax	**5**	**5**
Tax	**(1)**	**(1)**
Net profit of the year	**4**	**4**

F.3.3. Held to maturity investments

(€ million)	Book Value		Fair value	
	31. 12. 2018	31. 12. 2017	31. 12. 2018	31. 12. 2017
Quoted bonds	36	45	39	51
Total	**36**	**45**	**39**	**51**
Current portion	**18**	**8**		
Non–current portion	**18**	**37**		

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

Fair value measurement as at the end of the reporting period

(€ million)	31. 12. 2018			
	Level 1	Level 2	Level 3	Total
Quoted bonds	35	4	–	39
Total	**35**	**4**	**–**	**39**

(€ million)	31. 12. 2017			
	Level 1	Level 2	Level 3	Total
Quoted bonds	46	5	–	51
Total	**46**	**5**	**–**	**51**

Maturity of held to maturity inestments – bonds

(€ million)	Book Value	
	31. 12. 2018	31. 12. 2017
Up to 1 year	18	8
Between 1 and 5 years	15	32
Between 5 and 10 years	3	5
Total	**36**	**45**

F.3.4. Loans and receivables

(€ million)	Book Value		Fair Value	
	31. 12. 2018	31. 12. 2017	31. 12. 2018	31. 12. 2017
Unquoted bonds	**59**	**56**	**59**	**60**
Other loans and receivables	**2,010**	**2,159**	**2,010**	**2,159**
Term deposit with credit institutions	39	28	39	28
Reverse repurchase agreement (Reverse REPO)	1,931	2,110	1,931	2,110
Other loans	40	21	40	21
Total	**2,069**	**2,215**	**2,069**	**2,219**
Current portion	**2,047**	**2,156**		
Non–current portion	**22**	**59**		

Reverse repo operations are secured by collateral which is a financial asset received as part of a reverse repo transaction in same value.

Fair value measurement as at the end of the reporting period

(€ million)	31. 12. 2018			
	Level 1	Level 2	Level 3	Total
Unquoted bonds	**–**	**59**	**–**	**59**
Other loans and receivables	**–**	**1,970**	**40**	**2,010**
Term deposit with credit institutions	–	39	–	39
Reverse repurchase agreement (Reverse REPO)	–	1,931	–	1,931
Other loans	–	–	40	40
Total	**–**	**2,029**	**40**	**2,069**

(€ million)	31. 12. 2017			
	Level 1	Level 2	Level 3	Total
Unquoted bonds	**–**	**60**	**–**	**60**
Other loans and receivables	**–**	**2,138**	**21**	**2,159**
Term deposit with credit institutions	–	28	–	28
Reverse repurchase agreement (Reverse REPO)	–	2,110	–	2,110
Other loans	–	–	21	21
Total	**–**	**2,198**	**21**	**2,219**

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. 2018	31. 12. 2017
Unquoted equities at cost	**–**	**1**
Equities at fair value	**718**	**669**
Quoted	104	110
Unquoted	614	559
Bonds	**9,538**	**9,544**
Quoted	9,360	9,376
Unquoted	178	168
Investments in fund units	**333**	**364**
Total	**10,589**	**10,578**
Current portion	**1,198**	**879**
Non-current portion	**9,391**	**9,699**

The increase on line Unquoted equities at fair value in 2018 results mainly from increase of participation in private equity fund Lion River I N.V. amounting to €40 million (2017: €63 million).

Maturity of available for sale financial assets – bonds

(€ million)	Fair value 31. 12. 2018	Fair value 31. 12. 2017
Up to 1 year	1,198	879
Between 1 and 5 years	3,659	4,056
Between 5 and 10 years	3,254	2,942
More than 10 years	1,427	1,667
Total	**9,538**	**9,544**

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

(€ million)	Realised gains		Realised losses		Impairment losses	
	2018	2017	2018	2017	2018	2017
Equities	1	6	(2)	–	(5)	(1)
Bonds	30	22	(25)	(6)	–	–
Investments in fund units	15	14	(3)	(1)	(2)	(1)
Total	**46**	**42**	**(30)**	**(7)**	**(7)**	**(2)**

Fair value measurement at the end of the reporting period

(€ million)	31. 12. 2018			
	Level 1	Level 2	Level 3	Total
Unquoted equities at cost	**–**	**–**	**–**	**–**
Equities at fair value	**104**	**–**	**614**	**718**
Quoted	104	–	–	104
Unquoted	–	–	614	614
Bonds	**8,216**	**1,139**	**183**	**9,538**
Quoted	8,215	962	183	9,360
Unquoted	1	177	–	178
Investments in fund units	**333**	**–**	**–**	**333**
Total	**8,653**	**1,139**	**797**	**10,589**

(€ million)	31. 12. 2017			
	Level 1	Level 2	Level 3	Total
Unquoted equities at cost	**–**	**–**	**1**	**1**
Equities at fair value	**110**	**–**	**559**	**669**
Quoted	110	–	–	110
Unquoted	–	–	559	559
Bonds	**8,225**	**1,137**	**182**	**9,544**
Quoted	8,225	969	182	9,376
Unquoted	–	168	–	168
Investments in fund units	**360**	**4**	**–**	**364**
Total	**8,695**	**1,141**	**742**	**10,578**

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

(€ million)	2018	2017
Transfers into Level 1 from Level 2	6	3
Transfers into Level 1 from Level 3	–	–
Transfers into Level 2 from Level 1	30	–
Transfers into Level 2 from Level 3	9	34
Transfers into Level 3 from Level 1	–	–
Transfers into Level 3 from Level 2	10	56

In 2018 corporate bonds in the amount of €30 million were reclassified from level 1 to level 2. The reason was that active market ceased to exist, therefore the Company switched on expert valuation.

In 2018, government bonds amounting to €9 million were reclassified out of Level 3. The main driver was the fact that level of credit spread used for valuation ceased to be classified as material non-observable market input (either materiality decreases or more information on the market was available).

In 2018 government bonds in the amount of €10 million were reclassified from level 2 to level 3. The main driver was the level of credit spread used for valuation which created material non-observable market input.

In 2017, corporate bonds amounting to €34 million were reclassified out of Level 3 as a result of available market information about their future yields.

The transfer of corporate bonds amounting to €33 million and government bonds amounting to €23 million from Level 2 into Level 3 in 2017 was caused by the situation in the financial markets which led to unavailability of observable market inputs, namely the level of credit spreads.

Sensitivity of the fair values of Level 3 investments is described in Note D.1.28.6.

The following table presents the changes in Level 3 instruments:

(€ million)	2018	2017
Balance as at beginning of reporting period	**742**	**175**
Transfers from Level 3	(9)	(34)
Increases	59	567
Decreases and maturities	(14)	(2)
Transfers to Level 3	10	56
Net unrealised gains and losses recognised in OCI	13	4
Net unrealised gains and losses recognised in P&L	(4)	(22)
Amortization	2	2
Other changes	(2)	(4)
Balance as at end of reporting period	**797**	**742**
Realised gains/losses for the period recognised in profit and loss	**(2)**	**(1)**
Net impairment loss for the period recognised in profit and loss	**–**	**–**

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. 2018	31. 12. 2017	31. 12. 2018	31. 12. 2017	31. 12. 2018	31. 12. 2017
Equities	**–**	**–**	**–**	**–**	**–**	**–**
Bonds	**–**	**–**	**9**	**9**	**9**	**9**
Quoted	–	–	7	8	7	8
Unquoted	–	–	2	1	2	1
Investments in fund units	**–**	**–**	**117**	**118**	**117**	**118**
Derivatives	**26**	**46**	**–**	**–**	**26**	**46**
Unit-linked investments	**–**	**–**	**1,978**	**2,155**	**1,978**	**2,155**
Total	**26**	**46**	**2,104**	**2,282**	**2,130**	**2,328**
Current portion					**729**	**135**
Non-current portion					**1,401**	**2,193**

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.).

Certain portion of unit-linked investment is not as at year end allocated to policyholders and stay available for new unit linked insurance contracts. FV revaluation of financial assets that are designated through profit and loss eliminate accounting mismatch from related liabilities arising from insurance contracts measured at FV.

Fair value measurement at the end of the reporting period:

(€ million)	31. 12. 2018			
	Level 1	Level 2	Level 3	Total
Equities	**–**	**–**	**–**	**–**
Bonds	**7**	**–**	**2**	**9**
Quoted	7	–	–	7
Unquoted	–	–	2	2
Investments in fund units	**117**	**–**	**–**	**117**
Derivatives	**–**	**26**	**–**	**26**
Unit-linked investments	**1,840**	**108**	**30**	**1,978**
Total	**1,964**	**134**	**32**	**2,130**

(€ million)	31. 12. 2017			
	Level 1	Level 2	Level 3	Total
Equities	**–**	**–**	**–**	**–**
Bonds	**8**	**–**	**1**	**9**
Quoted	8	–	–	8
Unquoted	–	–	1	1
Investments in fund units	**118**	**–**	**–**	**118**
Derivatives	**1**	**45**	**–**	**46**
Unit–linked investments	**2,010**	**115**	**30**	**2,155**
Total	**2,137**	**160**	**31**	**2,328**

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

(€ million)	2018	2017
Transfers into Level 1 from Level 2	–	–
Transfers into Level 1 from Level 3	–	–
Transfers into Level 2 from Level 1	–	–
Transfers into Level 2 from Level 3	–	–
Transfers into Level 3 from Level 1	–	–
Transfers into Level 3 from Level 2	–	1

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	
	2018	2017	2018	2017	2018	2017
Balance as at beginning of reporting period	**–**	**–**	**31**	**50**	**31**	**50**
Increases	–	–	2	–	2	–
Decreases and maturities	–	–	–	(1)	–	(1)
Transfers to Level 3	–	–	–	1	–	1
Net unrealized gains and losses recognized in P&L	–	–	–	1	–	1
Other changes	–	–	(1)	(20)	(1)	(20)
Balance as at end of reporting period	**–**	**–**	**32**	**31**	**32**	**31**
Realised gains/losses for the period recognised in P&L	**–**	**–**	**–**	**–**	**–**	**–**

F.4. Reinsurance assets

(€ million)	Direct insurance		Accepted reinsurance		Total	
	31. 12. 2018	31. 12. 2017	31. 12. 2018	31. 12. 2017	31. 12. 2018	31. 12. 2017
Non-life insurance liabilities	**269**	**170**	**121**	**61**	**390**	**231**
Provisions for unearned premium	60	30	19	14	79	44
Provisions for outstanding claims	207	138	102	47	309	185
Other insurance liabilities	2	2	–	–	2	2
Life insurance liabilities	**70**	**68**	**–**	**–**	**70**	**68**
Provisions for outstanding claims	13	10	–	–	13	10
Mathematical provision	31	31	–	–	31	31
Unit-linked provisions	26	27	–	–	26	27
Total	**339**	**238**	**121**	**61**	**460**	**299**
Current portion	**285**	**194**	**117**	**57**	**402**	**251**
Non-current portion	**54**	**44**	**4**	**4**	**58**	**48**

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 €4 million (2017: €4 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.

Large increase of reinsurance assets for non-life insurance business is caused by the large claim in Serbia during the last quarter of 2018 which was caused by the fire in one of the largest dairy in the country.

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. 2018	31. 12. 2017
Receivables arising out of direct insurance operations	**284**	**231**
Amounts owed by policyholders	259	212
Amount owed by intermediaries and others	25	19
Receivables arising out of reinsurance operations	**55**	**41**
Trade and other receivables	**82**	**92**
of which receivables from derivatives collateral	33	31
Current income tax receivables	**11**	**43**
Total	**432**	**407**
Current portion	**409**	**383**
Non-current portion	**23**	**24**

F.6. Other assets

(€ million)	31. 12. 2018	31. 12. 2017
Deferred acquisition costs	**207**	**184**
Deferred tax assets	**42**	**23**
Other assets – other	**22**	**29**
Prepaid rent	1	1
Other accrued income	6	7
Other prepayments	13	17
Deferred costs for investment management services	–	2
Assets – other	2	2
Other assets total	**271**	**236**
Current portion	**182**	**178**
Non-current portion	**89**	**58**

F.6.1. Deferred acquisition costs (DAC)

(€ million)	Gross amount		Reinsurance		Net amount	
	2018	2017	2018	2017	2018	2017
Carrying amount as at beginning of reporting period	**189**	**175**	**(5)**	**(4)**	**184**	**171**
Change of DAC	23	14	(3)	(1)	20	13
Business combinations	11	–	(8)	–	3	–
Carrying amount as at end of reporting period	**223**	**189**	**(16)**	**(5)**	**207**	**184**

F.7. Cash and cash equivalents

(€ million)	31. 12. 2018	31. 12. 2017
Cash and cash equivalents	–	–
Cash at bank	311	404
Total	**311**	**404**

Short term deposits are included in line Cash at banks in the amount of €27 million (2017: €24 million).

F.8. Shareholder's equity

The following table provides details on the distribution restrictions of equity:

(€ million)	31. 12. 2018	31. 12. 2017
Shareholder's equity attributable to the Group	**4,814**	**4,922**
Not available for distribution to shareholders	**362**	**525**
Share capital	–	–
Revaluation – financial assets AFS	189	308
Currency translation reserve	32	76
Cash flow hedge reserve/(deficit)	(2)	(2)
Other capital reserves	143	143
Available for distribution to shareholders	**4,452**	**4,397**
Additional paid-in capital	3,602	3,602
Retained earnings	850	795
Shareholder's equity attributable to non-controlling interests	**238**	**236**
Total	**5,052**	**5,158**

The following table provides details of reserves for revaluation – financial assets available for sale:

(€ million)	2018	2017
Beginning reporting period	**308**	**408**
– attributable to the Group	**308**	**408**
– attributable to non-controlling interests	**–**	**–**
Gross revaluation as at the beginning of the year	**348**	**470**
Tax on revaluation as at the beginning of the year	**(40)**	**(62)**
Revaluation gain/(loss) in equity – gross	(252)	(238)
Revaluation gain/loss on realisation reclassification in income statement – gross	(16)	(35)
Impairment losses	7	2
Change in deferred policyholder liabilities	122	149
Tax on revaluation	22	22
Gross revaluation as at the end of the year	**207**	**348**
Tax on revaluation as at the end of the year	**(18)**	**(40)**
End of reporting period	**191**	**308**
– attributable to the Group	**189**	**308**
– attributable to non-controlling interests	**2**	**–**

Movements in the reserve for cash–flow hedges were as follows:

(€ million)	2018	2017
Carrying amount as at the beginning of the reporting period	**(2)**	**(3)**
Fair value gains of the year	–	1
Carrying amount as at the end of the reporting period	**(2)**	**(2)**

The following table provides details of authorized and issued shares:

	31. 12. 2018	31. 12. 2017
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 30 May 2018, the Groups' shareholders adopted a decision, whereby they declared final dividends of €310 million, paid out of the 2017 profit.

Groups's shareholders did not make a decision on distribution of profit for year 2018 yet. This will be decided on general meeting during the year 2019.

F.9. Other provisions

(€ million)	31. 12. 2018	31. 12. 2017
Provisions for taxation	–	1
Provisions for commitments	21	26
Restructuring provision	2	2
Other provisions	25	24
Total	**48**	**53**
Current portion	**27**	**27**
Non-current portion	**21**	**26**

(€ million)	2018	2017
Carrying amount as at the beginning of the reporting period	**53**	**52**
Foreign currency translation effects	(1)	2
Reclassification	(1)	–
Variations	(3)	(1)
Carrying amount as at the end of the reporting period	**48**	**53**

Provisions for Commitments

(€ million)	2018	2017
Carrying amount as at the beginning of the reporting period	**26**	**31**
Foreign currency translation effects	–	1
Variations	(5)	(6)
Carrying amount as at end of reporting period	**21**	**26**

Provisions for commitments mainly consist of provisions for the MTPL deficit, which as at 31 December 2018 amounted to €21 million (2017: €26 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.

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. 2018	31. 12. 2017	31. 12. 2018	31. 12. 2017	31. 12. 2018	31. 12. 2017
Non-life insurance liabilities	**3,053**	**2,808**	**75**	**54**	**3,128**	**2,862**
Provisions for unearned premium	821	719	13	9	834	728
Provisions for outstanding claims	2,201	2,059	60	43	2,261	2,102
Other insurance liabilities	31	30	2	2	33	32
Life insurance liabilities	**4,130**	**4,340**	**–**	**–**	**4,130**	**4,340**
Provisions for outstanding claims	171	159	–	–	171	159
Mathematical provision	2,144	2,206	–	–	2,144	2,206
Unit-linked provision	1,719	1,768	–	–	1,719	1,768
Other insurance liabilities	96	207	–	–	96	207
Provisions for liability adequacy test	12	13	–	–	12	13
Ageing provision	16	14	–	–	16	14
Deferred policyholder assets/liabilities	51	164	–	–	51	164
Other	17	16	–	–	17	16
Total	**7,183**	**7,148**	**75**	**54**	**7,258**	**7,202**
Current portion					**3,142**	**2,868**
Non-current portion					**4,116**	**4,334**

Item Mathematical provision also includes Provision for unearned premiums for Life segment of €29 million (2017: €29 million).

Other non-life insurance liabilities primarily comprise provisions for profit sharing and premiums refunds.

The Group acquired Concordia Polska and Concorda Capital in 2018. The effect of acquisition is reflected in movement tables of respective items within the row Business combinations.

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 amount		Reinsurance		Net amount	
	2018	2017	2018	2017	2018	2017
Carrying amount as at beginning of reporting period	**728**	**685**	**(44)**	**(43)**	**683**	**642**
Movements of the year	55	18	(7)	–	49	17
Foreign currency translation effects	(10)	25	1	(1)	(9)	24
Business combinations	61	–	(29)	–	32	–
Carrying amount as at end of reporting period	**834**	**728**	**(79)**	**(44)**	**755**	**683**

Provisions for outstanding claims

The following table shows the roll-forward of provisions for outstanding claims, including claims incurred but not reported:

(€ million)	Gross amount		Reinsurance		Net amount	
	2018	2017	2018	2017	2018	2017
Carrying amount as at beginning of reporting period	**2,102**	**1,917**	**(185)**	**(149)**	**1,917**	**1,768**
Change related to claims incurred in current year	769	688	(120)	(53)	649	635
Change related to claims incurred in previous years	(629)	(580)	14	19	(615)	(561)
Business combinations	42	–	(12)	–	30	-
Portfolio transfer	9	–	(9)	3	–	3
Foreign currency translation effects	(32)	77	3	(5)	(29)	72
Carrying amount as at end of reporting period	**2,261**	**2,102**	**(309)**	**(185)**	**1,952**	**1,917**

The table below discloses information about gross insurance provisions for outstanding claims:

(€ million)	Direct insurance		Accepted reinsurance		Total	
	31. 12. 2018	31. 12. 2017	31. 12. 2018	31. 12. 2017	31. 12. 2018	31. 12. 2017
Motor	**1,377**	**1,364**	**1**	**1**	**1,378**	**1,365**
Non Motor	**824**	**695**	**59**	**42**	**883**	**737**
General liability	324	312	12	14	336	326
Property	391	274	45	27	436	301
Accident, Health and Disability	51	48	–	–	51	48
Marine, Aviation and Transport	35	37	2	1	37	38
Other	23	24	–	–	23	24
Total	**2,201**	**2,059**	**60**	**43**	**2,261**	**2,102**

Large increase of provisions for outstanding claims within Property LoB is caused by the large claim in Serbia during the last quarter of 2018 which was caused by the fire in one of the largest dairy in the country.

F.10.2. Life insurance liabilities

Provisions for outstanding claims

(€ million)	Direct insurance	
	2018	2017
Carrying amount as at beginning of reporting period	**159**	**138**
Foreign currency translation effects	(2)	7
Change of the period	12	14
Business combinations	2	–
Carrying amount as at end of reporting period	**171**	**159**

Mathematical provisions

(€ million)	Direct insurance	
	2018	2017
Carrying amount as at beginning of reporting period	**2,206**	**2,184**
Foreign currency translation effects	(17)	92
Premiums and payments	(118)	(124)
Interests and bonuses credited to policyholders	61	63
Business combinations	12	–
Other changes	–	(9)
Carrying amount as at end of reporting period	**2,144**	**2,206**

Unit-linked provisions

(€ million)	Direct insurance	
	2018	2017
Carrying amount as at beginning of reporting period	**1,768**	**1,612**
Foreign currency translation effects	(34)	57
Premiums and payments	2	(7)
Portfolio movements	93	–
Changes related to movements in the value of underlying assets	(110)	106
Carrying amount as at end of reporting period	**1,719**	**1,768**

The development of the unit-linked provisions is driven by the movements in the value of assets backing unit-linked policies and the net inflows of such provisions.

Portfolio movements of €93 million represents switch of products from investment contracts to insurance contracts in Poland due to modification of general conditions which led to increase of risk component.

Deferred policyholders' liabilities

(€ million)	Direct insurance	
	2018	2017
Carrying amount as at beginning of reporting period	**164**	**291**
Foreign currency translation effects	(1)	11
Premiums and payments	10	10
Change of the period without impact on income statement	(122)	(148)
Carrying amount as at end of reporting period	**51**	**164**

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. 2018	31. 12. 2017
Insurance contracts	3,762	3,867
Investment contracts with discretionary participation feature	60	63
Total insurance provisions	**3,822**	**3,930**
Investment contracts fair valued	260	386
Investment contracts at amortised cost	3,961	3,812
Total investment contracts	**4,221**	**4,198**

Total insurance liabilities include the following items – all net of reinsurance: mathematical provisions of €2,113 million (2017: €2,175 million), provisions for policies where the investment risk is borne by the policyholders of €1,693 million (2017: €1,741 million) and ageing provisions for the life segment, which amounted to €16 million (2017: €14 million).

F.11. Financial liabilities

(million)	31. 12. 2018	31. 12. 2017
Financial liabilities at fair value through profit or loss	**296**	**421**
Financial liabilities at fair value through profit or loss related to investment contracts	260	386
Financial derivatives	33	32
Other liabilities at fair value through profit or loss	3	3
Financial liabilities at amortised cost	**5,581**	**5,685**
Financial liabilities at amortised cost related to investment contracts	3,961	3,812
Net asset value attributable to unit holders	22	24
Other liabilities at amortised cost	1,598	1,849
Total	**5,877**	**6,106**
Current portion	**3,047**	**3,266**
Non-current portion	**2,830**	**2,840**

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 of reinsurance deposits of €59 million (2017: €69 million), bank loan provided to Green Point Offices a.s. amounting to €24 million (2017: €24 million) and REPO operations amounting to €1,515 million (2017: €1,756 million).

As collateral to the bank loan, the Group pledged the building and land, lease receivables from the building and the balance on bank accounts.

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.

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. 2018			
	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit or loss	**253**	**43**	**–**	**296**
Financial liabilities at fair value through profit or loss related to investment contracts	249	11	–	260
Financial derivatives	1	32	–	33
Other liabilities at fair value through profit or loss	3	–	–	3

(€ million)	31. 12. 2017			
	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit or loss	**375**	**46**	**–**	**421**
Financial liabilities at fair value through profit or loss related to investment contracts	372	14	–	386
Financial derivatives	–	32	–	32
Other liabilities at fair value through profit or loss	3	–	–	3

There were no transfers between levels of fair value measurement categories in 2018 and 2017.

The fair value measurement of Financial liabilities at amortised costs as at the end of the reporting period:

(€ million)	31. 12. 2018			
	Level 1	Level 2	Level 3	Total
Financial liabilities at amortised cost	**–**	**1,619**	**3,962**	**5,581**
Financial liabilities at amortised cost related to investment contracts	–	–	3,961	3,961
Net asset value attributable to unit holders	–	22	–	22
Other liabilities at amortised cost	–	1,597	1	1,598

(€ million)	31. 12. 2017			
	Level 1	Level 2	Level 3	Total
Financial liabilities at amortised cost	**–**	**1,873**	**3,812**	**5,685**
Financial liabilities at amortised cost related to investment contracts	–	–	3,812	3,812
Net asset value attributable to unit holders	–	24	–	24
Other liabilities at amortised cost	–	1,849	–	1,849

There were no significant transfers between levels of fair value measurement categories in 2018 and 2017.

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. 2018	31. 12. 2017
Payable arising out of direct insurance operations	**230**	**196**
Payable arising out of reinsurance operations	**127**	**81**
Current income tax payables	**16**	**8**
Other payables	**161**	**141**
Payables to employees	25	23
Payables to clients and suppliers	34	31
Social security	6	6
Other payables	96	81
Total	**534**	**426**
Current portion	**534**	**426**
Non-current portion	–	–

F.13. Other liabilities

(€ million)	31. 12. 2018	31. 12. 2017
Deferred tax liabilities	**149**	**162**
Other liabilities – other	**186**	**192**
Other accrued expenses	135	153
Deferred expenses	9	10
Other liabilities	42	29
Total	**335**	**354**
Current portion	**203**	**215**
Non-current portion	**132**	**139**

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	
	2018	2017	2018	2017	2018	2017
Non-life earned premium	**2,316**	**2,142**	**(254)**	**(214)**	**2,062**	**1,928**
Premiums written	2,371	2,161	(260)	(215)	2,110	1,946
Change in the provision for unearned premium	(55)	(19)	6	1	(49)	(18)
Life premium	**1,031**	**956**	**(59)**	**(44)**	**972**	**912**
Total	**3,347**	**3,098**	**(313)**	**(258)**	**3,034**	**2,840**

F.15. Fee and commission income and income from financial service activities

(€ million)	2018	2017
Fee and commission income from asset management activity	34	35
Fee and commission income related to investment contracts	7	9
Fee and commission income related to pension funds management	3	2
Total	**44**	**46**

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	
	2018	2017	2018	2017	2018	2017	2018	2017
Financial assets	**6**	**3**	**(113)**	**134**	**(14)**	**34**	**(121)**	**171**
Interest income and other income	1	–	18	16	4	(2)	23	14
Realised gains	6	2	10	57	10	2	26	61
Realised losses	(3)	(1)	(64)	(17)	(4)	–	(71)	(18)
Unrealised gains	3	3	30	105	22	51	55	159
Unrealised losses	(1)	(1)	(107)	(27)	(46)	(17)	(154)	(45)
Financial liabilities	**(5)**	**(3)**	**8**	**(24)**	**(13)**	**20**	**(10)**	**(7)**
Interest expenses	(1)	(2)	–	–	(12)	(12)	(13)	(14)
Other income	1	1	–	-	1	1	2	2
Realised gains	–	–	8	2	2	–	10	2
Realised losses	(4)	(2)	(2)	(20)	–	–	(6)	(22)
Unrealised gains	1	2	4	6	10	32	15	40
Unrealised losses	(2)	(2)	(2)	(12)	(14)	(1)	(18)	(15)
Total	**1**	**–**	**(105)**	**110**	**(27)**	**54**	**(131)**	**164**

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 Groups' relevant share of the result of VÚB Generali d.s.s., a.s. amounting to €2 million (2017: €2 million), results of Europ Assistance s.r.o. and Europ Assistance Magyarország Befektetésiés Tanácsa dó Kft amounting to €1 million (2017: €0 million).

F.18. Income from other financial instruments and investment properties

(€ million)	2018	2017
Interest revenue calculated using the effective interest rate method	**284**	**249**
Interest revenue from held to maturity financial assets	2	4
Interest revenue from loans and receivables	28	8
Interest revenue from available for sale financial assets	252	236
Interest revenue from cash and cash equivalents	2	1
Income – other	**38**	**40**
Income from investment properties	24	22
Other income from available for sale financial assets	14	18
Realised gains	**46**	**42**
Realised gains on available for sale financial assets	46	42
Unrealised gains	**24**	**1**
Unrealised gains from hedged instruments	24	1
Reversal of impairment losses	**10**	**5**
Reversal of impairment of loans and receivables	2	1
Reversal of impairment of other receivables	8	4
Total	**402**	**337**

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)	2018	2017
Not later than one year	38	23
Later than one year and not later than five years	104	42
Later than five years	115	14
Total	**257**	**79**

F.19. Other income

(€ million)	2018	2017
Income from tangible assets	4	3
Changes in provision for commitments	4	6
Income from service and assistance activities and recovery of charges	18	19
Recovery of charges	7	6
Income from service and assistance activities	11	13
Other technical income	30	31
Income – other	24	23
Total	**80**	**82**

Income from recovery of charges includes service charge income from investment properties and amounts to €7 million in 2018 (2017: €6 million).

F.20. Net insurance benefits and claims

(€ million)	Gross amount		Reinsurers' share		Net amount	
	2018	2017	2018	2017	2018	2017
Non-life net insurance benefits and claims	**1,291**	**1,181**	**(159)**	**(82)**	**1,132**	**1,099**
Claims paid	1,153	1,068	(53)	(47)	1,100	1,021
Change in technical provisions	138	113	(106)	(35)	32	78
Life net insurance benefits and claims	**599**	**746**	**(35)**	**(27)**	**564**	**719**
Claims paid	738	680	(32)	(21)	706	659
Change in technical provisions	(139)	66	(3)	(6)	(142)	60
Total	**1,890**	**1,927**	**(194)**	**(109)**	**1,696**	**1,818**

F.21. Fee and commission expenses and expenses from financial service activities

(€ million)	2018	2017
Fee and commission expenses from asset management activity	6	6
Fee and commission expenses related to investment contracts	1	3
Total	**7**	**9**

F.22. Expenses from other financial instruments and investment properties

(€ million)	2018	2017
Interest expense	**55**	**43**
Interest expense on loans, bonds and other payables	57	41
of which: Interest expenses on financial liabilities at amortised cost related to investment contracts	41	30
Interest expense on deposits received from reinsurers	(2)	2
Expense – other	**13**	**12**
Depreciation of investment properties	9	8
Expenses from investment properties	4	4
Realised losses	**31**	**8**
Realised losses on available for sale financial assets	30	7
Realised losses on other receivables	1	1
Unrealised losses	**11**	**51**
Unrealised losses on hedged instruments	11	51
Impairment losses	**17**	**21**
Impairment of investment properties	1	4
Impairment of loans and receivables	8	13
Impairment of available for sale financial assets	7	2
Impairment of other receivables	1	2
Total	**127**	**135**

F.23. Acquisition and administration costs

(€ million)	Non-life segment		Life segment		Financial segment		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
Commission and other acquisition costs	**498**	**449**	**151**	**158**	**–**	**–**	**649**	**607**
Gross acquisition costs and other commission	527	473	167	169	–	–	694	642
Received reinsurance commission	(29)	(24)	(16)	(11)	–	–	(45)	(35)
Investment management expenses	**2**	**2**	**2**	**2**	**–**	**–**	**4**	**4**
Other administration costs	**143**	**142**	**70**	**70**	**15**	**16**	**228**	**228**
Total	**643**	**593**	**223**	**230**	**15**	**16**	**881**	**839**

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)	2018	2017
Not later than one year	21	22
Later than one year and not later than five years	49	56
Later than five years	14	23
Total	**84**	**101**

F.24. Other expenses

(€ million)	2018	2017
Amortisation of intangible assets	82	82
Impairment of goodwill and other intangible assets	6	1
Depreciation of tangible assets	9	11
Expenses from tangible assets	2	1
Losses on foreign currencies	2	7
Restructuring charges and allocation to other provisions	9	9
Expenses from service and assistance activities and charges incurred on behalf of third parties	14	15
Other technical expenses	68	63
Holding costs	32	26
Other charges	62	53
Total	**286**	**268**

Impairment of goodwill and other intangible assets represents brands previously reported for Generali Osiguranje Srbija A.D.O. and Generali Osiguranje d.d. that amounted to €5 million and were derecognized in 2018 as these are no longer used by the Group. In 2017 the management of the Group has revised its plans for the former Proama insurance portfolio (currently managed under Generali Towarzystwo Ubezpieczeń S.A.) and following this revision, and in line with impairment test methodology (described in Note F.1.1), an impairment charge amounting to €1 million was created.

In 2018, Other technical expenses consist mainly of “insurance tax” in Hungary amounting to €32 million (2017: €26 million), the fire brigade charge amounting to €16 million (2017: €13 million), contributions paid to insurance regulators of €6 million (2017: €5 million), charges relating to government guaranteed funds of €4 million (2017: €4 million) used to cover MTPL injuries from unknown or uninsured drivers, and cancellation of premiums written in previous years amounting to €3 million (2017: €3 million).

F.25. Income taxes

The table below shows a breakdown of income taxes recognised in the income statement:

(€ million)	2018	2017
Current income taxes	**88**	**54**
Czech Republic	44	19
Bulgaria	15	14
Hungary	7	6
Poland	11	3
Slovakia	5	6
Other countries	6	6
Income taxes related to previous period	**(1)**	**(4)**
Czech Republic	(1)	(4)
Deferred income taxes	**(10)**	**21**
Czech Republic	(7)	17
Bulgaria	2	1
Poland	(4)	2
Slovakia	(1)	1
Total	**77**	**71**

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:

	2018	2017
Czech Republic	19%	19%
Bulgaria	10%	10%
Hungary	19%	19%
Poland	19%	19%
Slovakia	21%	21%

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)	2018	2017
Expected income tax rate	**19.0%**	**19.0%**
Earnings before taxes	**435**	**402**
Expected income tax expense (benefit)	**83**	**76**
Effect of foreign tax rate differential	5	7
Effect of special (lower) tax rate	(20)	(14)
Tax exempt income and other tax decreasing items	(12)	(7)
Tax non-deductible expenses and other tax increasing items	19	16
Effect of tax losses	(2)	(5)
Income taxes for prior years	1	–
Other	3	(2)
Tax expense	**77**	**71**
Effective tax rate	**17.7%**	**17.7%**

F.25.1. Deferred tax

(€ million)	Deferred tax assets		Deferred tax liabilities	
	31. 12. 2018	31. 12. 2017	31. 12. 2018	31. 12. 2017
Intangible assets	–	–	(133)	(143)
Land and buildings	2	2	(3)	(2)
Financial assets available-for-sale	39	43	(2)	(4)
Financial assets at fair value through profit and loss	2	2	(2)	(3)
Receivables	2	4	–	–
Deferred acquisition costs	1	–	–	–
Insurance provisions	3	3	(7)	(7)
Paybles	17	15	–	–
Fiscal losses carried forward	2	5	–	–
Accrued income and prepayments	1	1	(3)	(5)
Deferred tax asset / liability with impact on equity	23	2	(55)	(57)
Other	8	8	(2)	(3)
Total deferred tax asset/liability before set off	**100**	**85**	**(207)**	**(224)**
Set off of tax	(58)	(62)	58	62
Net deferred tax asset/liability	**42**	**23**	**(149)**	**(162)**
Current portion	**–**	**–**	**–**	**–**
Non-current portion	**42**	**23**	**(149)**	**(162)**

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:

Deferred tax liabilities	Net deferred tax asset/liability	
	2018	2017
Balance as at beginning of reporting period	**(139)**	**(133)**
Deferred income tax for the period	10	(21)
Deferred tax recognised directly in equity	22	22
Total deffered tax income for the period	**32**	**1**
Business combinations	(2)	–
Currency translation differences	2	(7)
Balance as at end of reporting period	**(107)**	**(139)**

The Group did not recognise deferred tax assets of €127 million (2017: €140 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 recognised temporary differences	
	31. 12. 2018	31. 12. 2017
Expire between 1 and 3 years	99	4
Expire between 3 and 5 years	24	135
Expire in more than 5 years	4	1
Total	**127**	**140**

F.26. Share-based payments

Selected members of management of the Group are beneficiaries of a Generali Group's long-term incentive (LTI) plan.

LTI represents the long-term variable remuneration which takes the form of multi-year plans, approved from time to time by the competent bodies and may be addressed to directors, managers with strategic responsibilities and other Generali Group employees; they may be based on cash disbursement or financial instruments.

Generali Group adopted multi-year plans, based on one cycle of three years. Once the cycle reaches its conclusion, participants may be granted a certain number of free shares, again assuming certain targets have been achieved, subject to specific holding/lock up periods (i.e. period, when share have been allocated to the member of the plan, but during which they can not be sold).

The LTI plan 2015 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 Return on Equity (RoE) and relative Total Shareholders Return (rTSR), as well as threshold levels required in terms of Return on Risk Capital and Solvency ratio.

The LTI plans for 2016 and 2017, currently in progress, may result in shares granted respectively in 2019 and 2020, 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.

As far as the lock-up constraints are concerned, 50% of the shares are immediately available and sellable. Remaining 50% are immediately available but subject to sale restrictions for a period of two years.

With a structure similar to the last year, a new long-term incentive plan based on Assicurazioni Generali shares – Group Long Term Incentive (LTI) 2018 – has been submitted for the approval of the Shareholder's Meeting of Assicurazioni Generali S.p.A.

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, as detailed below.

The Plan is based on the following essential aspects:

a) the incentive connected with the achievement of the targets is paid through the grant of Assicurazioni Generali S.p.A. ordinary shares;
b) the right to receive the shares is subject to an entry threshold, defined annually by the Board of Directors of Assicurazioni Generali S.p.A. and which represents a condition precedent;
c) the targets to which payment of the incentive is subject are Generali Group financial ones and are defined at the beginning of the three-year performance period.

The maximum number of shares that can be assigned is determined at the start of the plan. The maximum potential bonus to be disbursed in shares equals to 175% of the gross fixed remuneration of the plan participants (or a different percentage considered the role of the related beneficiaries); therefore, the maximum number of shares that can be assigned is the result of the ratio of the maximum bonus and the share value, with the latter calculated as the average price of the share in the three months prior to the meeting of the Board of Directors called to resolve on the draft statutory financial statements of Assicurazioni Generali S.p.A. and the Generali Group consolidated financial statements for the year previous to the year of the plan approval.

The maximum number of shares that can potentially be assigned to participants at the end of the three years is divided up into three tranches; the first tranche is for 30% of the maximum number of shares to be possibly assigned, the second is for a further 30% and the remaining 40% represents the third tranche, each tranche being subject to certain specific targets as described below.

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.

The performance level, expressed as a percentage, is determined by a calculation methodology, based on two independent baskets respectively for the achievement of the ROE and the relative TSR. The final results in each basket, with a 50% weight on the bonus assignable, shall be calculated using a linear interpolation approach. The maximum performance level is 175% (or a different percentage considered the role of the related beneficiaries).

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 120%, 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 Ratio 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. Any amount disbursed will be subject to claw-back if the performance considered should later be found to be non-lasting or ineffective as a result of willful misconduct or gross negligence.

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 (i.e. assessment by the Board of Directors on the actual achievement of the target set, considered both on an annual and overall 3-year basis) and as long as there continues to be an employment/director relationship in place with the Group companies as at the grant date. Consequently, save for extraordinary situations as specifically envisaged by the plan rules, and unless otherwise decided by the delegated bodies, any case of termination of the employment/director relationship automatically entails forfeiture of the right to be granted shares.

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% are also immediately available but 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.

In line with the LTI plans 2016 and 2017, a dividend equivalent mechanism has been introduced on the basis of the dividends distributed during the three-year performance period. In particular, should the shareholders' meeting resolve upon the distribution of dividends in favour of the shareholders during the three-year reference period, at the expiry of such three-year reference period, an additional number of shares determined in relation to the overall dividends distributed during the three-year reference period will be assigned in favour of the beneficiaries. The additional number of shares thus determined shall be assigned simultaneously and in relation with the other shares assigned in favour of the beneficiary, subject to the same restrictions (holding period) mentioned above and determined considering the shares' value at the assignment of the plan, to be calculated as the average price of the share in the three months prior to the meeting of the Board of Directors called to resolve on the draft statutory financial statements of Assicurazioni Generali S.p.A. and Generali Group consolidated financial statements of the year preceeding the year of the plan approval.

In line with the previous plans, the 2018 LTI plan can be treated as an equity-settled share-based payment falling under IFRS 2 scope, which provides a grant date measurement model seeking to capture the value of the contingent right to shares promised at grant date, to the extent that that promise becomes an entitlement of the counterparty, rather than the value of any shares finally delivered.

The condition related to the rTSR configures as a market condition, other conditions mentioned above are considered as performance or as service condition.

The fair value of the right to receive free shares related to the market condition is estimated at grant date using statistic model which estimates the statistically probable positioning of Generali Group TSR respect to peer group identified in the STOXX Euro Insurance Index.

In order to assess the cumulative cost of the individual plans, for each tranche, the fair value related to the most probable RoE outcome was multiplied by the number of shares that can be assigned based on satisfaction of the vesting conditions. This cost has been allocated over a period of maturity of 3 years (vesting period), with a corresponding increase in equity.

In line with the calculation method applied from 2015, described above and based on an independent assessment of the levels of achievement on the Group's financial indicators, the cost of the plans 2016, 2017 and 2018 was determined by separating the component connected to the relative TSR to the one linked to the RoE.

The evaluation of the bonus right linked to market condition is made by multiplying the fair value of assignable shares (equal to the market price at grant date) with the determined pay-out by applying the linear interpolation of the probable position of rTSR estimated using a statistical model. The linear interpolation method is applied to a range between the maximum pay-out, recognised in the case of the TSR positioning at the first place, and a pay-out zero in the case where the rTSR is in the last position with respect to selected peer or has a negative value.

For each tranche of the LTI plan 2018, the table below shows the fair value at the grant date of the bonus right related to the performance level in terms of rTSR:

(%)	Tranche 2018	Tranche 2019	Tranche 2020
Fair value bonus right related to market condition	6.47	6.34	6.50

The related cost on overall plan is resulted from the multiplication, weighted for each tranche, of the above mentioned fair value with the number of rights related to the market condition, to be assigned based on the satisfaction of the vesting condition.

A similar calculation was applied to the bonus portion linked to the RoE, identifying the pay-out through the linear interpolation applied to the level of RoE considered most probable. The range applied to the linear interpolation is included between the maximum pay-out, granted in case of a level of RoE equal to or greater than 13%, and a pay-out equal to 0 in case of a level of RoE equal to or lower than 11%.

Finally, the cost related to the recognition of dividends paid during the three-year period (so called dividend equivalent) was estimated by applying an estimated dividend to the expected number of shares to be assigned under the plan, based on the degree of achievement assessed as above described.

The overall cost of the LTI plans 2016, 2017 and 2018, sum of the three components above mentioned, is allocated over a period of maturity of 3 years (vesting period) starting from the first financial year on which the performance levels are assessed, with a corresponding increase in equity.

The costs associated with the above mentioned outstanding plans recognized during the period amounted to €5 million (2017: €5 million) and the equity reserve for share based payments as at 31 December 2018 to €10 million (2017: €10 million).

F.27. Information on employees

The number of employees is presented in the following table:

	31. 12. 2018	31. 12. 2017
Managers	277	229
Employees	9,196	9,152
Sales attendants	2,282	2,227
Others	17	17
Total	**11,772**	**11,625**

The staff expenses are presented in the following table:

(€ million)	2018	2017
Wages and salaries	**225**	**222**
Compulsory social security contributions	**57**	**57**
of which State-defined contribution pension plan	18	20
Others	**25**	**25**
of which Contribution to private pension funds	1	3
Total	**307**	**304**

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., investment fund units, equities, etc.) to fully hedge the implied FX risk. The process in place aims to achieve 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 under both hedge accounting and economic hedging include financial assets classified in the available-for-sale category, fair value to profit or loss, other investments and cash and cash equivalents. Hedged items may include financial liabilities in case of certain received collaterals.

Hedging instruments
Hedging instruments are defined as all FX derivatives except for options and starting from 1 October 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. 2018	FX gain/loss for the period from 1. 1. to 31. 12. 2018
Hedged items		
Equities, bonds, investment funds units	1,544	30
Term deposits, current bank accounts and other	33	–
Insurance liabilities	(357)	1
Hedging instruments		
Derivatives	3	1
Financial liabilities (Sell-buy operations)	(676)	(32)

(€ million)	Fair value as at 31. 12. 2017	FX gain/loss for the period from 1. 1. to 31. 12. 2017
Hedged items		
Equities, bonds, investment funds units	1,700	(152)
Term deposits, current bank accounts and other	48	(5)
Insurance liabilities	20	1
Hedging instruments		
Derivatives	7	28
Financial liabilities (Sell-buy operations)	(1,179)	123

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 2018 and 2017, the Group's hedging was evaluated as effective in accordance with IFRS.

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. 2018	Change in fair value attributable to interest rate risk for the period from 1.1. to 31. 12. 2018
Fixed income instruments	1,513	8
Derivatives	12	2

(€ million)	Fair value as at 31. 12. 2017	Change in fair value attributable to interest rate risk for the period from 1.1. to 31. 12. 2017
Fixed income instruments	1,671	(53)
Derivatives	4	56

Assessment of hedging effectiveness and possible adjustment of the dynamic hedging strategy is performed by the Group on a monthly basis. In majority of months of 2018, the Group's hedging was evaluated as effective in accordance with IFRS. Due to unfavourable movements on the derivative market during the last months of the year, the overall assessment of hedging for the whole accounting period is not effective. In every month of 2017, the Group's hedging was evaluated as effective.

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 2018, financial assets were as follows:

(€ million)				Related amounts not set off in the balance sheet		
	Gross amounts of recognised financial assets	Gross amounts of recognised 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	26	–	26	(14)	(14)	(2)
Receivable from derivative collateral paid	33	–	33	(33)	–	–
Total	**59**	**–**	**59**	**(47)**	**(14)**	**(2)**

As at 31 December 2017, financial assets were as follows:

(€ million)				Related amounts not set off in the balance sheet		
	Gross amounts of recognised financial assets	Gross amounts of recognised 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	46	–	46	(19)	(20)	7
Receivable from derivative collateral paid	31	–	31	(31)	–	–
Total	**77**	**–**	**77**	**(50)**	**(20)**	**7**

As at 31 December 2018, financial liabilities were as follows:

(€ million)				Related amounts not set off in the balance sheet		
	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off in the balance sheet	Net amounts of financial liabilities presented in the balance sheet	Financial instruments	Cash collateral paid	Net amount
Derivative financial liabilities	(33)	–	(33)	14	33	14
Total	**(33)**	**–**	**(33)**	**14**	**33**	**14**

As at 31 December 2017, financial liabilities were as follows:

(€ million)				Related amounts not set off in the balance sheet		
	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off in the balance sheet	Net amounts of financial liabilities presented in the balance sheet	Financial instruments	Cash collateral paid	Net amount
Derivative financial liabilities	(32)	–	(32)	19	31	18
Total	**(32)**	**–**	**(32)**	**19**	**31**	**18**

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. Commitments

As at 31 December 2018, the Group had a commitment under investment agreements of €124 million (2017: €164 million) to make an additional contribution into the private equity funds. Till 2018, the Group already invested €128 million into these private equity funds. The Group had contractual leasing payments as shown in Note F.23.

F.30.2. Pledged assets and collaterals
As at 31 December 2018, the Group had pledged approximately €1,822 million (2017: €2,057 million) of assets as collateral. In particular, €71 million (2017: €71 million) has been pledged against the bank loan provided to Green Point Offices a.s. and €1,747 million (2017: €1,985 million) has been pledged in repurchase agreements (REPO). The outstanding balance of the loan as at 31 December 2018 is €24 million (2017: €24 million) and fair value of the guaranteed liabilities in repurchase agreements amounted to €1,643 million (2017: €1,780 million).

Furthermore, as at 31 December 2018 the Group has received financial assets as collateral for approximately €1,904 million (2017: €2,098 million), in particular for transactions in bonds and loans.

F.30.3. 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.30.4. 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 one of the Group's 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.30.5. 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. 2018	31. 12. 2017
Liability	10	10
Fire, lightning, explosion, aircraft („FLEXA“) and break down of operations	27	27
Transportation risk	–	5
Technical insurance and breakdown of operations	–	27
Total	**37**	**69**

Slovakia

(€ million)	31. 12. 2018	31. 12. 2017
Liability	4	2
Fire, lightning, explosion, aircraft („FLEXA“) and break down of operations	4	4
Transportation risk	–	2
Total	**8**	**8**

Hungary

(€ million)	31. 12. 2018	31. 12. 2017
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. 2018	31. 12. 2017
Liability	1	1
Total	**1**	**1**

Croatia

(€ million)	31. 12. 2018	31. 12. 2017
Fire, lightning, explosion, aircraft („FLEXA“) and break down of operations	1	1
Transportation risk	1	1
Total	**2**	**2**

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 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	
	2018	2017	2018	2017
Short-term employee benefits	–	–	2,909	2,140
Long-term employee benefits	–	–	929	1,092
Contribution to State-defined contribution pension plans	–	–	402	266

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 2018 or in 2017.

F.31.3. Related party transactions

Transactions with the parent company
The transactions with the parent company Generali Assicurazioni were as follows:

(€ million)	31. 12. 2018	31. 12. 2017
Total assets	**195**	**137**
Investments	2	2
Reinsurance assets	182	120
Receivables	14	15
Other assets	(3)	–
Total liabilities	**112**	**102**
Insurance liabilities	29	8
Financial liabilities	59	68
Payables	23	23
Other liabilities	1	3

(€ million)	2018	2017
Total income	**(129)**	**(119)**
Net earned premiums revenue	(129)	(119)
Income from other financial instruments and investment properties	–	–
Total expenses	**98**	**49**
Net insurance benefits and claims	83	42
Expenses from other financial instruments and investment properties	2	(2)
Acquisition and administration costs	20	16
Other expenses	(7)	(7)

Reinsurance assets are represented by technical provisions ceded to Assicurazioni Generali S.p.A. for €182 million (2017: €120 million) and item Net earned premiums revenue includes ceded premiums to Assicurazioni Generali S.p.A under reinsurance contracts for €129 million (2017: €119 million).

Other related party transactions

Other transactions with related parties that are part of the Generali group, it means companies controlled by the ultimate parent company Assicuazioni Generali S.p.A., are presented in the following tables:

(€ million)	31. 12. 2018	31. 12. 2017
Total assets	**256**	**216**
Investments	225	175
Reinsurance assets	21	18
Receivables	9	22
Other assets	1	1
Total liabilities	**32**	**35**
Insurance liabilities	7	6
Payables	15	9
Other liabilities	10	20

(€ million)	2018	2017
Total income	**(22)**	**1**
Net earned premiums revenue	(19)	(6)
Net income/(losses) from financial instruments at fair value through profit or loss	(5)	4
Other income	2	3
Total expenses	**5**	**(3)**
Net insurance benefits and claims	8	1
Expenses from other financial instruments and investment properties	(2)	(2)
Acquisition and administration costs	5	2
Other expenses	(6)	(4)

Item Investment comprises investment fund units of €68 million (2017: €80 million) mainly via unit-linked portfolio and investments in private equity funds and provided loans of €157 million (2017: €95 million).

G. SUBSEQUENT EVENTS

After the year end 2018 the Group acquired Slovenian insurance company Adriatic Slovenica and KD Skladi, a mutual fund manager present in Slovenia, Croatia and Macedonia. The acquisition was successfully completed in February 2019.

III. Company Financial Statements for the Year Ended 31 December 2018

COMPANY STATEMENT OF FINANCIAL POSITION

(€ million)	Note	31. 12. 2018	31. 12. 2017
Non-current assets		**4,585**	**4,655**
Financial fixed assets	**D.1**	**4,585**	**4,655**
Investments in group companies		4,585	4,655
Current assets	**D.2**	**250**	**280**
Receivables	D.2.1	3	2
Loans	D.2.2	149	178
Securities	D.2.3	83	80
Cash and cash equivalents	D.2.4	11	15
Other assets	D.2.5	4	5
Total assets		**4,835**	**4,935**
Shareholder's equity	**D.3**	**4,814**	**4,922**
Paid-up capital and share premiums reserve	D.3	3,935	3,935
Other reserves	D.3	879	987
Current liabilities	**D.4**	**21**	**13**
Other liabilities	D.4.1	21	13
Total equity and liabilities		**4,835**	**4,935**

COMPANY INCOME STATEMENT

(€ million)	Note	31. 12. 2018	31. 12. 2017
Result from investments in Group companies after tax		389	348
Other income and expenses after tax	E.1	(31)	(18)
Result of the period		**358**	**330**

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 De Entree 91, 1101 BH Amsterdam, The Netherlands.

Generali CEE Holding was established under the laws of the Netherlands and as at 31 December 2018 was fully owned by Assicurazioni Generali S.p.A. ("Generali") which is the Company's ultimate parent company.

The Company was incorporated 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 2018 as follows:
Members: Luciano Cirinà
Gregor Pilgram
Jaime Anchustegui Melgarejo (appointed on 26 November 2018)
Cristiano Borean (appointed on 26 November 2018)
Heike Otteman-Toyza (appointed on 26 November 2018)

The Company incorporated 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 2018, 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 2019. 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. 2018	31. 12. 2017
Investments in group companies	4,585	4,655
Total investments in subsidiaries and associates	**4,585**	**4,655**

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)	2018	2017
Carrying amount as at beginning of reporting period	**4,655**	**4,337**
Additional investments in group companies	33	222
Dividend distribution	(337)	(337)
Other movements in group companies equity	(155)	85
Result of group companies	389	348
Carrying amount as at end of reporting period	**4,585**	**4,655**

In 2018 the Company acquired the Polish non-life insurance company Concordia Polska TUW for acquisition price amounting to €31 million and increased its participation in Generali Montenegro for €2 million.

Additional investments in group companies in 2017 represents the acquisition of 100% of voting shares and 49% economic shares in special purpose vehicle GW Beta Limited owning equity participations classified as AFS investment. The acquisition price amounted to €222 million.

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). In majority of entities where the Company has direct participation its share exceeds 50%, except for Generali Alapkezelő Zrt. (share 26%) and GW Beta (49%). Participation in Generali osiguranje Montenegro AD Podgorica increased in 2018 to 65% (2017: 43%).

D.2. Current assets

D.2.1. Receivables

Receivables comprise the following:

(€ million)	31. 12. 2018	31. 12. 2017
Receivables from clients and suppliers	3	2
Total	**3**	**2**

All receivables are due within one year.

D.2.2. Loans

(€ million)	31. 12. 2018	31. 12. 2017
Loans	149	178
Total	**149**	**178**

Loans consist of cash-pooling operated by Assicurazioni Generali S.p.A. of €2 million (2017: €2 million), reverse repurchase agreement of €120 million (2017: €147 million) and loan provided to City Empiria, a.s. of €25 million (2017: €29 million) and GW Beta B.V. of €2 million (2017: €0 million).

Changes in company loans provided were as follows:

(€ million)	2018	2017
Balance as at beginning of reporting period	**178**	**334**
Redemptions	(29)	(284)
Increases	2	123
Exchange differences	(2)	5
Balance as at end of reporting period	**149**	**178**

In 2018 there was partial repayment of loan provided to City Empiria, a.s. of €4 million, redemptions of €27 million related to reverse repurchase agreements. Increase of €2 million relates to new loan provided to subsidiary GW Beta B.V.

In 2017, loans invested in cash-pooling operations decreased by €284 million. Increases mainly refer to reverse repurchase agreements which went up by €122 million.

All the loans are due within 2019.

D.2.3. Securities

Securities as at 31 December comprise:

(€ million)	31. 12. 2018	31. 12. 2017
Quoted securities	**19**	**28**
Government bonds	8	8
Corporate bonds	11	20
Unquoted securities	**63**	**49**
Unquoted equities	63	49
Derivatives	1	3
Total	**83**	**80**

Changes in company securities were as follows:

(€ million)	2018	2017
Balance as at beginning of reporting period	**80**	**80**
Investments	12	12
Revaluation in equity	3	3
Revaluation in income statement	–	2
Exchange differences	(3)	5
Sold	(9)	(22)
Balance as at end of reporting period	**83**	**80**

New investments in 2018 and 2017 relate to an increase of investments in private equity fund Lion River.

D.2.4. Cash and cash equivalents

Cash and cash equivalents are as follows:

(€ million)	2018	2017
Balance as at beginning of reporting period	**15**	**24**
Increase /(decrease) in cash at bank and in hand	(4)	(9)
Balance as at end of reporting period	**11**	**15**

No restrictions are applicable to cash balances.

D.2.5. Other assets

Other assets comprise the following:

(€ million)	31. 12. 2018	31. 12. 2017
Accrued income and prepayments	1	1
Tax receivables	3	4
Total	**4**	**5**

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 31.12.2016	**–**	**3,935**	**359**	**(136)**	**(3)**	**304**	**314**	**4,773**
Transfer of net gain 2016						314	(314)	–
Balance after transfer	**–**	**3,935**	**359**	**(136)**	**(3)**	**618**	**–**	**4,773**
Revaluation – financial assets AFS			(2)					(2)
Currency translation differences				16				16
Other movements in subsidiaries equity			(98)	182	1			85
Other comprehensive income	**–**	**–**	**(100)**	**198**	**1**	**–**	**–**	**99**
Net gain 2017							330	330
Total comprehensive income for the period	**–**	**–**	**(100)**	**198**	**1**	**–**	**330**	**429**
Allocation to reserve for share-based payments						5		5
Dividends to shareholders						(285)		(285)
Balance as at 31. 12. 2017	**–**	**3,935**	**259**	**62**	**(2)**	**338**	**330**	**4,922**
Transfer of net gain 2017						330	(330)	–
Balance after transfer	**–**	**3,935**	**259**	**62**	**(2)**	**668**	**–**	**4,922**
Revaluation – financial assets AFS			3					3
Currency translation differences				(11)				(11)
Other movements in subsidiaries equity			(122)	(33)	–			(155)
Other comprehensive income	**–**	**–**	**(119)**	**(44)**	**–**	**–**	**–**	**(163)**
Net gain 2018							358	358
Total comprehensive income for the period	**–**	**–**	**(119)**	**(44)**	**–**	**–**	**358**	**195**
Allocation to reserve for share-based payments						5		5
Other changes						2		2
Dividends to shareholders						(310)		(310)
Balance as at 31. 12. 2018	**–**	**3,935**	**140**	**18**	**(2)**	**365**	**358**	**4,814**

The following table provides details of the distribution restrictions of equity:

(€ million)	31. 12. 2018	31. 12. 2017
Not available for distribution to shareholders	**362**	**525**
Share capital	–	–
Share premium reserve – portion not available for distribution	157	157
Revaluation reserves	189	308
Currency translation reserve	18	62
Cash flow hedge reserve	(2)	(2)
Available for distribution to shareholders	**4,452**	**4,397**
Share premium reserve – portion available for distribution	3,778	3,778
Revaluation reserves	(49)	(49)
Retained earnings	723	668
Total shareholder's equity	**4,814**	**4,922**

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 €189 million (2017: €308 million) which is not available for distribution.

D.3.3. Profit distribution
On 30 May 2018, the Groups' shareholders adopted a decision, whereby they declared final dividends of €310 million, paid out of the 2017 profit.

Company's shareholders did not make a decision on distribution of profit for year 2018 yet. This will be decided on general meeting during the year 2019.

D.4. Current liabilities

D.4.1. Other liabilities
Other liabilities consist of the following:

(€ million)	31. 12. 2018	31. 12. 2017
Payables to clients and suppliers	3	3
Payables related to taxation	1	3
Accrued charges	6	7
Liabilities related to purchase of financial investments	11	–
Total	**21**	**13**

Liabilities related to purchase of financial investments consist of payable to Lion River of €3 million (2017: €0 million) for capital call issued in December 2018 and part of acquisition price of the insurance company Concordia Polska TUW of €8 million (2017: €0 million).

E. NOTES TO THE COMPANY INCOME STATEMENT

E.1. Other income and expenses

Other income and expenses can be analyzed as follows:

(€ million)	2018	2017
Interests and other investment income	3	2
Currency gains	1	2
Other income	1	3
Total income	**5**	**7**
Personnel expenses	(17)	(15)
Expenses for share-based payments	(2)	(2)
Audit and consulting services	(10)	(1)
Other expenses	(6)	(5)
Total expenses	**(35)**	**(23)**
Income taxes	**(1)**	**(2)**
Other income and expenses	**(31)**	**(18)**

Increase in Audit and consulting services is related to consultancy services provided in connection with new acquisitions.

E.2 Off-balance sheet items

E.2.1. Commitments

As at 31 December 2018, the Company had a commitment under investment agreements of €42 million (2017: €46 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 €118 million (2017: €147 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 2018, an expense recognised in relation to this plan amounted to €2 million (2017: €2 million).

E.4. Employees

Number of employees:

	31. 12. 2018	31. 12. 2017
Managers	40	32
Employees	69	83
Total	**109**	**115**

Employee expenses were €17 million (2017: €15 million) (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 2018 amounted to €2.8 million, net of VAT (2017: €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.

13 May 2019
Signed by the Board of Directors:

Luciano Cirinà
Managing Director

Jaime Anchústegui Melgarejo
Managing Director

Gregor Pilgram
Managing Director

Cristiano Borean
Managing Director

Heike Ottemann-Toyza
Managing Director

F. OTHER INFORMATION

F.1. Profit appropriation
Provisions in the Articles of Association governing the appropriation of profit (Article 22):

a) 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.
b) Distribution of profits shall take place upon adoption of the Annual Accounts from which it appears that such distribution is allowed.

F.2. Independent auditor's report

To: the General Meeting of Shareholders of Generali CEE Holding B.V.

Independent auditor's report

To: the shareholder and board of directors of Generali CEE Holding B.V.

Report on the audit of the financial statements 2018 included in the annual report

Our opinion

We have audited the financial statements 2018 of Generali CEE Holding B.V., based in Amsterdam. The financial statements comprise the consolidated and 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 December 31, 2018, and of its result and its cash flows for 2018 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 December 31, 2018, and of its result for 2018 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 December 31, 2018
- The following statements for 2018: 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 statement of financial position as at December 31, 2018
- The company income statement for 2018
- 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 Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), 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 the 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:

- Board of directors 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 substantially 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 board of directors report in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information as required by Part 9 of Book 2 of the Dutch Civil Code.

Description of responsibilities regarding 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 with 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 engagement 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 detect all material errors and fraud during our audit.

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 judgement 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 entity'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.

The Hague, May 13, 2019

Ernst & Young Accountants LLP

signed by S.B. Spiessens

Annual Report 2018

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