# GENERALI WORLDWIDE INSURANCE COMPANY LIMITED

# ANNUAL REPORT AND FINANCIAL STATEMENTS

# 31 DECEMBER 2017

Registered Number: 27151

Registered Address:

Generali House
Hirzel Street
St Peter Port
Guernsey
GY1 4PA

## GENERALI WORLDWIDE INSURANCE COMPANY LIMITED
## REPORT OF THE DIRECTORS
## FOR THE YEAR ENDED 31 DECEMBER 2017

The Directors present their annual report and financial statements for the year ended 31 December 2017.

### PRINCIPAL ACTIVITY

The principal activity of the Company is the sale of insurance and investment linked insurance products. The Company was incorporated as a limited liability company in Guernsey on 17 August 1993. It operates in accordance with the provision of The Companies (Guernsey) Law, 2008 and the Insurance Business (Bailiwick of Guernsey) Law, 2002. The Company is licensed under the Insurance Business (Bailiwick of Guernsey) Law, 2002, by a Category A permit, under Article 6 of the Insurance Business (Jersey) Law, 1996, under Insurance Act (Chapter 142) in Singapore, Insurance Companies Ordinance (Cap 41) in Hong Kong, Insurance Law 2010 in Cayman, Insurance Act 2008 in BVI and Insurance Act Chapter 347 in The Bahamas. The Company has operations in Guernsey, Hong Kong, the Republic of Ireland, Singapore, Switzerland. Cayman and The Bahamas. Operations in Cyprus ceased with effect from 30 September 2016.

### DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing financial statements for each financial year, which give a true and fair view, in accordance with applicable Guernsey law and International Financial Reporting Standards as adopted in the European Union, of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing those financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies (Guernsey) Law, 2008 and the Insurance Business (Bailiwick of Guernsey) Law, 2002. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

So far as the Directors are aware, there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

### RESULTS

The state of affairs of the Company as at 31 December 2017 is set out on page 6. The results for the year are set out in detail on page 7 and the cash flows are set out on page 10.

### DIVIDEND, DISTRIBUTION AND CAPITAL

The Board resolved on 26 April 2017 to approve an interim dividend of €27.422 million (2016: Final €45 million) to Participatie Maatschappij Graafschap Holland NV ("PMGH") and the dividend was paid on 17 August 2017.

In order to implement a more efficient capital structure from a shareholder perspective, the Board resolved on 21 September 2017 to approve both an increase in the Company's authorised share capital and an allotment of 260,170,076 €1 Ordinary Shares to PMGH through the capitalisation of €260,170,076. This constituted the Company's entire revenue reserve.

PMGH as sole shareholder of the Company proposed a reduction in the share premium account to nil, with the proceeds to be returned to PMGH via a distribution of €294,958,484. The Board resolved to present an Ordinary Resolution on the capital reduction to PMGH on 10 November 2017. PMGH passed the Ordinary Resolution to bring effect to the capital reduction on 13 December 2017, at which point the share premium account was reduced to nil and €219,843,000 was paid to PMGH on 13 December 2017, with settlement of the residual €75,115,484 deferred.

**STRATEGIC PORTFOLIO**

A number of disposals from the Company's Strategic Portfolio were concluded during 2017 as part of a wider Generali Group reorganisation of strategic participations. The Company's entire holdings in the following entities were transferred to PMGH at either independently validated or market valuations (as appropriate):

- KKR Derivative (novated on 22/12/2017)
- Olivant Limited (SPA to dated 30/11/2017)
- Tenax Financials Fund, Class A and B units (SPA dated 30/11/2017)
- Generali Financial Holdings FCP (SPA dated 30/11/2017)
- Redoze Holding N.V. (SPA dated 20/11/2017)

The Company's entire participation in GW Beta Limited was transferred to Generali CEE Holding B.V. at an independently validated valuation (SPA dated 11 September 2017).

The Company's entire holding of shares in Banco Santander S.A was disposed of via a market transaction on 12 September 2017.

On 17 December 2017 a SPA for the sale of the Company's entire participation in Generali PanEurope dac was executed.

## DIRECTORS AND COMPANY SECRETARY

The Directors of the Company during the year were:

Ludovic Bayard
Francesco Bosatra
Alessandro Corsi
Giorgio Daboni
Vic Holmes
Andy Smart

Steve Hales resigned from the Board with effect from 23 June 2017.

None of the Directors had any beneficial interest in the share capital of the Company during the year.

The Secretary of the Company during the year was:

Tom Martel

## INDEPENDENT AUDITORS

The reappointment of the auditors will be considered at the next Annual General Meeting.

**By order of the Board**

Director

Director

Date 29 March 2018

## INDEPENDENT AUDITOR'S REPORT

To the Members of Generali Worldwide Insurance Company Limited

### Opinion

We have audited the financial statements of Generali Worldwide Insurance Company Limited ("the Company") for the year ended 31 December 2017, which comprise the Statement of Financial Position, the Statement of Comprehensive Income, the Statement of Changes in Equity, Statement of Cash Flows, and notes 1 to 31 to the financial statements.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2017 and of the Company's profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted in the European Union by the European Commission; and
- have been prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008 and the Insurance Business (Bailiwick of Guernsey) Law, 2002.

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report below. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's ("FRC") Ethical Standards, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Use of our report

This report is made solely to the Company's members, as a body, in accordance with Section 262 of the Companies (Guernsey) Law 2008. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

### Other Information

The directors are responsible for the other information. The other information comprises the information included in the Directors' Report but does not include the financial statements or our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Matters for which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies (Guernsey) Law, 2008 and the Insurance Business (Bailiwick of Guernsey) Law, 2002 require us to report to you if, in our opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit; or
- any transaction, other than a transaction in the normal course of business, has resulted in the statement of financial position showing a situation materially different from that which would otherwise have obtained and which is not adequately disclosed in the financial statements; or
- the information given in the annual return prepared pursuant to section 33 of the Insurance Business (Bailiwick of Guernsey) Law, 2002 is inconsistent with the financial statements for the year to which that annual return relates.

**Responsibilities of directors**

As explained more fully in the directors' responsibilities statement set out on page 1, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

**Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. 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.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Ernst & Young LLP

Ernst & Young LLP

Guernsey, Channel Islands

Date: 29 March 2018

**GENERALI WORLDWIDE INSURANCE COMPANY LIMITED**
**STATEMENT OF FINANCIAL POSITION**
**AS AT 31 DECEMBER 2017**

All amounts in €000 unless otherwise stated

| | Note | 2017 | 2016 |
|---|---|---|---|
| **Assets** | | | |
| Intangible assets | 5 | 4,358 | 3,424 |
| Tangible assets | 6 | 1,517 | 3,522 |
| Investments | | | |
| Held for sale financial asset | | 19,954 | - |
| Investments in subsidiaries and associates | 7 | 300 | 173,918 |
| Available-for-sale financial assets | 8.2 | 325,270 | 579,864 |
| Financial assets at fair value through profit & loss | 8.1 | 4,331,747 | 4,402,904 |
| Amount ceded to reinsurers from insurance provisions | 15 | 97,396 | 81,632 |
| Receivables including insurance receivables | 9 | 488,668 | 41,882 |
| Retirement Benefit Asset | 19 | 2,438 | - |
| Cash and cash equivalents | 11 | 48,258 | 84,042 |
| Accrued income and prepayments | 12 | 14,582 | 19,471 |
| **Total Assets** | | **5,334,488** | **5,390,659** |
| **Equity and liabilities** | | | |
| Issued share capital | 13 | 346,903 | 86,733 |
| Share premium | 13 | - | 294,958 |
| Revenue reserves | 14 | 377,729 | 287,592 |
| Other reserves | 14 | 32,879 | 147,522 |
| **Total Equity** | | **757,511** | **816,805** |
| Insurance provisions | 15 | 738,910 | 775,667 |
| Financial Liabilities | | | |
| Financial liabilities at fair value through profit & loss | 16 | 3,531,794 | 3,562,132 |
| Payables including insurance payables | 17 | 260,545 | 174,447 |
| Retirement Benefit Obligation | 19 | - | 3,282 |
| Accruals and deferred income | 18 | 45,728 | 58,326 |
| **Total liabilities** | | **4,576,977** | **4,573,854** |
| **Total Shareholders' Equity and Liabilities** | | **5,334,488** | **5,390,659** |

Approved by the Board on 29 March, 2018

Director

Director

The notes on pages 11 to 81 are an integral part of these financial statements

All amounts in €000 unless otherwise stated

| | Note | 2017 | 2016 |
|---|---|---|---|
| Earned premiums | 20 | 148,812 | 167,676 |
| Premiums ceded to reinsurers | | (72,676) | (71,968) |
| **Net insurance premium revenue** | | 76,136 | 95,708 |
| Interest and other investment income | | 4,259 | 4,393 |
| Income / gains on disposal from subsidiaries and associates | 21 | 175,806 | 1,572 |
| Net income from financial instruments | 22 | 40,893 | 24,968 |
| Fee and commission income related to investment contracts | | 66,038 | 73,628 |
| Exchange gains | | - | 1,119 |
| Income / gain on disposal of derivative | 10 | 20,526 | 3,349 |
| Gain on disposal of investments | | 142,096 | - |
| Other income | | 3,968 | 12,655 |
| **Total income** | | 529,722 | 217,392 |
| Gross benefits and claims paid | 23 | (117,911) | (135,937) |
| Claims ceded to reinsurers | 23 | 36,188 | 37,548 |
| Gross change in contract liabilities | 23 | (13,870) | (2,312) |
| Change in contract liabilities ceded to reinsurers | 23 | 19,270 | (3,939) |
| Interest expense | 24 | (56) | (22) |
| Expenses for the acquisition of insurance and investment contracts | | (33,446) | (45,462) |
| Administration costs | 25 | (35,465) | (37,993) |
| Exchange losses | | (11,081) | - |
| Other expenses | | (1,374) | (1,711) |
| **Profit before tax** | | 371,977 | 27,564 |
| Income taxes | 27 | (609) | (142) |
| **Profit for the year** | | 371,368 | 27,422 |
| Other comprehensive income | | | |
| Change in available for sale financial assets | | (112,192) | 66,630 |
| Increase in reserve for share based payments | | 515 | 381 |
| Re-measurements on pension liabilities | 19 | 3,395 | (4,490) |
| **Total comprehensive income for the year** | | 263,086 | 89,943 |

The notes on pages 11 to 81 are an integral part of these financial statements

**GENERALI WORLDWIDE INSURANCE COMPANY LIMITED**
**STATEMENT OF CHANGES IN EQUITY**
**FOR THE YEAR ENDED 31 DECEMBER 2017**

All amounts in €000 unless otherwise stated

| | Issued Share Capital | Share Premium | Available For Sale Assets | Currency Translation Reserve | Defined Benefit Plan Reserve | Non-Distributable Reserve | Revenue Reserve | Total Equity |
|---|---|---|---|---|---|---|---|---|
| **As at 1 January 2017** | **86,733** | **294,958** | **121,757** | **(631)** | **(5,720)** | **32,116** | **287,592** | **816,805** |
| Solvency reserve | | | | | | (5,406) | 5,406 | - |
| Net unrealised gain on available for sale assets | | | 29,820 | | | | | **29,820** |
| Net realised (loss) on available for sale assets | | | (142,012) | | | | | **(142,012)** |
| Re-measurement reserve arising from Defined Benefit Plan | | | | | 3,395 | | | **3,395** |
| Change in liabilities for investment contracts with DPF | | | | | | (440) | 440 | - |
| Increase of reserve for share based payments | | | | | | | 515 | **515** |
| Profit for the year 2017 | | | | | | | 371,368 | **371,368** |
| **Total comprehensive income** | **-** | **-** | **(112,192)** | **-** | **3,395** | **(5,846)** | **377,729** | **263,086** |
| Distribution of share premium | | (294,958) | | | | | | (294,958) |
| Capitalisation of retained earnings | 260,170 | | | | | | (260,170) | - |
| Dividend | - | - | - | - | - | - | (27,422) | (27,422) |
| **Total transactions with owners** | **260,170** | **(294,958)** | **-** | **-** | **-** | **-** | **(287,592)** | **(322,380)** |
| **At 31 December 2017** | **346,903** | **-** | **9,565** | **(631)** | **(2,325)** | **26,270** | **377,729** | **757,511** |

The notes on pages 11 to 81 are an integral part of these financial statements

**GENERALI WORLDWIDE INSURANCE COMPANY LIMITED**
**STATEMENT OF CHANGES IN EQUITY**
**FOR THE YEAR ENDED 31 DECEMBER 2017**

All amounts in €000 unless otherwise stated

| | Issued Share Capital | Share Premium | Available For Sale Assets | Currency Translation Reserve | Defined Benefit Plan Reserve | Non-Distributable Reserve | Revenue Reserve | Total Equity |
|---|---|---|---|---|---|---|---|---|
| **As at 1 January 2016** | **86,733** | **294,958** | **55,127** | **(631)** | **(1,230)** | **78,782** | **258,123** | **771,862** |
| Solvency reserve | | | | | | (46,469) | 46,469 | **-** |
| Net unrealised gain on available for sale assets | | | 64,319 | | | | | **64,319** |
| Net realised gain on available for sale assets | | | 2,311 | | | | | **2,311** |
| Re-measurement reserve arising from Defined Benefit Plan | | | | | (4,490) | | | **(4,490)** |
| Change in liabilities for investment contracts with DPF | | | | | | (197) | 197 | **-** |
| Increase of reserve for share based payments | | | | | | | 381 | **381** |
| Profit for the year 2016 | | | | | | | 27,422 | **27,422** |
| **Total comprehensive income** | **-** | **-** | **66,630** | **-** | **(4,490)** | **(46,666)** | **74,469** | **89,943** |
| Dividend | - | - | - | - | - | - | (45,000) | **(45,000)** |
| **Total transactions with owners** | **-** | **-** | **-** | **-** | **-** | **-** | **(45,000)** | **(45,000)** |
| **At 31 December 2016** | **86,733** | **294,958** | **121,757** | **(631)** | **(5,720)** | **32,116** | **287,592** | **816,805** |

The notes on pages 11 to 81 are an integral part of these financial statements

**GENERALI WORLDWIDE INSURANCE COMPANY LIMITED**
**STATEMENT OF CASH FLOWS**
**FOR THE YEAR ENDED 31 DECEMBER 2017**

All amounts in €000 unless otherwise stated

| | Note | 2017 | 2016 |
|---|---|---|---|
| **Operating activities** | 28 | 21,464 | 33,472 |
| Foreign exchange (losses) / gains | | (5,016) | 137 |
| Interest (paid) | 24 | (56) | (22) |
| Income taxes (paid) | | (1,251) | (398) |
| **Net cash generated from operating activities** | | 15,141 | 33,189 |
| **Investing activities** | | | |
| Disposal of shares in Group companies | | - | 2,053 |
| (Acquisition) of available for sale assets | | (56,619) | (126,895) |
| Disposal of available for sale assets | | 256,233 | 98,296 |
| (Acquisition) of tangible and intangible fixed assets | | (3,658) | (2,654) |
| Repayments by related parties | | 384 | 75 |
| **Net cash generated from / (used in) investing activities** | | 196,340 | (29,125) |
| **Financing activities** | | | |
| Dividends (paid to) Company's Shareholders | | (27,422) | (45,000) |
| (Distribution) of share premium | | (219,843) | - |
| **Net cash (used in) financing activities** | | (247,265) | (45,000) |
| **Net (decrease) in cash and cash equivalents** | | (35,784) | (40,936) |
| Cash and cash equivalents at the beginning of the year | 11 | 84,042 | 124,978 |
| **Cash and cash equivalents at the end of the year** | | 48,258 | 84,042 |

The notes on pages 11 to 81 are an integral part of these financial statements

## 1. General Information

Generali Worldwide Insurance Company Limited's ('the Company') principal activity is the sale of insurance and investment products. The Company's registered office is Generali House, Hirzel Street, St Peter Port, Guernsey and the Company has operations in Guernsey, Hong Kong, the Republic of Ireland, Singapore, Switzerland, Cayman and The Bahamas. Operations in Cyprus ceased with effect from 30 September 2016.

The Company's immediate parent is Participatie Maatschappij Graafschap Holland Naamloze Vennootschap, a limited company incorporated in the Netherlands, and its ultimate parent is Assicurazioni Generali Società per Azioni, a company incorporated in Italy. Assicurazioni Generali SpA has a primary listing on the Milan Stock Exchange.

## 2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 2.1 Basis of presentation

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union by the European Commission. They have been prepared under the historical cost convention, as modified by the revaluation of available for sale financial assets and financial assets and financial liabilities (including derivative instruments) at fair value through profit and loss. The insurance provisions are prepared in accordance with generally accepted actuarial standards including allowances for possible future cash flow strains that may arise. 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. When determining fair value, the Company uses the exit price in the principal market (or in the absence of a principal market, the most advantageous market) in which the Company would transact.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3. All amounts in the notes are shown in thousands of Euros, rounded to the nearest thousand, unless otherwise stated.

#### *2.1.1 New and amended standards and interpretations*

The Company applied for the first time certain standards and amendments, which are affective for annual periods beginning on or after 1 January 2017. The Company has not early adopted any other standard, interpretation or amendments that have been issued but are not yet effective.

Although these new standards and amendments were applied for the first time in 2017, they did not have a material impact on the annual financial statements of the Company.

All amounts in €000 unless otherwise stated

| Standard / Interpretation | Content | Applicable for financial years beginning on/after |
|---|---|---|
| IAS 7 | Amendments to Disclosure Initiative | 1 January 2017 |
| IAS 12 | Amendments to Recognition of Deferred Tax Assets for Unrealised Losses | 1 January 2017 |
| IFRS 12 | Amendments to Disclosure of Interests in Other Entities | 1 January 2017 |

Generali Worldwide has not applied the following new and revised IFRS standards that have been issued but are not yet affective:

| Standard/ Interpretation | Content | Applicable for financial years beginning on/after |
|---|---|---|
| IFRS 9 | Financial Instruments | Deferred to 1 January 2021 |
| IFRS 4 | Amendments to Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts | 1 January 2018 |
| IFRS 15 | Revenue from Contracts with Customers (and the related Clarifications) | 1 January 2018 |
| IFRS 16 | Leases | 1 January 2019 |
| Annual Improvement | Amendments to IFRS Standards 2014-2016 Cycle | 1 January 2018 |
| IFRICC 22 | Foreign Currency Transactions and Advanced Consideration | 1 January 2018 |
| IFRS 2 | Amendments to Classification and Measurement of Share –based Payment Transactions | 1 January 2018 |
| IFRS 10 & IAS 28 | Amendments to Sale or Contribution of Assets between an Investor and its Associate or Joint venture. | To be determined |
| IAS 40 | Amendments to Transfers of Investment Property | 1 January 2018 |
| IFRS 17 | Insurance Contracts | 1 January 2021 |

The Company is applying the temporary exemption from IFRS 9 in accordance with the amendment to IFRS 4 'Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts Financial Instruments'. The eligibility conclusion is based on an analysis of the percentage of the total carrying amount of liabilities connected with insurance activities relative to the total carrying amount of all liabilities, which indicates that the Company's activities are predominately connected with insurance. This will require annual disclosure from 2018 to 2020 regarding the eligibility for the deferral and the financial assets that would pass as solely payments of principal and interests (SPPI) and those that would not pass as SPPI.

IFRS 15 – the Company has completed a high-level impact assessment based on our current policy types. We estimate that the impact is a potential reduction to retained earnings on adoption of up to €250 million.

IFRS 16 - As at 31 December 2017, the Company has non-cancellable operating lease commitments of €16.4 million on an undiscounted basis. IAS 17 does not require the recognition of any right of use asset or liability for future payments for these leases; instead, certain information is disclosed as operating lease commitments in note 29. A preliminary assessment indicates these arrangements will meet the definition of a lease under IFRS 16. The new requirement to recognise a right of use asset and related lease liability is expected to have an immaterial impact on the amounts recognised in the Company's financial statements both the statement of financial position and annual expenses.

IFRS 17 is effective for annual periods on or after 1 January 2021 and replaces IFRS 4 Insurance Contracts. The Company in applying the exemption for IFRS 9 will bring congruence to the treatment of assets and liabilities in the same reporting periods. The Company is in the early stages of its interpretation of the standard with some early estimations on the affect on the OCI.

The following amended standards and interpretations are not expected to have a significant impact on the Company's financial statements.

Annual Improvements to IFRS's 2014-2016 Cycle - Amendments to IFRS and IAS 28.

Classification and Measurement of Shared based Payment Transactions (Amendments to IFRS 2)

Transfer of Investment Property (Amendments to IAS 40) - No investment properties held.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28) - The Company is neither a first time adopter of IFRS nor a venture capital organisation.

IFRICC 22 - The Company already accounts for transactions involving the payment or receipt of advance consideration in a foreign currency in a way that is consistent with the amendments.

## 2.2 Consolidation

The Directors of the Company have taken the option available under IAS 27 of not producing consolidated financial statements, as the Company's results, position and cash flows are consolidated within the publicly available financial statements of the ultimate parent company. Therefore, only separate financial statements have been prepared. Intra-group transactions, balances and unrealised gains and losses have not, therefore, been eliminated from the Company's financial statements. The consolidated financial statements of the ultimate parent of the Company comply with IFRS as adopted in the European Union by the European Commission and have been produced for public use. They are available from www.generali.com.

### *2.2.1 Subsidiaries*

Subsidiaries are all entities (including special purpose entities) over which the Company has control.
Control is achieved when the Company 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.

Specifically, the Company controls an investee if, and only if, the Company has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Company has less than a majority of the voting or similar rights of an investee, the Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The voting rights and potential voting rights.

The power to govern the financial and operating policies generally accompanies a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity.

The excess of the cost of acquisition over the fair value of the Company's share of the identifiable net assets acquired is recorded as goodwill (see Note 2.5.1). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the statement of comprehensive income.
The Company's accounting treatment of investments in subsidiaries is to hold at cost less impairment.

Gains and losses on disposal of subsidiaries are recorded in the statement of comprehensive income in the year of disposal.

### *2.2.2 Associates*

Associates are all entities over which the Company has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for at cost less impairment.

### *2.2.3 Assets held for sale*

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying value is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

## 2.3 Foreign currency

### *2.3.1 Functional and presentation currency*

Items included in the financial statements are initially measured in the currency of the transaction and subsequently converted to Euros, as the Euro is considered the currency of the primary economic environment in which the entity operates (the 'functional currency'). The financial statements are presented in thousands of Euros, the Company's presentation currency.

### *2.3.2 Transactions and balances*

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income. Translation differences on non-monetary items, such as equities held at fair value through profit and loss, are reported as part of the fair value gain or loss.

## 2.4 Tangible assets

All property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is 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 Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial year in which they are incurred.

Depreciation is calculated monthly, not exceeding a period of 36 months, as follows:

| | |
|---|---|
| Furniture and fittings - | 3 years; |
| Computer equipment - | 3 years; |
| Leasehold improvements - | remaining period of the lease. |

The assets' residual values and useful lives are reviewed at each statement of financial position date and adjusted if appropriate. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.7). Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statement of comprehensive income.

## 2.5 Intangible assets

### *2.5.1 Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the net identifiable assets of the acquired subsidiary or associate at the acquisition date. Goodwill on acquisition of subsidiaries and associates is included in intangible assets. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is allocated to cash-generating units for impairment testing. On acquisition of a business comprising a portfolio of contracts, the Company recognises goodwill representing the value of business acquired.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

### *2.5.2 Computer software*

Costs that are directly associated with the production of identifiable and unique software products controlled by the Company, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs comprise amounts specifically invoiced by external contractors. All other costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred.

Computer software development costs recognised as assets are amortised monthly, not exceeding a period of 36 months.

Gains or losses arising from de-recognition 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 profit or loss when the asset is derecognised.

## 2.6 Investments

The Company classifies its investments into the following categories: financial assets at fair value through profit and loss; loans and receivables; and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired.

### *2.6.1 Financial assets at fair value through profit and loss*

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit and loss at inception. A financial asset is classified as held for trading at inception if acquired principally for the purpose of selling in the short term, if it forms part of a portfolio of financial assets in which there is evidence of short-term profit taking, or if so designated by management. Derivatives are also classified as held for trading unless they are designated as hedges and can be demonstrated to be effective as hedging instruments.

Financial assets designated as at fair value through profit and loss at inception are those that are either:

- held to match insurance and investment contracts liabilities that are linked to the changes in fair value of these assets. The designation of these assets to be at fair value through profit and loss eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or

– managed and whose performance is evaluated on a fair value basis. Information about these financial assets is provided internally on a fair value basis to the Company's key management personnel. The Company's investment strategy is to invest in equity and debt securities, and collective investment schemes that invest in such securities, and to evaluate them with reference to their fair values. Assets that are part of these portfolios are designated upon initial recognition at fair value through income.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit and loss' category are presented in the statement of comprehensive income within net fair value gains on financial assets at fair value through profit and loss in the period in which they arise.

### *2.6.2 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 those that the Company intends to sell in the short term or that it has designated as at fair value through profit and loss or available for sale.

Loans and receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of loans and receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to their original terms (see Note 2.7 for the accounting policy on impairment).

Receivables arising from insurance contracts are also classified in this category and are reviewed for impairment as part of the impairment review of loans and receivables.

### *2.6.3 Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories.

### *2.6.4 Recognition and measurement*

Regular way purchases and sales of investments are recognised on trade date, the date on which the Company commits to purchase or sell the asset. Financial assets are initially recognised at fair value plus, in the case of all financial assets not carried at fair value through profit and loss, transaction costs that are directly attributable to their acquisition. Financial assets carried at fair value through profit and loss are initially recognised at fair value, and transaction costs are expensed in the statement of comprehensive income.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or where they have been transferred and the Company has also transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Loans, receivables, and held-to-maturity financial assets are carried at amortised cost using the effective interest rate method.

Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit and loss category are included in the statement of comprehensive income in the period in which they arise. Dividend income from financial assets at fair value through profit and loss is recognised in the statement of comprehensive income as part of other income when the group's right to receive payments is established.

Changes in the fair value of monetary securities denominated in a foreign currency and 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. The translation differences on monetary securities are recognised in profit or loss; translation differences on non-monetary securities are recognised in equity. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in equity.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the statement of comprehensive income as net realised gains on financial assets.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the statement of comprehensive income. Dividends on available-for-sale equity instruments are recognised in the statement of comprehensive income when the Company's right to receive payments is established. Both are included in the investment income line.

### *2.6.5 Determination of fair value*

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive.

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs existing at the dates of the statement of financial position.

The Company uses widely recognised valuation models for determining fair values of non-standardised financial instruments of lower complexity like options or interest rate and currency swaps. For these financial instruments, inputs into models are generally market observable.

For more complex instruments, the Company uses internally developed models, which are usually based on valuation methods and techniques generally recognised as standard within the industry. Valuation models are used primarily to value derivatives transacted in the over-the-counter market. Some of the inputs to these models may not be market observable and are therefore estimated based on assumptions. The impact on net profit of financial instrument valuations reflecting non-market observable inputs is disclosed in Note 4.7.

The output of a model is always an estimate or approximation of a value that cannot be determined with certainty, and valuation techniques employed may not fully reflect all factors relevant to the positions the Company holds. Valuations are therefore adjusted, where appropriate, to allow for additional factors including model risks, liquidity risk and counterparty credit risk. Based on the established fair value and model governance policies and related controls and procedures applied, management believes that these valuation adjustments are necessary and appropriate to fairly state the values of financial instruments carried at fair value in the statement of financial position. Price data and parameters used in the measurement procedures applied are generally reviewed carefully and adjusted, if necessary – particularly in view of the current market developments.

The fair value of over-the-counter (OTC) derivatives is determined using valuation methods that are commonly accepted in the financial markets, such as the present value technique and option pricing models. The fair value of foreign exchange forwards is generally based on current forward exchange rates.

In cases where the fair value of unlisted equity instruments cannot be determined reliably, the instruments are carried at cost less any impairment.

The fair value for loans and advances as well as liabilities to banks and customers are determined using a present value model based on contractually agreed cash flows, taking into account credit quality, liquidity and costs.

The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments.

The fair values of quoted investments are based on current market prices. If the market for a financial asset is not active, the Company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

### 2.7 Impairment of assets

*a) Financial assets carried at amortised cost*

The Company assesses at each statement of financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or 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 have 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.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Company about the following events:

i. significant financial difficulty of the issuer or debtor;
ii. a breach of contract, such as a default or delinquency in payments;
iii. it becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;
iv. the disappearance of an active market for that financial asset because of financial difficulties; or
v. observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:

– adverse changes in the payment status of issuers or debtors in the group; or
– national or local economic conditions that correlate with defaults on the assets in the group.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (excluding future credit losses that might be incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced either directly or through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under contract. As a practical expedient, the Company may measure impairment based on an instrument's fair value using an observable market price. For the purpose of a collective evaluation of impairment, financial assets are grouped based on similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the issuer's ability to pay all amounts due under the contractual terms of the debt instrument being evaluated.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as improved credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of comprehensive income.

*b) Financial assets carried at fair value*

The Company assesses at each statement of financial position date whether there is objective evidence that an available for sale financial asset is impaired, including in the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and current fair value, less any impairment loss on the financial asset previously recognised in profit or loss – is removed from equity and recognised in the statement of comprehensive income. Impairment losses recognised in the statement of comprehensive income on equity instruments are not subsequently reversed. The impairment loss is reversed through the statement of comprehensive income, if in a subsequent period the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

*c) Available for Sale Financial Assets*

For available for sale financial assets the Company assesses at each statement of financial position date whether there is objective evidence that an investment or group of investments is impaired.

In the case of Equity investments, objective evidence would include significant or prolonged decline in the fair value of the investment below its cost. When there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss – is removed from OCI and recognised in the statement of profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognised in OCI.

In the case of debt instruments, the impairment is assessed based on the same criteria as assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between amortised cost and the current fair value, less any impairment loss on the investment previously recognised in the statement of profit or loss.
Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring impairment loss. The interest income is recorded as part of Finance Income. If in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event, occurring after the impairment loss was recognised in the statement of profit or loss, the impairment loss is reversed through the statement of profit or loss.

*d) Impairment of other non-financial assets*

Assets that have an indefinite useful life, for example land, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

### 2.8 Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the dates on which the derivative contracts are entered into and are subsequently re-measured at their fair value.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e., the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

When unobservable market data has an impact on the valuation of derivatives, the entire initial change in fair value indicated by the valuation model is not recognised immediately in the statement of comprehensive income but over the life of the transaction on an appropriate basis, or when the inputs become observable, or when the derivative matures or is closed out. Embedded derivatives that are not closely related to their host contracts and meet the definition of a derivative are separated and fair valued through profit or loss. The accounting policy in respect to derivatives embedded in host insurance contracts is described in Note 2.12.

The Company designates certain derivatives as either: (i) hedges of the fair value of recognised assets or liabilities or of a firm commitment (fair value hedge); (ii) hedges of highly probable forecast transactions (cash flow hedges); or (iii) hedges of net investments in foreign operations (net investment hedge).

The Company documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedging transactions. The Company also documents its assessment, 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 fair values or cash flows of hedged items.

*a) Fair value hedge*

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the statement of comprehensive income, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedge item for which the effective interest method is used is amortised to profit or loss over the period to maturity.

*b) Cash flow hedges*

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity. The gain or loss relating to any ineffective portion is recognised immediately in the statement of comprehensive income within 'net income from financial assets at fair value through profit and loss'. Amounts accumulated in equity are recycled to the statement of comprehensive income in the periods in which the hedged item affects profit or loss (for example, when the hedged forecast transaction takes place).

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the statement of comprehensive income. However, when a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the statement of comprehensive income.

*c) Net investment hedges*

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity; the gain or loss relating to the ineffective portion is recognised immediately in the statement of comprehensive income within 'net income from financial instruments at fair value through profit and loss'. Gains and losses accumulated in equity are included in the statement of comprehensive income on disposal of the foreign operation.

*d) Derivatives that do not qualify for hedge accounting*

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of all such derivative instruments are recognised immediately in the statement of comprehensive income.

### 2.9 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less which are subject to insignificant risk of change in value, and bank overdrafts.

### 2.10 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.

### 2.11 Insurance and investment contracts – classification

The Company issues contracts that transfer insurance risk or financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. As a general guideline, the Company defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event that are materially different in the eyes of the policyholder from the benefits payable if the insured event did not occur.

Investment contracts are those contracts that transfer financial risk with no significant insurance risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, foreign exchange rate, index rates, credit rating or credit index not specific to a party to the contract.

A number of insurance and investment contracts contain a Discretionary Participation Feature (DPF). This feature entitles the holder to receive, as a supplement to guaranteed benefits, additional benefits or bonuses:
- that are likely to be a significant portion of the total contractual benefits;
- whose amount or timing is contractually at the discretion of the Company; and
- that are based on investment returns on a specified pool of assets held by the Company.

Actuarial practice and the terms and conditions of these policies set out the bases for the determination of the amounts on which the additional discretionary benefits are based (the DPF eligible surplus) and within which the Company may exercise its discretion as to the quantum and timing of its payment to policyholders. At least 95% of the eligible surplus must be attributed to policyholders as a group (which can include future policyholders), while the amount and timing of the distribution to individual contract holders is at the discretion of the Company, subject to the advice of the Appointed Actuary.

The Company issues investment contracts without fixed and guaranteed terms (unit-linked). Unit linked investment contracts are financial liabilities whose fair value is dependent on, *inter alia*, the fair value of associated financial assets, derivatives and/or investment property and are designated at inception as at fair value through profit and loss. The Company designates such contracts as being measured at fair value through profit and loss upon inception because its fundamental approach to the management of investment risk associated with these contracts is to hold assets that negate the investment risk. Furthermore, measurement on this basis significantly reduces measurement and recognition inconsistency (accounting mismatch) that would otherwise arise, given that the assets held to mitigate investment risk are also measured at fair value.

The Company's main valuation techniques incorporate all factors that market participants would consider and are based on observable market data where possible. There is generally no active market in investment contract liabilities and the Company therefore uses valuation models, including discounted cash flow analyses that break down components of the liability to allow the use of observable market data. A significant proportion of the fair value of a unit-linked financial liability is determined with reference to the current, observable unit or asset values that reflect the fair values of the financial assets to which the contractual benefits are linked. This constituent of the liability is often referred to as the deposit component. Other elements of the fair value include estimates of the value of existing contractual commitments not linked to financial assets with observable prices but that may be valued by reference to market observable data such as forward yield curves and exchange rates.

These include embedded derivatives, such as the enhancement of future benefits should certain conditions be satisfied, options exercisable at the discretion of the contract holder and options exercisable at the discretion of the Company. Enhancements include features such as loyalty bonuses and enhanced allocation rates, being past contractual commitments, which the Company would be obliged to honour in the future. Options include the right of contract holders to cease paying premiums on regular premium contracts, and the right of the Company to lapse without value contracts below minimum surrender values. Also included in the fair value of the liability are components addressing the insurance elements of the contracts and the net position resulting from the change in the liabilities due to product fees considered in combination with the expenses incurred by the Company in operating its administration systems to calculate future policy benefits. The insurance elements include enhancement of policy benefits when paid by reason of death and/or the refund on death of a proportion of any initial charges that would otherwise accrue wholly to the Company. These insurance features are not considered significant and do not cause the contracts to be classified as insurance contracts within the scope of IFRS 4, Insurance Contracts.

If the investment contract is subject to a put or surrender option, exercisable at the discretion of the investment contract holder rather than the Company, the fair value of the financial liability is never less than the amount payable on surrender, discounted for the required notice period, where applicable, in accordance with the requirements of IAS 39, Financial Instruments: Recognition and Measurement paragraph 49.

### 2.12 Insurance contracts

Insurance contracts are classified into three main categories, depending on the duration of risk and whether or not the terms and conditions are fixed, viz. short-term insurance contracts, long-term insurance contracts with fixed and guaranteed terms, long-term insurance contracts without fixed terms and with DPF.

*i) Short-term insurance contracts*

These contracts are health and short-duration life insurance contracts.
Health insurance protects against the cost of medical treatment. The typical protection offered is designed for employers who are legally or contractually obliged to offer such protection to their employees.

Short-duration life insurance contracts protect the Company's policyholders and their employees or their beneficiaries from the consequences of events involving a policyholder's employees such as death or disability. Guaranteed benefits paid on occurrence of the specified insurance event are either fixed or linked to the extent of the economic loss suffered by the policyholder, his employee or beneficiary. There are no maturity or surrender benefits.

For all these contracts, premiums are recognised as insurance premium revenue proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at the statement of financial position date is reported as the unearned premium liability. Premiums are shown before deduction of commission.

Claims and loss adjustment expenses are charged to income as incurred based on the estimated liability for compensation owed to contract holders, including their employees or employees' beneficiaries where applicable. They include direct and indirect claims settlement costs and arise from events that have occurred up to the statement of financial position date even if they have not yet been reported to the Company. The Company does not discount its liabilities for unpaid claims other than for disability claims. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Company and statistical analyses for the claims incurred but not reported, and to estimate the expected ultimate cost of more complex claims that may be affected by external factors (such as court decisions).

*ii) Long-term insurance contracts with fixed and guaranteed terms*

These contracts insure events associated with human life (for example death or survival) over a long duration. Premiums are recognised as revenue when the contract holder pays them. Premiums are shown before deduction of commission. Benefits are recorded as an expense when they are incurred. A liability for contractual benefits that are expected to be incurred in the future is recorded when the premiums are recognised. The liability is determined as the sum of the expected discounted value of the benefit payments and the future administration expenses that are directly related to the contract, less the expected discounted value of the theoretical premiums that would be required to meet the benefits and administration expenses based on the valuation assumptions used (the valuation premiums). The liability is initially based on assumptions as to mortality, persistency, maintenance expenses and investment income that are established at the time the contract is issued. The liability is recalculated at the statement of financial position date using assumptions current at the statement of financial position date. A margin for adverse deviations is included in the assumptions.

Where insurance contracts have a single premium or a limited number of premium payments due over a significantly shorter period than the period during which benefits are provided, the excess of the premiums payable over the valuation premiums is deferred and recognised as income in line with the decrease of unexpired insurance risk of the contracts in-force or, for annuities in force, in line with the decrease of the amount of future benefits expected to be paid. The liabilities are recalculated at each statement of financial position date using the assumptions established at inception of the contracts.

*iii) Long-term insurance contracts without fixed terms and with DPF – unit-linked and deposit administration*

These contracts insure human life events (for example death or survival) over a long duration. However, insurance premiums are recognised directly as liabilities. These liabilities are increased or decreased by change in the unit prices (in the case of unit-linked contracts) and are decreased by policy administration fees, mortality and surrender charges and any withdrawals. The liability for these contracts includes any amounts necessary to compensate the Company for services to be performed over future periods. This is the case for contracts where the policy administration charges are higher in the initial years than in subsequent years. The mortality charges deducted in each period from the contract holders as a group are considered adequate to cover the expected total death benefit claims in excess of the contract account balances in each period; no additional liability is therefore established for these claims.

A unit-linked insurance contract is an insurance contract with an embedded derivative linking payments on the contract to units of an internal investment fund set up by the Company with the consideration received from the contract holders. This embedded derivative meets the definition of an insurance contract and is not therefore accounted for separately from the host insurance contract. The liability for such contracts is adjusted for all changes in the fair value of the underlying assets. Deposit administration contracts contain a DPF that entitles the holders to a minimum guaranteed crediting rate per annum (0.01% to 3% depending on the contract currency and commencement date) or, when higher, a bonus rate declared by the Company from the DPF eligible surplus available to date. The Company has an obligation to eventually pay to contract holders at least 90% of the DPF eligible surplus (i.e., all interest and realised gains and losses arising from the assets backing these contracts). Any portion of the DPF eligible surplus that is not declared as a bonus rate and credited to individual contract holders is retained in a liability for the benefit of all contract holders until declared and credited to them individually in future periods. In relation to the unrealised gains and losses arising from the assets backing these contracts (the DPF latent surplus), the Company establishes a liability equal to 90% of these net gains as if they were realised at year-end. Shareholders' interest in the DPF latent surplus (equal to 10%) is recognised in the statement of comprehensive income. Revenue consists of fees deducted for mortality, policy administration and surrender charges. Interest or changes in the unit prices credited to the account balances and excess benefit claims incurred in the period are charged as expenses in the statement of comprehensive income.

## *2.13* Investments Contracts

*Investment contracts with DPF*

The liability for these contracts is established in the same way as for the deposit administration insurance contracts with DPF (see above). Revenue is also recognised in the same way. Where the resulting liability is lower than the sum of the amortised cost of the guaranteed element of the contract and the intrinsic value of the surrender option embedded in the contract, it is adjusted and any shortfall is recognised immediately in the statement of comprehensive income.

*Embedded derivatives*

Certain derivatives embedded in insurance contracts are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit and loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of comprehensive income. The Company does not separately measure embedded derivatives that meet the definition of an insurance contract or embedded options to surrender insurance contracts for a fixed amount (or an amount based on a fixed amount and an interest rate). All other embedded derivatives are separated and carried at fair value if they are not closely related to the host insurance contract and meet the definition of a derivative.

## 2.14 Insurance Contracts

### *2.14.1 Recognition and measurement*

Insurance contracts are classified into three main categories, depending on the duration of risk and whether or not the terms and conditions are fixed. The three categories are detailed in 2.12 i) Short-term insurance contracts, ii) Long-term insurance contracts with fixed and guaranteed terms and iii) Long-term insurance contracts without fixed terms and with DPF.

### *2.14.2 Liability adequacy test*

At each statement of financial position date, liability adequacy tests are performed. Current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used in performing these tests. Any deficiency is immediately charged to the statement of comprehensive income by establishing a provision for losses arising from liability adequacy tests (the unexpired risk provision).

### *2.14.3 Reinsurance contracts held*

Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements for insurance contracts in Note 2.11 are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the Company under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts.

The benefits to which the Company is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers (classified within loans and receivables), as well as longer-term receivables (classified as reinsurance assets) that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

The Company assesses its reinsurance assets for impairment on a quarterly basis. If there is objective evidence that the reinsurance asset is impaired, the Company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the statement of comprehensive income. The Company gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is also calculated following the same method used for these financial assets. These processes are described in Note 2.7.

### *2.14.4 Receivables and payables related to insurance contracts and investment contracts*

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders. If there is objective evidence that the insurance receivable is impaired, the Company reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the statement of comprehensive income. The Company gathers the objective evidence that an insurance receivable is impaired using the same process adopted for loans and receivables. The impairment loss is also calculated under the same method used for these financial assets. These processes are described in Note 2.7.

### *2.14.5 Deferred acquisition costs ("DAC")*

Commissions that vary with and are related to the acquisition of new investment and insurance contracts are treated as prepayments (DAC) to the extent that the commission relates to the future provision of services by the parties to whom payments are made, when the degree of completeness of the service can be reliably measured and the Company is confident of future economic benefit from the introduction acquired. Prepaid commission is expensed through profit and loss over a period determined by policy features chosen by the contract holder introduced in return for the commission payment. The periods over which it is expensed range from five to thirty months. Commissions for which liability arises on completion of a significant act without the expectation of the delivery of further services are recognised in expenses when incurred. For investment contract introductions where costs are deferred, no costs are deferred beyond the point at which the introducer is considered to have fulfilled his contractual obligations and is not expected or obliged to perform further services.

### *2.14.6 Deferred Income Liability ("DIL")*

The DIL represents a proportion of charges levied under investment contracts where payment for the services contractually due under such contracts is received in advance of the Company's performance of those services. The deferred proportion of these fees is calculated with reference to management's assessment of the degree to which actions and services the Company is obliged to perform have been completed at the balance sheet date (Note 18).

### *2.14.7 Non-Life insurance contracts*

Gross recurring premiums are recognised as revenue when payable by the policyholder. For single premium business, revenue is recognised on the date on which the policy is effective.
Gross general insurance written premiums comprise the total premiums receivable for the whole period of cover provided by contracts entered into during the accounting period. They are recognised on the date on which the policy commences. Premiums include any adjustments arising in the accounting period for premiums receivable in respect of business written in prior accounting periods. Rebates that form part of the premium rate, such as no-claim rebates, are deducted from the gross premium; others are recognised as an expense. Premiums collected by intermediaries, but not yet received, are assessed based on estimates from underwriting or past experience and are included in premiums written.
Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned premiums including minimum and deposit premiums are calculated on a daily *pro rata* basis. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

For non-life insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred, but not yet reported, at the reporting date (IBNR). It can take a significant period before the ultimate claims cost can be established with certainty and for some type of policies, IBNR claims form the majority of the liability in the statement of financial position.

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques. The main assumption underlying these techniques is that the company's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Similar judgements, estimates and assumptions are employed in the assessment of adequacy of provisions for unearned premium. Judgement is also required in determining whether the pattern of insurance service provided by a contract requires amortisation of unearned premium on a basis other than time apportionment.

## 2.15 Investment contracts without DPF

The Company issues investment contracts without fixed and guaranteed terms (unit-linked) and investment contracts with fixed and guaranteed terms (guaranteed investment bonds).

Unit linked investment contracts are financial liabilities whose fair value is dependent on the fair value of underlying financial assets, derivatives and/or investment property and are designated at inception as at fair value through profit and loss. Most investment contracts issued by the Company relate to corporate pension and savings schemes. As such, each policy acts as an umbrella under which the Company as policyholder on behalf of participating employees, and the participating employees themselves, may choose to which of the Company's funds to link benefits.

The Company designates these investment contracts to be measured at fair value through profit and loss because it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases (see Note 2.6 for the financial assets backing these liabilities).

The best evidence of the fair value of these financial liabilities at initial recognition is the transaction price (i.e., the fair value of the consideration received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Company recognises profit on day one. Generally, however, such data does not exist and the Company recognises income from these contracts as it is earned, as described in Note 2.21.1, Rendering of Services.

Valuation techniques are used to establish the fair value at inception and each reporting date. The Company's main valuation techniques incorporate all factors that market participants would consider and are based on observable market data where possible. There is generally no active market in investment contract liabilities and the Company therefore uses valuation models, including discounted cash flow analyses that break down components of the liability to allow the use of observable market data. A significant proportion of the fair value of a unit-linked financial liability is determined with reference to the current unit values that reflect the observable market values of the underlying financial assets to which the contractual benefits are ultimately linked. The unit values themselves are not market observable prices, as the Company determines these values internally, but the underlying assets are generally market traded and independently priced. This unit-based constituent of the liability under unit linked investment contracts is often referred to as the deposit component. Other elements of the fair value include estimates of the value of embedded derivatives. Amongst these are surrender options exercisable at the discretion of the contract holder or contract sub-level beneficiary, and the unit-linking feature itself. There is no element of insurance contained within these unit-linked investment contracts, and consequently no allowance in the valuation of the liability. The net position resulting from the change in the liabilities due to product fees considered in combination with the expenses incurred by the Company administering each policy is considered as part of the fair value of the liability.

If the investment contract is subject to a put or surrender option, exercisable at the discretion of the investment contract holder rather than the Company, the fair value of the financial liability is never less than the amount payable on surrender, discounted for the required notice period, where applicable, in accordance with the requirements of IAS 39, Financial Instruments: Recognition and Measurement paragraph 49. Generally, such options are present and income recognition is not advanced through the application of the fair value approach in the measurement of liabilities under unit-linked investment contracts.

The Company also designates investment contracts with fixed and guaranteed terms as being at fair value through profit and loss for similar reasons of avoiding accounting mismatch. Such contracts are not unit-linked, and do not contain surrender options that create a demand deposit feature. The contracts are valued on the basis of the net position of expected cash flows, referenced against observable interest and exchange rate curves, and giving due regard to asymmetries arising from contractual conditions dealing with under- and over-performance against specified targets.

### 2.16 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

### 2.17 Receivables

Receivables are recognised initially at fair value. A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to their original terms (see Note 2.7 for the accounting policy on impairment).

### 2.18 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available, against which the temporary differences can be utilised. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the Group controls the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the near future.

### 2.19 Employee benefits

#### *2.19.1 Pension obligations*

The Company operates various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The Company has both defined benefit and defined contribution plans. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. The investment risk associated with the pension benefits ultimately available rests with the employee and not the Company. The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the statement of financial position date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity that approximate the terms of the related pension liability. Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

For defined contribution plans, the Company pays contributions to privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Company has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

### *2.19.2 Nature of the Defined Benefit Fund*

Generali Worldwide Insurance Company Limited participates in the Assicurazioni Generali SpA Guernsey Resident Pension Fund, which is a funded defined benefit arrangement. The other participating employer in the Fund is Generali Portfolio Management (CI) Limited. The Fund closed to the future accrual of benefits with effect from 31 December 2010. All remaining active members were treated as having left Pensionable Service with effect from that date and their benefits were calculated based on their final pensionable salaries on that date.

The Fund is an approved scheme in Guernsey, under Section 150 of the Income Tax (Guernsey) Law 1975, as amended.

The Fund must comply with the relevant legislation in Guernsey.

The Fund is governed by a group of Trustees. There are currently four Trustees. Assicurazioni Generali SpA (the Parent Company) is responsible for the Fund's investment management, although the overall investment strategy is agreed between the Parent Company and the Trustees. The Trustees are responsible for the exercise of discretionary powers in respect of the Fund's benefits, although the decision on whether to allow members to take early retirement resides with the relevant participating employer. The Trustees and the Parent Company agree the level of contributions payable to the Fund by the participating employers to meet any shortfall arising following an actuarial valuation, with the proviso that the payment of contributions will be spread over a period of not more than five years from the valuation date.

### *2.19.3 Exposure to Risk of the Defined Benefit Fund*

Generali Worldwide is exposed to the risk that additional contributions will be required in order to fund the Fund as a result of poor experience. Some of the key factors that could lead to shortfalls are:

- Investment performance – the return achieved on the Fund's assets may be lower than expected.
- Mortality – members could live longer than foreseen. This would mean that benefits are paid for longer than expected, increasing the value of the related liabilities.
- Options for members – members may exercise options resulting in unanticipated extra costs.

The Fund currently holds a high level of its investments in equities. This exposes the participating employers to the risk of a general downturn in equity markets. In order to assess the sensitivity of the Fund's pension liability to these risks, sensitivity analyses have been carried out. Each sensitivity analysis is based on changing one of the assumptions used in the calculations, with no change in the other assumptions. The same method has been applied as was used to calculate the original pension liability and the results are presented in comparison to that liability. It should be noted that in practice it is unlikely that one assumption will change without a movement in the other assumptions, there may also be some correlation between some of these assumptions. It should also be noted that the value placed on the liabilities does not change on a straight-line basis when one of the assumptions is changed. For example, a 2% change in an assumption will not necessarily produce twice the effect on the liabilities of a 1% change.

### *2.19.4 Restriction of Assets of the Defined Benefit Fund*

As the Fund is currently in surplus it has not been necessary for us to adjust the statement of financial position items as a result of the requirements of IFRIC 14 issued by IASB's International Financial Reporting Interpretations Committee.

### *2.19.5 Fund Amendments of the Defined Benefit Fund*

There have been no past service costs or settlements in the financial year ending 31 December 2017.

### *2.19.6 Funding Policy of the Defined Benefit Fund*

Generali Worldwide is a participating employer in the Fund. Following the cessation of accrual of benefits with effect from 31 December 2010, regular contributions to the Fund are no longer required. However, additional contributions are still made to cover any shortfalls that arise following each valuation. The funding method employed to calculate the value of previously accrued benefits is the Attained Age Method. The Trustees and Assicurazioni Generali SpA (the Parent Company) agree the level of contributions payable to the Fund by the participating employers to meet any shortfall arising following an actuarial valuation, with the proviso that the payment of contributions will be spread over a period of not more than five years from the valuation date. The contributions made to cover any shortfalls are apportioned based on the liabilities pertaining to each participating employer and the notional assets assigned to that employer.

### *2.19.7 Liability to the Defined Benefit Fund*

There are currently two employers participating in the Fund, each of which has responsibility for the liabilities relating to its staff. However, these employers are all jointly responsible along with the Parent Company for meeting the administration expenses incurred in the operation of the Fund. On the withdrawal of any one of these employers from the Fund, the Trustees would be responsible for deciding on the terms on which additional funding would be sought from the relevant employer or surplus funds disposed of. Alternatively, the liabilities relating to that employer could be transferred to another pension scheme in which the employer participates.

On the winding up of the Fund, the Trustees would decide on the method to be used to secure the liabilities.

## 2.20 Profit-sharing and bonus plans

The Company recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

## 2.21 Revenue recognition

Revenue comprises the gross inflow of economic benefits during the period arising in the course of the ordinary activities of the Company when those inflows result in an increase in equity, other than increases relating to contributions from equity participants, and is recognition of the fair value of the services provided by the Company. Income other than that arising on recognition of the changes in the value of financial and insurance assets and liabilities is recognised as follows:

### 2.21.1 Rendering of services – including recognition of earned premiums

Revenue arising from investment management, administration and other related services offered by the Company in relation to investment contracts, whether so classified or treated as insurance contracts because of DPF components, is recognised in the accounting period in which the services are rendered. Fees consist primarily of investment management and policy administration fees arising from services rendered in conjunction with the issue and management of investment contracts where the Company actively manages, or subcontracts management to related and third parties of, the consideration received from its customers in order to attempt to generate a return commensurate with the investment profile that the customer selected on origination of the instrument or varied subsequently. Investment management services comprise the activity of choosing, and instigating trades in, financial instruments to be acquired by or sold from the company's pools of assets notionally backing the investment component of its liabilities under investment contracts, including those classified as insurance contracts because of the DPF component. Policy administration consists of the activity of maintaining sub-policy level records relating to individual members of corporate investment policies. The number of members per policy may range from ten to ten thousand or so.

Such activities generate revenue that is recognised by reference to the stage of completion of the contractual services. In the cases of investment management fees and ongoing policy administration fees, these services comprise an indeterminate number of acts over the life of the individual contracts. For practical purposes, the Company recognises these fees on a straight-line basis over the charging period. The Company charges its customers for asset management and other related services using the following different approaches:

- Set-up fees are charged to policyholders on inception. Such fees are recognised as charged, as the set up activity constitutes a significant act which may be assessed as complete;
- Regular fees are charged to policyholders periodically (monthly, quarterly or annually) either directly or by making a deduction from invested funds. Regular charges billed in advance are recognised on a straight-line basis over the billing period, which is deemed equivalent to the period over which the service is rendered. Fees charged at the end of the period are accrued as a receivable that is offset against the financial liability when charged to the customer.

Revenue arising from the investment management services offered by the Company is recognised in the accounting period in which the services are rendered. Fees consist of investment management fees arising from investment management services rendered in respect of certain funds for which the Company acts as investment manager. Such funds comprise less than five percent of the Company's assets backing liabilities to investment and insurance contract holders. The Company has no contractual right to require contract holders to link the value of their benefits to these funds. Investment management services consist of the activity of choosing, and instigating trades in, financial instruments to be acquired by or sold from the investment funds in order to attempt to generate investment returns appropriate to the individual fund remits. These investment management services generate revenue that is recognised by reference to the value of assets for which the Company acts as investment manager and the passage of time.

The Company's actions in maintaining contract records to allow it to calculate benefits payable under investment contracts and operate its investment risk management processes are not considered to be the provision of investment management services. As noted at 2.11, the Company manages its financial assets and liabilities on the basis of their fair value. Changes in liabilities to contract holders arising from the application of contractual terms in the calculation of potential benefits are consequently treated as income from financial liabilities at fair value through profit and loss under the options available in IAS 39, Financial Instruments: Recognition and Measurement, paragraph 9 (a) and 9 (b) (i) and (ii) and not as revenue arising from the performance of investment management services that would require an alternative treatment under IAS 18, Revenue, were the actions of the Company in administering its contractual arrangements to be considered as the provision of services and the option under IAS 39 unavailable.

The Company also derives income from the services it provides in the establishment of investment contracts and the collection and application of premium thereto. Receipt of the first premium applicable to a contract is considered integral to that contract being "in-force". In some cases, receipt and application of the first premium is considered to conclude the activity of establishing an investment contract, and non-refundable fees related to establishment are recognised as income. Establishment fees are recognised in a similar manner should any additional, *ad hoc* premiums be applied to such policies. In cases where there is a reasonable expectation of regular contributions being made to a policy, the Company undertakes an assessment of the proportion of the establishment fees related to setting up such contracts, and applying the first premiums thereto, and of the proportion related to the service to be provided in the collection and application of future premiums. The proportion relating to future service is initially deferred (Note 2.14.6) and subsequently released over the expected period for which premiums will be collected.

#### *2.21.2 Interest income*

Interest income for financial assets that are not classified as fair value through profit and loss is recognised using the effective interest method. When a receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument and continues unwinding the discount as interest income.

#### *2.21.3 Dividend income*

Dividend income is recognised when the right to receive payment is established – this is the ex-dividend date for equity securities.

#### *2.21.4 Other income*

Income from the Company's profit share agreement with the UAE is recognised as other income along with the ceded reinsurance / direct insurance income from The Bahamas and the Caymans.

### 2.22 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

### 2.23 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

## 3. Critical accounting estimates and judgments in applying accounting policies

The Company makes assumptions that affect the amounts of assets and liabilities reported within the financial statements.

Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.
Critical amongst these are the assumptions underpinning the classification of a contract as insurance or investment, in accordance with the definitions given in Note 2.11 and Note 2.12, and assumptions relating to mortality, as discussed in Note 15.2.1 and assumptions made in the use of valuation techniques in determining the fair value of investment contracts.

*a) Insurance and investment contract liabilities*
Insurance and investment contract liability accounting is discussed in more detail in accounting policies 2.11, 2.12 and 2.13 with further detail of the key assumptions made in determining insurance contract liabilities included in note 15.

*b) Fair value of financial assets and liabilities*
The fair values of financial assets and liabilities are classified and accounted for as set out in accounting policies 2.6, 2.6.5 and 2.8. Where possible, financial assets and liabilities are valued on the basis of listed market prices by reference to quoted market bid prices for assets and offer prices for liabilities, without any deduction for transaction costs. These are categorised as Level 1 financial instruments and do not involve estimates. If prices are not readily determinable, fair values are determined using valuation techniques including pricing models and discounted cash flow techniques. Financial instruments valued where valuation techniques are based on observable market data at the period end are categorised as Level 2 financial instruments. Financial instruments valued where valuation techniques are based on non-observable inputs are categorised as Level 3 financial instruments. Level 2 and Level 3 financial instruments therefore involve the use of estimates and Notes 2.6.5 and 4.7 provides further disclosures on fair value hierarchy and assumptions used to determine fair values.

c) Fair value of investment contracts
The Company issues a significant number of investment contracts that are designated at fair value through profit and loss. These financial instruments are not quoted in active markets, and their fair values are determined by using valuation techniques. Such techniques (for example, valuation models) are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are validated before they are used and calibrated to ensure that outputs reflect actual experience combined with underlying market prices. A variety of factors are considered in the Company's valuation techniques, including time value, currency and interest rate effects, asset risk and growth forecasts, volatility factors (including contract holder behaviour) and servicing costs.

Changes in assumptions about these factors would have little effect on the reported fair value of financial instruments as the amount payable on demand is usually larger than the calculated fair value and is thus the minimum liability that is held for most contracts.

d) Deferred Income Liability (DIL)
Deferred income liability (DIL) is front-end fees received from investment contract holders as a pre-payment for asset management and related services. These amounts are non-refundable and are released to income as the services are rendered.
The methodology applied to calculate the DIL is based on the initial units of clients multiplied by the estimated future costs associated to initial units multiplied by the estimated length of time (as a percentage of the premium paying term) the policy will be in force and premium paying.

## 4. Management of insurance and financial risk

The Company issues contracts that transfer insurance risk or financial risk or both. This section summarises these risks and the way the Company manages them.

### 4.1 Insurance risk

Insurance risk is based on uncertainty, which must exist in at least one of the following ways at the inception of an insurance contract:

i. whether an insured event will (or will not) occur;
ii. when it will occur; or
iii. how much the insurer will need to pay if it occurs (or does not occur)?

Across a portfolio of insurance risks, the overall outcome generally becomes more certain, and suitable for statistical analysis. The company has developed its underwriting strategies and other management techniques to mitigate the Company's exposure to insurance risk.

#### *4.1.1 Insurance risk management*

The Company's insurance products are designed to ensure that policies are unambiguous, and hence minimise the risk of the insurance cover having greater scope than that originally intended. Included within the design process are a number of technical, legal and compliance reviews with such risk mitigation as one of the specific aims.

Prior to or at inception insurance contracts under which the Company accepts significant risk, are subjected to an underwriting process. This aims not only to ensure that business is correctly priced, but also to ensure that risk concentrations are identified and exposure limits are not breached. Where necessary, risk is transferred using reinsurance. The Company uses reinsurance for several purposes. In some instances, it is used to decrease the deviation from average claim size for a line of business. This reduces volatility of the result, subject to performance by the reinsurer. In other areas, reinsurance is used to limit the Company's exposure to catastrophe, such as multiple deaths under a group life policy. Generali Group assesses the financial strength of reinsurers used, and cover is purchased only from those approved.

*Annuity products*
The Company has a closed book of annuity business. The main risk in this category is that of longevity. Benchmarking is used to maintain provisions in line with up-to-date developments in life expectancy for the types of lives covered. Assets are closely matched to the estimated liabilities to immunise the Company against interest rate risk for this class of business.

*Investment contracts with DPF*
Such contracts are treated as insurance under the requirements of IFRS 4, Insurance Contracts. There is no insurance risk attached to such contracts. However, the Company is also exposed to other risks of a financial nature, in particular those created by capital and interest rate guarantees. These are mitigated by actuarial review of bonus sustainability, the imposition of performance monitoring against investment risk guidelines and the ability to impose market value adjustments should they be judged necessary.

*Unit-linked contracts - Insurance*
For unit-linked contracts, the Company matches all the assets on which the unit prices are based with assets in the portfolio.

The Company's exposure to market risk (being interest rate, equity price and currency risks) from these contracts is in the risk of volatility in asset management fees due to the impact of interest rate, equity price and currency movements on the fair value of the assets held in the linked funds, on which investment management fees are based.

*Short term - Health insurance*
The Company provides health insurance, principally in the Caribbean, but also as an additional coverage with other policies. Proactive claims management and limited reinsurance cover are the main management techniques employed. The claims are generally low value, high frequency though there is exposure to high value claims. Claims settlement times are generally short.

*Short term - Death and disability insurance*
The Company provides cover for a wide variety of multi-national organisations. Policies are usually renewable annually, and are subject to underwriting processes. The Company seeks to determine whether risk concentrations exist, for example, looking at the exposure to lives assured at single sites or to concentrations within specific industry sectors. There is generally good geographical diversity. Quota share and catastrophe reinsurance is used to limit the Company's exposure. The Company monitors its asset-liability matching in respect of its provisions for long-term disability payments.

### 4.2 Financial risk

The Company is exposed to financial risk through its financial assets, financial liabilities (investment contracts and borrowings), reinsurance assets and insurance liabilities. The most significant risks relate to market risk and currency risk. The Company segregates various asset and liability categories so that they can be matched, with the aim of minimising the interest rate risk whilst maintaining an appropriate credit quality within each segregated portfolio. Such matching focuses on the typical duration of each class of liabilities, and seeks to ensure that the associated assets' characteristics are similar in nature.

Equity price risk is naturally hedged in some areas, in particular the exposure to unit linked contract holders, as the liability fluctuates in a near-identical fashion. In other areas, management of the equity investments to which the risk relates is delegated to equity investment management specialists or overseen by the Board Investment Committee. As such, the risk is not hedged. Other risks, namely currency, liquidity and cash flow interest rate risk are either controlled at an operational level by the day-to-day application of risk management policies and procedures or overseen by the Board Investment Committee.

The financial assets, which are most exposed to financial risk, are the investments in subsidiaries and associates, derivative financial instruments, amounts ceded to reinsurers from insurance provisions and receivables arising out of direct insurance operations and due from contract holders.

#### *4.2.1 Financial risk management*
The Company maintains its monetary assets other than accrued income in short term, floating rate investments, such as cash and term deposits. It manages exposure to foreign currency by converting its income to the reporting currency.

The Company manages these positions within an asset liability management (ALM) framework that has been developed to achieve efficient matching of financial liabilities to investment contract holders and of the investment element of insurance liabilities to insurance contract holders.

The Company manages these positions within an asset liability management (ALM) framework that has been developed to achieve long-term investment returns in excess of its obligations under insurance and investment contracts. Within the ALM framework, the Company periodically produces reports at portfolio, legal entity and asset and liability class level that are circulated to the Company's key management personnel. The principal technique of the Company's ALM is to match assets to the key characteristics, these being duration and currency for non-linked products. For each distinct class of liabilities, a separate portfolio of assets is maintained. Credit risk is also managed at a portfolio level. The Company has not materially changed the processes used to manage its risks from previous periods.

The Company's ALM is integrated with the management of the financial risks associated with the Company's other classes of financial assets and liabilities not directly associated with insurance and investment liabilities (in particular, borrowings and investments in foreign operations). The notes below explain how financial risks are managed using the categories utilised in the Company's ALM framework. In particular, the ALM Framework requires the management of interest rate risk, equity price risk, credit risk and liquidity risk at the portfolio level. Foreign currency is managed on both a portfolio level and a company wide basis. To reflect the Company risk management approach, the required disclosures for interest rate, equity price and liquidity risks are given separately for each portfolio of the ALM Framework. Credit risk disclosures are provided for the whole Company in Note 4.4.

The following tables reconcile the full statement of financial position, including non-monetary assets and liabilities, to the classes and portfolios used in the Company's ALM framework.

All amounts in €000 unless otherwise stated

| 2017 | Total | Fixed and guaranteed investment contracts | Annuities | Contracts with DPF | Unit Linked Contracts | | Short Term Insurance Contracts | Corporate | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | Insurance Contracts | Investment Contracts | Health and Other Insurance | Other Financial Assets and Liabilities | Other Assets and Liabilities |
| Investment In Subsidiaries & Associates | 300 | | | | | | | 300 | |
| **Held for sale financial asset** | 19,954 | | | | | | | 19,954 | |
| **Available For Sale Assets:** | | | | | | | | | |
| Debt Securities - Fixed Interest Rate: | | | | | | | | | |
| Corporate Bonds, Covered Bonds, Structured Note - Quoted | 168,103 | | | | | | | 168,103 | |
| Government Bonds | 114,836 | | | | | | | 114,836 | |
| Investment Funds: | | | | | | | | | |
| Quoted | 42,331 | | | | | | | 42,331 | |
| **Financial Assets at fair value through profit & loss:** | | | | | | | | | |
| Equity Securities & Collective Investment Schemes: | | | | | | | | | |
| Quoted | 569 | | | | | | | 569 | |
| Debt Securities: | | | | | | | | | |
| Corporate Bonds, Covered Bonds, Structured Note - Quoted | 369,944 | 2,785 | 78,671 | 187,222 | | | 99,733 | 1,533 | |
| Corporate Bonds, Covered Bonds, Structured Note - Unquoted | 913 | | 913 | | | | | | |
| Government Bonds | 351,315 | 9,229 | 55,259 | 200,945 | | | 85,882 | | |
| Investment Funds: | | | | | | | | | |
| Quoted | 44,483 | | | 19,197 | | | 4,012 | 21,274 | |
| Unquoted | 246 | | | | | | | 246 | |

All amounts in €000 unless otherwise stated

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Assets Backing Liabilities - Policyholder risk:** | | | | | | | | | |
| Equity securities: | | | | | | | | | |
| Quoted | 135,907 | | | | | 135,907 | | | |
| Unquoted | 488 | | | | | 488 | | | |
| Debt securities | | | | | | | | | |
| Corporate Bonds, Covered Bonds, Structured Note - Quoted | 101,212 | | | | | 101,212 | | | |
| Corporate Bonds, Covered Bonds, Structured Note - Unquoted | 77,348 | | | | | 77,348 | | | |
| Government Bonds | 12,851 | | | | | 12,851 | | | |
| Investment Funds: | | | | | | | | | |
| Quoted | 2,927,300 | | | | 18,223 | 2,909,077 | | | |
| Unquoted | 109,645 | | | | | 109,645 | | | |
| Policyholder cash and cash equivalents | 198,025 | | | | 339 | 197,686 | | | |
| Other policyholder financial assets | 1,466 | | | | | 1,466 | | | |
| Term Deposits – policyholder | 35 | | | | | 35 | | | |
| Amount Ceded To Reinsurers From Insurance Provisions | 97,396 | | 972 | | 25 | | 96,399 | | |
| Receivables Arising Out of Direct Insurance Operations - Due From Contract Holders | 29,269 | | 330 | | | 927 | 28,012 | | |
| Other Receivables: | | | | | | | | | |
| Other receivables | 5,028 | | | | | 3,349 | | 1,132 | 547 |
| Receivables Due From Other Related Parties | 454,371 | | | | | | | 454,371 | |
| Other Assets | 17,020 | 43 | 2,388 | 2,311 | | | 1,903 | 10,375 | |
| Cash & Cash Equivalents | 23,099 | 136 | 111 | (1,428) | 2,174 | | 18,961 | 3,145 | |
| Cash - Hong Kong Solvency Margin | 25,159 | | | | | | | 25,159 | |
| **Total Financial Assets** | **5,328,613** | **12,193** | **138,644** | **408,247** | **20,761** | **3,549,991** | **334,902** | **863,328** | **547** |

All amounts in €000 unless otherwise stated

| **2017** | | **Fixed and guaranteed investment contracts** | **Annuities** | **Contracts with DPF** | **Unit Linked Contracts** | | **Short Term Insurance Contracts** | **Corporate** | |
|---|---|---|---|---|---|---|---|---|---|
| | **Total** | | | | **Insurance Contracts** | **Investment Contracts** | **Health and Other Insurance** | **Other Financial Assets and Liabilities** | **Other Assets and Liabilities** |
| Insurance Provisions Direct Insurance | 706,100 | | 101,998 | 406,619 | 18,589 | | 173,740 | 5,154 | |
| Insurance Provisions Accepted Insurance | 32,810 | | 32,810 | | | | | | |
| Financial Liabilities at fair value through profit & loss: | | | | | | | | | |
| Investment Contracts - Policyholder risk | 3,524,223 | | | | | 3,524,223 | | | |
| Investment Contracts With Fixed Terms & Guaranteed Minimum Returns | 7,571 | 7,571 | | | | | | | |
| Trade & Other Payables | 160,608 | | 3,766 | | (68) | 58,123 | 286 | 98,501 | |
| Payables - Arising Out Of Direct Insurance | 12,934 | | 1,630 | 436 | 320 | 2,923 | 1,191 | 6,434 | |
| Payables - Arising Out Of Reinsurance Operations | 86,345 | | 562 | | | | 82,069 | 3,714 | |
| Other Liabilities | 658 | | | | | | | 658 | |
| Accruals & Deferred Income | 45,728 | 226 | (178) | 1,958 | 72 | (649) | 77,224 | (32,925) | |
| **Total Liabilities** | **4,576,977** | **7,797** | **140,588** | **409,013** | **18,913** | **3,584,620** | **334,510** | **81,536** | **-** |

All amounts in €000 unless otherwise stated

| 2016 | | Fixed and guaranteed investment contracts | Annuities | Contracts with DPF | Unit Linked Contracts | | Short Term Insurance Contracts | Corporate | |
|---|---|---|---|---|---|---|---|---|---|
| | Total | | | | Insurance Contracts | Investment Contracts | Health and Other Insurance | Other Financial Assets and Liabilities | Other Assets and Liabilities |
| Investment In Subsidiaries & Associates | 173,918 | | | | | | | 173,918 | |
| **Available For Sale Assets:** | | | | | | | | | |
| Equity Securities: | | | | | | | | | |
| Quoted | 267 | | | | | | | 267 | |
| Unquoted | 200,046 | | | | | | | 200,046 | |
| Debt Securities - Fixed Interest Rate: | | | | | | | | | |
| Corporate Bonds, Covered Bonds, Structured Note - Quoted | 148,087 | | | | | | | 148,087 | |
| Government Bonds | 114,753 | | | | | | | 114,753 | |
| Investment Funds: | | | | | | | | | |
| Quoted | 116,446 | | | | | | | 116,446 | |
| Unquoted | | | | | | | | | |
| Other available for sale financial assets | 265 | | | | | | | 265 | |
| **Financial Assets at fair value through profit & loss:** | | | | | | | | | |
| Equity Securities & Collective Investment Schemes: | | | | | | | | | |
| Quoted | 424 | | | | | | | 424 | |
| Debt Securities: | | | | | | | | | |
| Corporate Bonds, Covered Bonds, Structured Note - Quoted | 393,139 | 5,998 | 95,110 | 185,242 | | | 105,254 | 1,535 | |
| Corporate Bonds, Covered Bonds, Structured Note - Unquoted | 4,692 | | 1,010 | | | | 3,682 | | |
| Government Bonds | 365,321 | 11,260 | 53,340 | 218,352 | | | 82,369 | | |
| Investment Funds: | | | | | | | | | |
| Quoted | 38,328 | | | 16,600 | | 685 | 11,185 | 9,858 | |
| Unquoted | 84 | | | | | | | 84 | |
| Derivative Financial Instruments | 20,237 | | | | | | | 20,237 | |
| Other financial assets at fair value through P&L | 613 | | | | | | | 613 | |

All amounts in €000 unless otherwise stated

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Assets Backing Liabilities - Policyholder risk:** | | | | | | | | | |
| Equity securities: | | | | | | | | | |
| Quoted | 134,120 | | | | | 134,120 | | | |
| Unquoted | 106 | | | | | 106 | | | |
| Debt securities | | | | | | | | | |
| Corporate Bonds, Covered Bonds, Structured Note - Quoted | 108,648 | | | | | 108,648 | | | |
| Corporate Bonds, Covered Bonds, Structured Note - Unquoted | 96,978 | | | | | 96,978 | | | |
| Government Bonds | 11,721 | | | | | 11,721 | | | |
| Investment Funds: | | | | | | | | | |
| Quoted | 2,853,639 | | | | 19,714 | 2,833,925 | | | |
| Unquoted | 126,357 | | | | | 126,357 | | | |
| Policyholder cash and cash equivalents | 3,981 | | | | 104 | 3,877 | | | |
| Other policyholder financial assets | 242 | | | | | 242 | | | |
| Term Deposits – policyholder | 274,742 | | | | | 274,742 | | | |
| Impairment | (30,468) | | | | | (30,468) | | | |
| Amount Ceded To Reinsurers From Insurance Provisions | 81,632 | | 1,091 | | 25 | | 80,516 | | |
| Receivables Arising Out of Direct Insurance Operations - Due From Contract Holders | 26,331 | | | | | | 26,331 | | |
| Other Receivables: | | | | | | | | | |
| Other receivables | 2,126 | | | | | | 10 | 2,116 | |
| Receivables Due From Other Related Parties | 13,425 | | | | | | | 13,425 | |
| Cash & Cash Equivalents | 53,280 | | | 3,538 | 964 | 21,990 | | 24,767 | 2,021 |
| Cash - Hong Kong Solvency Margin | 30,762 | 94 | 1,011 | 225 | 11 | 378 | 29,043 | | |
| **Total Financial Assets** | **5,364,242** | **17,352** | **151,562** | **423,957** | **20,818** | **3,583,301** | **338,390** | **826,841** | **2,021** |

All amounts in €000 unless otherwise stated

| **2016** | | **Fixed and guaranteed investment contracts** | **Annuities** | **Contracts with DPF** | **Unit Linked Contracts** | | **Short Term Insurance Contracts** | **Corporate** | |
|---|---|---|---|---|---|---|---|---|---|
| | **Total** | | | | **Insurance Contracts** | **Investment Contracts** | **Health and Other Insurance** | **Other Financial Assets and Liabilities** | **Other Assets and Liabilities** |
| Insurance Provisions Direct Insurance | 725,344 | | 112,447 | 423,139 | 19,739 | | 164,485 | 5,534 | |
| Insurance Provisions Accepted Insurance | 50,323 | | 37,427 | | | | 12,896 | | |
| Financial Liabilities at fair value through profit & loss: | 0 | | | | | | | | |
| Investment Contracts - Policyholder risk | 3,579,277 | | | | | 3,579,277 | | | |
| Decrease in value due to impairment | (30,468) | | | | | (30,468) | | | |
| Investment Contracts With Fixed Terms & Guaranteed Minimum Returns | 13,323 | 13,323 | | | | | | | |
| Trade & Other Payables | 86,281 | 3,672 | | 3,000 | 1,068 | 31,706 | 1,320 | 45,515 | |
| Payables - Arising Out Of Direct Insurance | 12,969 | | 1,544 | 422 | | 4,794 | 1,469 | 4,740 | |
| Payables - Arising Out Of Reinsurance Operations | 75,197 | | 625 | | | | 71,081 | 3,491 | |
| Other Liabilities | 3,282 | | | | | | | | 3,282 |
| Accruals & Deferred Income | 58,326 | | | | | | | 58,326 | |
| **Total Liabilities** | **4,573,854** | **16,995** | **152,043** | **426,561** | **20,807** | **3,585,309** | **251,251** | **117,606** | **3,282** |

All amounts in €000 unless otherwise stated

*Fixed and guaranteed investment contracts*
Investment contracts with guaranteed and fixed terms have benefit payments that are fixed and guaranteed at the inception of the contract. The financial component of these benefits is usually a guaranteed fixed interest rate (for the insurance contracts, this rate may apply to maturity and/or death benefits) and hence the Company's primary financial risk on these contracts is the risk that interest income and capital redemptions from the financial assets backing the liabilities is insufficient to fund the guaranteed benefits payable.

*Unit-linked contracts - Investment*
As with unit linked insurance contracts there is no price, currency, credit or interest risk.

### *4.2.2 Unit-linked contracts*

For unit-linked contracts, the Company matches all the assets on which the unit prices are based with assets in the portfolio. There is therefore no price, currency, credit or interest risk for the matched elements of these contracts. As stated above, the reduction in the fair value of value of accrued income is exposed to interest rate, foreign exchange and, to a limited extent, equity price risks.

## 4.3 Capital Management

The Company's objectives when managing capital are to comply with regulatory solvency requirements and to ensure that it meets risk-based capital requirements determined internally by the Assicurazioni Generali Group (the Group) as part of its overall enterprise risk management programme. The regulatory solvency requirements are determined, principally, in accordance with the Insurance Business (Bailiwick of Guernsey) Law, 2002, as amended, and The Insurance Business (Solvency) Rules 2015 as well as with regard to similar requirements relating to the specific activities effected in other jurisdictions in which the Company is licensed.

The Company adopts the Solvency II Standard Formula framework for local regulatory solvency reporting, as approved by letter, from the Guernsey Financial Services Commission dated 10 December 2015.

The provisional solvency ratio is summarised below, and is not subject to the audit:

| | **2017 Unaudited (Provisional)** | **2016 Unaudited*** |
|---|---|---|
| Eligible Own Funds (Available Capital) | 598,420 | 1,066,283 |
| Solvency Capital Requirement | 270,887 | 585,787 |
| Solvency II Ratio | 221% | 182% |

* 2016 result has been restated to reflect the Company's official solvency position reported to the Guernsey Financial Services Commission.

The Company's Capital Management Policy sets out the framework in which the Company must periodically review the capital position, produce a medium-term capital management plan and regulate the issuance and distribution of capital. The items constituting the Company's capital are shown in the ALM table in Note 4.2.1 (valued on an IFRS basis), and include investments of a strategic nature made following due consideration of the Group's objectives.

All amounts in €000 unless otherwise stated

### 4.4 Credit risk

The Company has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the Company is exposed to credit risk are:

- debt security holdings;
- loans and advances; - financial guarantees;
- amounts due under insurance contracts;
- reinsurers' share of insurance liabilities;
- prepaid commission;
- other monetary financial assets, including cash balances at bank.

The Company structures the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or groups of counterparties, and to differently rated debt securities. Limits on the levels of credit risk are based on guidelines issued by the Group Risk Management department of the Assicurazioni Generali Group, with modification where appropriate to the circumstances of the Company, and are ratified by the Board of Directors. The Investment Committee, under powers delegated by the Board, carries out monitoring of adherence to the guidelines. The Board Investment Committee undertakes credit assessment in respect of the credit exposures.

The strength of reinsurers is considered annually in conjunction with advice from the Group. Individual contracts are considered on a case by case where necessary.

The Company's financial assets exposed to credit risk are set out below along with the credit rating category of the issuer or counterparty.

| 2017 | AAA | AA | A | BBB | BB | B | Non-Rated | Total |
|---|---|---|---|---|---|---|---|---|
| Term Deposits | | | 1,868 | | | | | 1,868 |
| **Held for sale financial asset** | | | | | | | 19,954 | 19,954 |
| **Available For Sale Financial Assets:** | | | | | | | | |
| Corporate bonds, covered bonds, structured notes | 13,503 | 27,606 | 61,347 | 61,149 | | | 4,498 | 168,103 |
| Government bonds | 40,660 | 74,176 | | | | | | 114,836 |
| **Financial Assets at fair value through profit & loss:** | | | | | | | | |
| Corporate bonds, covered bonds, structured notes | 94,595 | 127,916 | 100,473 | 29,522 | 1,101 | 409 | 16,841 | 370,857 |
| Government Bonds | 202,126 | 129,628 | | 7,523 | | | 12,037 | 351,314 |
| Amount Ceded To Reinsurers | | 97,371 | | | | | 25 | 97,396 |
| Receivables including Insurance Receivables | | | | | | | 488,668 | 488,668 |
| Prepaid commission | | | | | | | 3,937 | 3,937 |
| Subsidiaries and associates | | | | | | | 300 | 300 |
| Cash and Cash Equivalents | | 7,681 | 17,857 | 4,946 | | | 15,906 | 46,390 |
| **Total** | 350,884 | 464,378 | 181,545 | 103,140 | 1,101 | 409 | 562,166 | 1,663,624 |

The above table does not include any significant overdue items.

All amounts in €000 unless otherwise stated

| **2016** | **AAA** | **AA** | **A** | **BBB** | **Non-Rated** | **Total** |
|---|---|---|---|---|---|---|
| Term Deposits | | | | | | |
| **Available For Sale Financial Assets:** | | | | | | |
| Corporate bonds, covered bonds, structured notes | 12,238 | 38,875 | 58,332 | 38,642 | | 148,087 |
| Government bonds | 42,321 | 72,432 | | | | 114,753 |
| **Financial Assets at fair value through profit & loss:** | | | | | | |
| Corporate bonds, covered bonds, structured notes | 113,516 | 145,912 | 106,787 | 27,734 | 3,883 | 397,832 |
| Government Bonds | 226,170 | 136,766 | | 2,385 | | 365,321 |
| Derivatives | | | | | 20,237 | 20,237 |
| Amount Ceded To Reinsurers | | 81,607 | | | 25 | 81,632 |
| Receivables including Insurance Receivables | | | | | 41,882 | 41,882 |
| Prepaid commission | | | | | 5,724 | 5,724 |
| Subsidiaries and associates | | | | | 173,918 | 173,918 |
| Cash and Cash Equivalents | | 3,319 | 40,726 | 8,432 | 31,565 | 84,042 |
| **Total** | 394,245 | 478,911 | 205,845 | 77,193 | 277,234 | 1,433,428 |

Ratings as per the Bloomberg Composite, which is a blend of ratings from S&P, Fitch and DBRS.

All amounts in €000 unless otherwise stated

**Industry Analysis**

| 31 December 2017 | Financial Services | Government | Consumers | Construction & Materials | Manufacturing | Services | Total |
|---|---|---|---|---|---|---|---|
| Subsidiaries and Associates | 300 | | | | | | 300 |
| **Financial Instruments** | | | | | | | |
| Term deposits | 1,868 | | | | | | 1,868 |
| **Held for sale financial asset** | 19,954 | | | | | | 19,954 |
| **Available for sale financial assets** | | | | | | | |
| Debt securities | 40,477 | 114,836 | 78,209 | 23,802 | 11,005 | 14,609 | 282,938 |
| **Financial Assets at fair value through P&L** | | | | | | | - |
| Debt securities | 202,285 | 351,315 | 106,212 | 3,320 | 20,335 | 38,705 | 722,172 |
| Derivatives | | | | | | | - |
| Amount ceded to reinsurers | 97,396 | | | | | | 97,396 |
| Receivables including insurance receivables | 488,668 | | | | | | 488,668 |
| Prepaid commission | | | | | | 3,937 | 3,937 |
| Cash and short term deposits | 46,390 | | | | | | 46,390 |
| **Total credit risk exposure** | 897,338 | 466,151 | 184,421 | 27,122 | 31,340 | 57,251 | 1,663,624 |

| 31 December 2016 | Financial Services | Government | Consumers | Construction & Materials | Manufacturing | Services | Total |
|---|---|---|---|---|---|---|---|
| Subsidiaries and Associates | 173,918 | | | | | | 173,918 |
| **Financial Instruments** | | | | | | | |
| Term deposits | | | | | | | - |
| **Available for sale financial assets** | | | | | | | - |
| Debt securities | 34,297 | 114,753 | 69,390 | 10,349 | 15,300 | 18,751 | 262,840 |
| **Financial Assets at fair value through P&L** | | | | | | | |
| Debt securities | 210,916 | 365,322 | 126,243 | 4,249 | 24,894 | 31,529 | 763,153 |
| Derivatives | 20,237 | | | | | | 20,237 |
| Amount ceded to reinsurers | 81,632 | | | | | | 81,632 |
| Receivables including insurance receivables | 41,882 | | | | | | 41,882 |
| Prepaid commission | | | | | | 5,724 | 5,724 |
| Cash and short term deposits | 84,042 | | | | | | 84,042 |
| **Total credit risk exposure** | 646,924 | 480,075 | 195,633 | 14,598 | 40,194 | 56,004 | 1,433,428 |

The Company did not use credit derivative or similar instruments to mitigate the maximum exposure to credit risk. The change in fair value of financial liabilities, both in the period and cumulatively, is considered attributable solely to changes in conditions giving rise to market risk.

The strength of reinsurers is considered annually in conjunction with advice from the Group.

*Financial assets and liabilities subject to offsetting*
The Company can enter into netting arrangements with counterparties to manage the credit risks associated with over the counter (OTC) and exchange traded derivatives. These netting agreements and other similar arrangements enable the counterparties to set-off liabilities against available assets received, in the ordinary course of business and/or in the event that the counterparty is unable to fulfil its contractual obligations. The right of offset is a legal right to settle or otherwise eliminate a portion of an amount due by applying an amount receivable from the same counterparty against it, reducing credit exposure.

A master netting agreement, under which multiple individual transactions are subsumed, usually constitutes netting arrangements. For derivative contracts, statement of financial position offsetting is generally only permitted where a market settlement mechanism exists which accomplishes net settlement through a daily cash margining process. The Company has the legal right to offset the reinsurance deposits included in the table in Note 17 against the receivables due from contract holders, which have arisen from reinsurance contracts, included in Note 9.

### 4.5 Liquidity risk

*Maturity analysis of financial liabilities and assets*

The following tables summarises the maturity profile of the financial assets, financial liabilities and insurance contract liabilities of the Company based on the remaining undiscounted contractual obligations including interest payable and receivable.

For insurance contract liabilities and reinsurance assets, maturity profiles are determined based on an estimated timing of net cash outflows from the recognised insurance liabilities. Unearned premiums have been excluded from the analysis as they are not contractual obligations. Unit-linked liabilities are repayable or transferable on demand and are included in the up to a year column. Repayments which are subject to notice are treated as if notice were to be given immediately.

The Company maintains a portfolio of highly marketable and diverse assets which can be easily liquidated in the event of an unforeseeable interruption of cash flow. The Company also has committed lines of credit that it can access to meet liquidity needs.

Cash flows, which have no maturity, are shown in the period in which they could first be called by the policyholder or counterparty. This includes all protection policies for which the cash flows have been assumed to be equal to the liability and payable in the first 0 – 5 years. Cash flows payable in years 5 and beyond relate to outstanding long-term disability claims and annuity payments. The valuation of such liabilities excludes any surrender penalties that the Company has the option of imposing in such circumstances.

Notwithstanding the above, any policy can be surrendered at any time, and all financial and insurance liabilities to contract holders are therefore shown with a minimum maturity of 0-1 years. In practice, this is extremely unlikely to happen. The Company has the general right to delay any surrender or surrenders to protect the interest of other policyholders and more specifically, may reflect the settlement terms achieved on the disposal of assets in the terms it offers on the settlement of liabilities backed by those assets.

All amounts in €000 unless otherwise stated

| 2017 | Cash Flows Due | | | | | |
|---|---|---|---|---|---|---|
| | < 1 Year | 1-5 Years | 5-10 Years | 10-20 Years | >20 Years | Carrying Value |
| Investment in subsidiaries and Associates | 300 | - | - | - | - | 300 |
| Held for sale financial asset | 19,954 | | | | | 19,954 |
| Financial assets at fair value through P&L | 109,550 | 427,914 | 147,097 | 61,248 | 21,661 | 767,470 |
| Assets Backing Liabilities - Policyholder risk: | 3,404,033 | 108,163 | 43,283 | 3,523 | 5,275 | 3,564,277 |
| Available for sale financial assets | 84,509 | 155,657 | 85,104 | - | - | 325,270 |
| Receivables including insurance receivables | 479,521 | | | | | 479,521 |
| Amounts ceded to reinsurers | 9,147 | | | | | 9,147 |
| Cash and cash equivalents | 48,258 | | | | | 48,258 |
| **Total Financial Assets** | 4,155,272 | 691,734 | 275,484 | 64,771 | 26,936 | 5,214,198 |
| Insurance Provisions | 166,905 | 377,235 | 15,616 | 35,753 | 143,401 | 738,910 |
| Investment Contracts Where The Risk Is Borne By The Contract / Policy Holder | 3,384,903 | 116,702 | 143 | 219 | 22,256 | 3,524,223 |
| Investment Contract With Fixed Terms & Guaranteed Minimum Returns | 3,786 | 3,785 | - | - | - | 7,571 |
| Payables Including Insurance Payables | 260,545 | - | - | - | - | 260,545 |
| **Total Financial Liabilities** | 3,816,139 | 497,722 | 15,759 | 35,972 | 165,657 | 4,531,249 |

All amounts in €000 unless otherwise stated

| **2016** | | | **Cash Flows Due** | | | |
|---|---|---|---|---|---|---|
| | **< 1 Year** | **1-5 Years** | **5-10 Years** | **10-20 Years** | **>20 Years** | **Carrying Value** |
| Investment in subsidiaries and Associates | 173,918 | - | - | - | - | 173,918 |
| Financial assets at fair value through P&L | 264,827 | 384,442 | 158,090 | 65,702 | 33,819 | 906,880 |
| Assets Backing Liabilities - Policyholder risk: | 3,595,127 | 10,072 | 3,737 | 1,230 | 368 | 3,610,534 |
| Available for sale financial assets | 331,296 | 162,762 | 77,154 | 8,652 | - | 579,864 |
| Impairment | (30,468) | | | | | (30,468) |
| Receivables including insurance receivables | 41,882 | | | | | 41,882 |
| Amounts ceded to reinsurers | 81,632 | | | | | 81,632 |
| Cash and cash equivalents | 84,042 | | | | | 84,042 |
| **Total Financial Assets** | 4,542,256 | 557,276 | 238,981 | 75,584 | 34,187 | 5,448,284 |
| Insurance Provisions | 90,533 | 510,375 | 488 | 230 | 174,041 | 775,667 |
| Investment Contracts Where The Risk Is Borne By The Contract / Policy Holder | 3,425,670 | 98,334 | 185 | 209 | 24,411 | 3,548,809 |
| Investment Contract With Fixed Terms & Guaranteed Minimum Returns | 4,441 | 8,882 | - | - | - | 13,323 |
| Payables Including Insurance Payables | 174,447 | - | - | - | - | 174,447 |
| **Total Financial Liabilities** | 3,695,091 | 617,591 | 673 | 439 | 198,452 | 4,512,246 |

### 4.6 Market risks

The Company's primary exposure to market risk is the impact of equity price and currency movements on the fair value of the assets held in the linked funds, on which the fees are based.

The sensitivity analyses below are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated – for example, change in interest rate and change in market values.

#### *4.6.1 Interest-rate risk*

Interest-rate risk is one of the principal risks the Company faces. It is relevant not only to insurance and investment contracts but also to the Company's management of its own assets not specifically or notionally backing particular liabilities.

The major product categories affected by interest-rate risk are annuities, guaranteed-return contracts and investment with DPF contracts. Annuities, because of their long-term nature, are particularly sensitive to interest-rate risk. Accordingly, the Company imposes tight control over the matching of key criteria to minimise the risk taken. In respect of contracts with DPF, the Company has limited exposure provided that the attributable assets are greater than the liabilities. However, should the position reverse, the full shortfall would become the Company's liability. The Company also has contractual rights to impose market value adjustments in order to treat all contract holders fairly.

The Company has entered into a number of investment contracts that guarantee a minimum return, whereby a proportion of any surplus becomes due to the Company, but all of any deficit would be met by the Company. The process for the management of assets backing such liabilities takes due regard for such asymmetries. For short-term insurance contracts, the Company has matched the insurance liabilities with cash and short-term debt.

An average 1% fall in interest rates would affect the returns from the Company's own assets affected by interest rate risk and result in a loss of €10,051 (2016: €10,260).

#### *4.6.2 Price risk*

A 10% fall in world indices would result in a loss of €8,210 (2016: €70,311) based on the Company's own equity holdings.

A decrease of 10% in the value of the assets would reduce the asset management fees by €2,311 per annum (2016: €8,259).

All amounts in €000 unless otherwise stated

#### *4.6.3 Foreign currency risk*

The Company's ALM framework focuses on matching of currency exposures at a portfolio level.

The Company operates in international markets. Its non-EUR currency exposures are principally to USD and GBP. The assets and liabilities related to insurance and investment contracts are matched by currency as part of the Company's asset liability matching strategy. Exposures from operating activities, therefore, are limited to the emerging profit or loss.

Net financial, monetary assets denominated in currencies other than EUR amount to €93,540 (2016 €71,110).

A strengthening of the EUR by 10% would result in a loss to the Company of:

| | Euro to USD | Euro to GBP | Euro to other | Total |
|---|---|---|---|---|
| **As at 31 December 2017** | 6,096 | 2,363 | 895 | **9,354** |
| **As at 31 December 2016** | 4,567 | 2,066 | 478 | **7,111** |

No forward foreign exchange rate contracts were entered into during the year.

### 4.7 Fair value hierarchy

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes places either:

In the principal market for the asset or liability; or

In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that the market participants would use when pricing the asset or liabilities, assuming the market participants act in their economic best interests.

A fair measurement of non-financial asset takes into account a market participants ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses 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.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
Level 2 Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
Level 3 Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities based on the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

The carrying values, cost less any impairment, of trade receivables and payables are assumed to approximate their fair values.

The following table shows the fair value measurement hierarchy of the Company's assets and liabilities as at 31 December 2017:

All amounts in €000 unless otherwise stated

| 2017 | Fair Value Measurement Using: Quoted Prices in Active Markets (Level 1) | Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Held for sale financial asset | - | - | 19,954 | 19,954 |
| Available for sale financial assets | | | | |
| Debt security | 282,939 | - | - | 282,939 |
| Investment funds | 42,331 | - | - | 42,331 |
| Other | - | - | - | - |
| **Total available for sale financial assets** | 325,270 | - | - | 325,270 |
| Financial assets at fair value through profit & loss | | | | |
| Equity security | - | 569 | - | 569 |
| Debt security | 721,259 | - | 913 | 722,172 |
| Investment funds | 44,649 | - | 80 | 44,729 |
| Derivatives | - | - | - | 0 |
| Investment back to policies where the risk is borne by the policyholder | 3,348,465 | 198,025 | 17,788 | 3,564,278 |
| Other | - | - | - | 0 |
| **Total financial assets at fair value through profit & loss** | 4,114,373 | 198,594 | 18,781 | 4,331,748 |
| **Total Assets** | **4,439,643** | **198,594** | **38,735** | **4,676,972** |
| **Equity & Liabilities** | | | | |
| Investment contracts at fair value through profit & loss | - | 3,514,006 | 17,788 | 3,531,794 |
| **Total Liabilities** | **-** | **3,514,006** | **17,788** | **3,531,794** |

All amounts in €000 unless otherwise stated

| | Fair Value Measurement Using | | | |
|---|---|---|---|---|
| **2016** | **Quoted Prices in Active Markets (Level 1)** | **Significant Observable Inputs (Level 2)** | **Significant Unobservable Inputs (Level 3)** | **Total** |
| **Assets** | | | | |
| Available for sale financial assets | | | | |
| Equity security | 267 | - | 200,046 | 200,313 |
| Debt security | 262,840 | - | - | 262,840 |
| Investment funds | 37,215 | - | 79,231 | 116,446 |
| Other | - | 265 | - | 265 |
| **Total available for sale financial assets** | 300,322 | 265 | 279,277 | 579,864 |
| Financial assets at fair value through profit & loss | | | | |
| Equity security | - | 424 | - | 424 |
| Debt security | 758,692 | - | 4,460 | 763,152 |
| Investment funds | 38,328 | - | 84 | 38,412 |
| Derivatives | - | 20,237 | - | 20,237 |
| Investment back to policies where the risk is borne by the policyholder | 3,559,385 | 12 | 20,669 | 3,580,066 |
| Other | - | 613 | - | 613 |
| **Total financial assets at fair value through profit & loss** | 4,356,405 | 21,286 | 25,213 | 4,402,904 |
| **Total Assets** | **4,656,727** | **21,551** | **304,490** | **4,982,768** |
| **Equity & Liabilities** | | | | |
| Investment contracts at fair value through profit & loss | - | 3,541,463 | 20,669 | 3,562,132 |
| **Total Liabilities** | **-** | **3,541,463** | **20,669** | **3,562,132** |

The following table presents the changes in Level 3 instruments for the year ended 31 December 2017 and 2016.

| | Available for sale | | | Financial assets through income | | | |
|---|---|---|---|---|---|---|---|
| **2017** | **Equity securities** | **Investment funds** | **Held for sale financial asset** | **Debt securities** | **Investment funds** | **Investment back to policies – policy holder risk** | **Total** |
| **Opening Balance** | 200,046 | 79,231 | - | 4,460 | 84 | 20,669 | 304,490 |
| Purchases / (sales) | (218,981) | (85,530) | - | (2,864) | - | 297 | (307,078) |
| Realised gains / (losses) | 106,078 | 36,018 | - | 523 | - | - | 142,619 |
| Unrealised gains / (losses) | (87,143) | (29,719) | - | (687) | (4) | (5,155) | (122,708) |
| Reclassification of subsidiary to held for sale financial asset | | | 19,954 | | | | 19,954 |
| Transfer from level 1 to level 3 | - | - | - | - | - | 1,998 | 1,998 |
| Transfer from level 3 to level 1 | - | - | - | (519) | | (21) | (540) |
| **Closing Balance** | - | - | 19,954 | 913 | 80 | 17,788 | 38,735 |

| | Available for sale | | | Financial assets through income | | | |
|---|---|---|---|---|---|---|---|
| **2016** | **Equity securities** | **Investment funds** | **Equity securities** | **Debt securities** | **Investment funds** | **Investment back to policies – policy holder risk** | **Total** |
| **Opening Balance** | 148,966 | - | 283 | - | - | 11,834 | 161,083 |
| Realised gains / (losses) | - | - | - | - | - | (10,607) | (10,607) |
| Unrealised gains / (losses) | 51,080 | - | (199) | - | - | | 50,881 |
| Transfer from level 1 to level 3 | | 79,231 | | 4,460 | - | 19,442 | 103,133 |
| Reclassification equity security to investment fund | - | - | (84) | - | 84 | - | - |
| **Closing Balance** | 200,046 | 79,231 | - | 4,460 | 84 | 20,669 | 304,490 |

The own risk Level 3 instruments at 31 December 2017 comprise:

| | **Holding** | **Issuer** | **Name** | **Value € 000's** |
|---|---|---|---|---|
| **Held for sale financial asset** | 245,000 | Generali PanEurope dac | Voting shares | 19,954 |
| **Financial asset at fair value through income: Debt security** | 1,000,000 | Eirles Three 182 | Var 01/05/2032 | 913 |
| **Financial asset at fair value through income: Investment funds** | 793,502 | Tapestry Investment Co PCC | Red Ptg Pref NPV Post Red Nov | 80 |

The available for sale equity security movement relates to the sale of GW Beta. The reclassification from subsidiary to held for sale financial asset relates to Generali PanEurope dac. The available for sale Investment funds movement relates to the sale of Generali Financial Holdings FCP-SIF Sub Fund 2.
Movements under financial assets at fair value through income debt security included the sale of Canary Wharf Finance II and the reclassification of Road Management Consolidated.

All amounts in €000 unless otherwise stated

## 5 Intangible assets

| | Goodwill | Computer Software | Total |
|---|---|---|---|
| **Year-end 31 December 2016** | | | |
| Opening Net Book Amount | 1,261 | 3,274 | 4,535 |
| Additions | - | 813 | 813 |
| Amortisation charge | - | (1,924) | (1,924) |
| **Closing Net Book Amount** | 1,261 | 2,163 | 3,424 |
| **At 31 December 2016** | | | |
| Cost | 1,261 | 6,397 | 7,658 |
| Accumulated Amortisation | - | (4,234) | (4,234) |
| **Net Book Amount** | 1,261 | 2,163 | 3,424 |
| **Year-end 31 December 2017** | | | |
| Opening Net Book Amount | 1,261 | 2,163 | 3,424 |
| Additions | - | 2,970 | 2,970 |
| Adjustment | | 1,621 | 1,621 |
| Impairment - Bahamas | (229) | - | (229) |
| Amortisation charge | - | (3,428) | (3,428) |
| **Closing Net Book Amount** | 1,032 | 3,326 | 4,358 |
| **At 31 December 2017** | | | |
| Cost | 1,261 | 8,678 | 9,939 |
| Accumulated Amortisation and Impairment | (229) | (5,352) | (5,581) |
| **Net Book Amount** | 1,032 | 3,326 | 4,358 |

Amortisation and impairment of €3,657 (2016: €1,924) is included in administrative expenses. All constituents of intangible assets are non-current assets.

Management have considered the carrying value of goodwill for impairment by reviewing the current performance and three-year strategic plan of the related subsidiaries. The management are satisfied that the budgets and record of accomplishment of the relevant subsidiaries substantiate the assessment that goodwill is not impaired. The impairment noted relates to the reduction in value of the purchased book of business in the Bahamas.

All amounts in €000 unless otherwise stated

## 6 Tangible assets

| 2017 | Furniture and Fittings | Leasehold Improvements | Total |
|---|---|---|---|
| **Year End 31 December 2016** | | | |
| Opening Net Book Amount | 3,660 | 300 | 3,960 |
| Additions | 1,841 | - | 1,841 |
| Depreciation Charge | (2,259) | (20) | (2,279) |
| **Closing Net Book Amount** | 3,242 | 280 | 3,522 |
| **At 31 December 2016** | | | |
| Cost | 7,118 | 356 | 7,474 |
| Accumulated Depreciation | (3,876) | (76) | (3,952) |
| **Net Book Amount** | 3,242 | 280 | 3,522 |
| **Year End 31 December 2017** | | | |
| Opening Net Book Amount | 3,242 | 280 | 3,522 |
| Adjustment | (1,621) | - | (1,621) |
| Additions | 688 | - | 688 |
| Depreciation Charge | (1,040) | (32) | (1,072) |
| **Closing Net Book Amount** | 1,269 | 248 | 1,517 |
| **At 31 December 2017** | | | |
| Cost | 6,189 | 356 | 6,545 |
| Accumulated Depreciation | (4,920) | (108) | (5,028) |
| **Net Book Amount** | 1,269 | 248 | 1,517 |

Depreciation expense of €1,072 (2016: €2,279) has been charged in administrative expenses. All tangible assets are non-current assets.

All amounts in €000 unless otherwise stated

## 7 Investments in subsidiaries and associates

| | 2017 | 2016 |
|---|---|---|
| **As at 1 January** | 173,918 | 204,167 |
| Reclassification to held for sale financial asset | (19,954) | - |
| Disposal of Subsidiaries | (153,664) | (30,249) |
| **As at 31 December – Cost** | 300 | 173,918 |
| Impairment | - | - |
| **As at 31 December – Cost less impairment** | 300 | 173,918 |
| Impairment Reconciliation: | | |
| At the beginning of the year | - | 17,737 |
| Adjustment on Disposal of Subsidiary | - | (17,737) |
| **As at 31 December - Impairment** | - | - |

| | **Country of Incorporation** | **% of Ordinary Shares Held 2017** | **2016** | **Accounting Treatment** |
|---|---|---|---|---|
| **Subsidiaries** | | | | |
| Generali Portfolio Management (CI) Ltd | Guernsey | 100 | 100 | Cost less impairment |
| Redoze | Netherlands | - | 50.01 | Cost less impairment |
| **Participations In Group Companies** | | | | |
| Generali PanEurope Limited | Republic of Ireland | 49 | 49 | Cost less impairment |

During 2017, the Company disposed of its holdings in Redoze and reclassified its holding in Generali PanEurope Limited as held for sale.

During 2016, the Company disposed of its holdings in Generali Holding Vienna Aktiengesellschaft and Generali Horizon.

On 17 December 2017 an SPA for the sale of the Company's entire participation in Generali PanEurope dac was executed. GW will receive, as initial consideration, €56 million (to which an interest component accrued until closing will be added) and a potential deferred consideration of up to €2 million to be paid 12 months after closing. The transaction is subject to, inter alia, regulatory approvals and is expected to be finalized during the first half of 2018.

All amounts in €000 unless otherwise stated

## 8 Financial assets

The Company's financial assets are summarised by measurement category in the table below.

| | Note | 2017 | 2016 |
|---|---|---|---|
| Held for sale financial asset | | 19,954 | - |
| Available for sale financial assets | 8.2 | 325,270 | 579,864 |
| Financial assets at fair value through profit & loss | 8.1 | 4,331,747 | 4,402,904 |
| Amounts ceded to reinsurers from insurance provisions | 15 | 97,396 | 81,632 |
| Receivables including insurance receivables | 9 | 488,668 | 41,882 |
| Cash & cash equivalents | 11 | 48,258 | 84,042 |
| **Total Financial Assets** | | 5,311,293 | 5,190,324 |
| Amounts Recoverable After 12 Months | | - | - |

All amounts in €000 unless otherwise stated

## 8.1 Financial assets at fair value through profit and loss

| | 2017 | 2016 |
|---|---|---|
| **Financial assets at fair value through profit & loss** | | |
| Equity Securities: | | |
| Quoted | 569 | 424 |
| Debt Securities: | | |
| Corporate Bonds, Covered Bonds, Structured Notes - Quoted | 369,944 | 393,139 |
| Corporate Bonds, Covered Bonds, Structured Notes - Unquoted | 913 | 4,692 |
| Government Bonds | 351,315 | 365,321 |
| Investment Funds: | | |
| Quoted | 44,483 | 38,328 |
| Unquoted | 246 | 84 |
| Derivatives | - | 20,237 |
| Other financial assets at fair value through P&L | - | 613 |
| **Assets Backing Liabilities - Policyholder risk:** | | |
| Equity Securities: | | |
| Quoted | 135,907 | 134,120 |
| Unquoted | 488 | 106 |
| Debt Securities - Fixed Interest Rate: | | |
| Corporate Bonds, Covered Bonds, Structured Notes - Quoted | 101,212 | 108,648 |
| Corporate Bonds, Covered Bonds, Structured Notes - Unquoted | 77,348 | 96,978 |
| Government Bonds | 12,851 | 11,721 |
| Investment Funds: | | |
| Quoted | 2,927,300 | 2,853,639 |
| Unquoted | 109,645 | 126,357 |
| Derivatives | | |
| Quoted | 35 | - |
| Term Deposits | - | 274,742 |
| Cash | 198,025 | 3,981 |
| Other short term investments | 1,466 | 242 |
| Financial Assets at fair value through profit & loss | 4,331,747 | 4,433,372 |
| Impairment | - | (30,468) |
| **Financial Assets at fair value through profit & loss** | 4,331,747 | 4,402,904 |

During 2016 the Company enacted the Groups new Master Data Management Policy in relation to the classification of securities.

All amounts in €000 unless otherwise stated

| | **Financial Assets at fair value through profit & loss** |
|---|---|
| **As at 1 January 2016** | 4,426,465 |
| FV net gains recognised (excluding net realised gains or losses) in Profit and loss | 29,446 |
| Additions | 584,191 |
| Disposals (Sales and Redemptions) | (734,994) |
| Reclassification of money market funds to IFU | 3,668 |
| Foreign exchange movement | 124,596 |
| | 4,433,372 |
| Impairment | (30,468) |
| **As at 31 December 2016** | 4,402,904 |
| **As at 1 January 2017** | **4,402,904** |
| FV net gains recognised (excluding net realised gains or losses) in Profit and loss | 327,473 |
| Additions | 1,184,588 |
| Disposals (Sales and Redemptions) | (1,238,780) |
| Foreign exchange movement | (344,438) |
| **As at 31 December 2017** | 4,331,747 |

In some instances, policyholder risk assets may be subject to a charge in favour of a third party. Under the terms of the charge any liability arising will be settled from the relevant policyholder risk assets.

All amounts in €000 unless otherwise stated

## 8.2 Available for Sale Financial Assets

| | 2017 | 2016 |
|---|---|---|
| **Available for Sale Financial Assets** | | |
| Equity Securities: | | |
| Quoted | - | 267 |
| Unquoted | - | 200,046 |
| Debt Securities: | | |
| Corporate Bonds, Covered Bonds, Structured Notes - Quoted | 168,103 | 148,087 |
| Government Bonds | 114,836 | 114,753 |
| Investment Funds: | | |
| Quoted | 42,331 | 116,446 |
| Other available for sale financial assets | - | 265 |
| **Total Available for Sale Financial Assets** | 325,270 | 579,864 |

| | **Available for Sale Financial Assets** |
|---|---|
| **As at 1 January 2016** | 498,367 |
| FV net gains recognised (excluding net realised gains or losses) in other comprehensive income | 64,319 |
| Additions | 126,895 |
| Disposals (Sales and Redemptions) | (98,296) |
| Movement in impairment | (9,797) |
| Foreign exchange movement | (1,624) |
| **As at 31 December 2016** | 579,864 |
| FV net gains recognised (excluding net realised gains or losses) in other comprehensive income | 29,820 |
| Additions | 56,619 |
| Disposals (Sales and Redemptions) | (339,373) |
| Movement in impairment | - |
| Foreign exchange movement | (1,660) |
| **As at 31 December 2017** | 325,270 |

**The details of the disposals of GW Beta and GFH can be found in note 4.7.**

All amounts in €000 unless otherwise stated

## 9 Receivables including insurance receivables

| | 2017 | 2016 |
|---|---|---|
| Receivables arising out of direct insurance contracts: | | |
| Due from contract holders | 20,122 | 19,914 |
| Receivables arising from reinsurance contracts: | | |
| Due from contract holders | 9,147 | 6,417 |
| Other loans & receivables: | | |
| Receivables due from other related parties | 454,371 | 13,425 |
| Incomes tax receivables | 547 | 661 |
| Investment trade settlements due | 3,349 | 980 |
| Other | 1,132 | 485 |
| | 488,668 | 41,882 |
| Current portion | 488,668 | 41,882 |
| | 488,668 | 41,882 |

Investment trade settlements are effected against delivery or payment, eliminating the counterparty risk.

## 10 Derivative financial instruments

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | Contract Notional Amount | Fair Value Asset | Fair Value Liability | Contract Notional Amount | Fair Value Asset | Fair Value Liability |
| Equity Contracts | | | | | | |
| OTC Swaps | - | - | | 173,373 | 20,237 | |
| | - | - | | 173,373 | 20,237 | |

On 20 December 2017 the full KKR derivative holding was disposed of. An amount of net €20,526 was recognised in the current year being the gross proceeds €40,763 less the previously recognised amount of €20,237.

All amounts in €000 unless otherwise stated

## 11 Cash and cash equivalents

Cash and cash equivalents include the following for the purposes of the statement of cash flows:

| | 2017 | 2016 |
|---|---|---|
| Cash at bank | 34,617 | 55,134 |
| Cash at policyholder risk | 9,014 | 13,907 |
| Short term deposits | 4,627 | 15,001 |
| Cash and Cash Equivalents | 48,258 | 84,042 |

The effective Euro interest rate on short-term bank deposits was approximately -0.60% (2016: 0.00%). With negative interest rates being experienced currently no Euro deposits are being placed.

## 12 Accrued income and prepayments

| | 2017 | 2016 |
|---|---|---|
| Prepaid acquisition costs 'DAC' | 3,937 | 5,724 |
| Bond interest | 7,148 | 7,510 |
| Other accrued income | 3,497 | 6,237 |
| Total Accrued Income and Prepayments | 14,582 | 19,471 |
| Current portion | 14,582 | 19,471 |
| | 14,582 | 19,471 |

## 13 Share Capital

| | Authorised Shares € | Issued Shares € | Share Premium € | Total Share Capital € |
|---|---|---|---|---|
| As at 31 December 2016 | 200,000,000 | 86,733,396 | 294,958,484 | 381,691,880 |
| As at 31 December 2017 | 460,170,000 | 346,903,472 | - | 346,903,472 |

The Company has issued 346,903,472 (2016: 86,733,396) ordinary shares at nil premium (2016: €294,958,484), resulting in total share capital of €346,903,472 (2016: €381,691,880). The total authorised number of ordinary shares is 460 million (2016: 200 million), with a par value of €1 per share (2016: €1 per share). All issued shares are fully paid.

All amounts are noted in €'s not 1,000's of €'s

All amounts in €000 unless otherwise stated

## 14 Reserves

| | 2017 | 2016 |
|---|---|---|
| Hong Kong Regulatory Solvency Margin (1/6$^{th}$) | 25,159 | 30,762 |
| Equity Component Reserve | 1,111 | 1,354 |
| Non-Distributable Reserve | 26,270 | 32,116 |
| | | |
| Unrealised Gains On Available For Sale Assets | 9,565 | 121,757 |
| Exchange Reserve | (631) | (631) |
| Re-measurement Reserve | (2,325) | (5,720) |
| Revenue Reserve | 377,729 | 287,592 |
| | | |
| **Total Reserves** | 410,608 | 435,114 |

*Hong Kong Regulatory Solvency Margin*
The Company has designated certain retained earnings as non-distributable in the normal course of business, in order to comply with Hong Kong regulatory solvency requirements.

*Equity component of Discretionary Participation Feature (DPF)*
The Company has implemented the advice of its Appointed Actuary in designating the equity component of DPF as non-distributable in the normal course of business.

The equity component of DPF originates from insurance contracts and investment contracts with DPF. The holders of these contracts receive, as a supplement to guaranteed benefits, additional benefits from the net gains arising from the assets held in the Company's DPF funds through contractual and regulatory participation rules that allocate part of the gains to them and part to the Company's shareholders.
Contract holders as a group are entitled to at least 85% of DPF eligible surplus of the year. The Company may decide to attribute a higher portion of the net gains to the DPF eligible surplus up to the total amount but still retains discretion on the amount and timing of the allocation of the surplus to individual contract holders (bonus rate declaration).

A liability equal to the expected allocation of the net gains arising from the assets in the DPF funds is recognised; the remainder of the surplus is recognised as the equity component of the DPF. Contract holders do not have an automatic right to receive such surplus and shareholders are not fully entitled to consider any portion of such surplus as distributable retained earnings until the allocation between contract holders and shareholders takes place. The surplus will reduce should the underlying investments fall in value without a corresponding fall in the liability to policyholders.

*Exchange reserve*
The exchange reserve arose on the redenomination in 1999 of the Company's share capital.

*Revenue reserve*
The revenue reserve forms the balance of the shareholders' equity. It is fully distributable, subject to the constraints imposed by the requirements of the Company (Guernsey) Law, 2008 and the Insurance Business (Bailiwick of Guernsey) Law, 2002.

All amounts in €000 unless otherwise stated

## 15 Insurance liabilities and reinsurance assets

| | 2017 | 2016 |
|---|---|---|
| Non-Life Insurance Contracts | | |
| Claims reported & loss adjustment expenses - Direct business | 1,082 | 2,263 |
| Claims incurred but not reported - Direct business | 59,255 | 70,577 |
| Unearned premiums | 14,718 | 14,737 |
| Short Term Insurance Contracts | | |
| Claims reported & loss adjustment expenses - Direct business | 75,302 | 67,121 |
| Claims incurred but not reported - Direct business | 4,090 | 3,652 |
| Unearned premiums | 5,653 | 6,077 |
| Provision for profit sharing | 793 | - |
| Long term Insurance Contracts | | |
| Mathematical provision - Direct business | 508,662 | 535,644 |
| Provision for policies where the investment risk is borne by the Policyholder | 17,339 | 18,200 |
| Provision for liability adequacy | 6,404 | 7,073 |
| **Insurance Liabilities - Direct business** | 693,298 | 725,344 |
| Non-Life Insurance Contracts | | |
| Claims reported & loss adjustment expenses – reinsurance accepted | 500 | 405 |
| Claims incurred but not reported – Reinsurance accepted | 10,230 | 10,163 |
| Unearned premiums – Reinsurance accepted | 2,072 | 2,328 |
| Long term Insurance Contracts | | |
| Mathematical provision - Reinsurance accepted | 32,810 | 37,427 |
| **Insurance Liabilities - Reinsurance Accepted** | 45,612 | 50,323 |
| **Total Insurance Liabilities - Gross** | 738,910 | 775,667 |

| | 2017 | 2016 |
|---|---|---|
| **Recoverable From Reinsurers** | | |
| Non-Life Insurance Contracts | | |
| Claims reported & loss adjustment expenses - Direct business | - | (213) |
| Claims incurred but not reported - Direct business | (5,521) | (4,015) |
| Unearned premiums | (13,596) | (7,347) |
| Short Term Insurance Contracts | | |
| Claims reported & loss adjustment expenses - Direct business | (69,075) | (60,741) |
| Claims incurred but not reported - Direct business | (3,612) | (3,498) |
| Unearned premiums | (4,476) | (4,702) |
| Provision For Profit Sharing | (119) | - |
| Long term Insurance Contracts | | |
| Mathematical provision - Direct business | (972) | (1,091) |
| Provision for policies where the investment risk is borne by the Policyholder | (25) | (25) |
| **Total Reinsurers Share Of Insurance Liabilities** | (97,396) | (81,632) |
| **Net Position** | 641,514 | 694,035 |

All amounts in €000 unless otherwise stated

| | 2017 | 2016 |
|---|---|---|
| **Net Position Is Made Up As Follows** | | |
| Non-Life Insurance Contracts | | |
| Claims reported & loss adjustment expenses - Direct business | 1,582 | 2,455 |
| Claims incurred but not reported - Direct business | 63,964 | 76,725 |
| Unearned premiums | 3,194 | 9,718 |
| Short Term Insurance Contracts | | |
| Claims reported & loss adjustment expenses - Direct business | 6,227 | 6,380 |
| Claims incurred but not reported - Direct business | 478 | 154 |
| Unearned premiums | 1,177 | 1,375 |
| Provision for profit sharing | 674 | - |
| Long term Insurance Contracts | | |
| Mathematical provision | 540,500 | 571,980 |
| Provision for policies where the investment risk is borne by the Policyholder | 17,314 | 18,175 |
| Provision for liability adequacy | 6,404 | 7,073 |
| **Total Insurance Liabilities - Net** | 641,514 | 694,035 |

### 15.1 Non-life insurance contracts (excluding those covering life risks) – assumptions, change in assumptions and sensitivity

*Process used to decide on assumptions for reserving*

Medical claims reserves are developed using accepted actuarial reserving techniques in compliance with Actuarial Standard of Practice 5, "Incurred Health and Disability Claims", a methodology which is commonly used in the healthcare industry. The Development (or Lag) Method is used where historical claim data is collected by paid and incurred date. This data is used to estimate the percentage or amount of completion needed to project all future claims incurred prior to the valuation date. "Completion factors" are estimated for each incurred month based on historical claim payment patterns. If large claims data is available with paid and incurred dates, the historical patterns may be modified to exclude the effect of these claims. Completion factors for the most recent months are often too volatile to use. Therefore, for the most recent months, completion patterns are reviewed and significant judgement is applied because of the substantial fluctuations in historical completion percentages for these immature months.

Commercial claims reserves consist of gross claims received but as yet un-validated (as assessed by the third party claims managers) and Claims Incurred But Not Reported (IBNR). The IBNR reserve is an assessment of future claims incurred prior to the valuation date and is based on historic triangulated claims data.

These methodologies were used for prior year comparisons.

### 15.2 Long-term and short-term life insurance contracts – key assumptions and sensitivity

#### *15.2.1 Mortality assumptions*

The mortality tables used are base tables of standard mortality relevant to the particular type of product. An investigation into the Company's own longevity experience was made during 2017, and the results were reflected in statistical adjustments to the tables allowing for the statistical credibility of the Company's own experience.

*Annuity Products*

Allowance is made for future mortality improvements based on trends identified in the Continuous Mortality Investigations of the Institute and Faculty of Actuaries.

The mortality assumptions for both females and males were reviewed and updated in 2017.

All amounts in €000 unless otherwise stated

### *15.2.2 Partial surrender assumptions*

Partial surrender rates are assumed at line of business level. The most critical assumptions were 7.75% pa for Vision and 4.25% for Retail Portfolio Bonds.

### *15.2.3 Outstanding claims duration assumptions*

The calculations of Outstanding Claim Reserve (OCR) use assumptions in respect of the rate of recovery from disability based on the Company's experience. The expectations of future claims durations were last updated in 2013.

### *15.2.4 IBNR Reserve assumptions*

The calculation of IBNR reserve assumes that as yet unreported claims can be estimated in relation to premiums and utilises claim reporting delays taking into account past experience.

### *15.2.5 Policy expenses assumptions*

The Company's liability models use explicit expense assumptions and are verified by experience analysis.

## 15.3 Economic reference data

The economic assumptions are based on the following reference data:

| | | **2017** % | **2016** % |
|---|---|---|---|
| UK Government Bond Yields | 5 Year | 0.77 | 0.55 |
| | 10 Year | 1.23 | 1.26 |
| | 20Year | 1.77 | 1.86 |
| Index Linked Real Yields | 10 Year | (1.87) | (1.93) |
| European Government Bond Yields | 5 Year | (0.16) | (0.41) |
| | 10 Year | 0.55 | 0.34 |
| | 20 Year | 1.11 | 0.76 |
| US Agency Bond Yields | 5 Year | 2.27 | 2.01 |
| | 10 Year | 2.70 | 2.81 |
| | 20 Year | 3.02 | 3.35 |
| Swiss Government Bond Yields | 5 Year | (0.49) | (0.62) |
| | 10 Year | (0.13) | (0.15) |
| | 20 Year | 0.27 | 0.23 |
| Cash Rates | GBP | 0.00 | 0.00 |
| | USD | 0.70 | 0.30 |
| | EUR | 0.00 | 0.00 |
| Corporate Credit Spreads Over A Rated Corporate Bonds | GBP | 0.60 | 0.65 |
| | USD | 0.49 | 0.66 |
| | EUR | 0.55 | 0.71 |

### *15.3.1 Discount rate assumptions*

The liability discount rates are generally risk-free discount rates based on government bond yields.

All amounts in €000 unless otherwise stated

For the annuity product and long-term disability claims, the liability discount rates reflect the yields obtained on these segregated asset portfolios. The portfolios have individually defined investment guidelines including asset allocation strategies that reflect the Company's approach to ALM. Reinvestment risk is largely overcome through the ALM strategy. The discount rates were no greater than 97.5% of the risk-adjusted yields achieved on the assets and their reinvestment and investment of future premiums. The discount rates were further reduced by a default margin to make allowance for credit risk. It is noted that some liability discount rates are negative reflecting the negative market yields experienced in certain European countries. The discount rates for annuity products are set below.

| | | 2017 | 2016 |
|---|---|---|---|
| | | % | % |
| Annuity Products | GBP | 1.78 | 2.02 |
| | USD | 2.59 | 2.87 |
| | EUR | 1.04 | 0.81 |
| | CHF | (0.30) | (0.16) |

The discount rates used to determine the outstanding claim reserves for Long Term Disability claims are determined based on government bond yields of approximately 4-year duration, and are as follows:

| | | 2017 | 2016 |
|---|---|---|---|
| | | % | % |
| Long Term Disability Claim Reserves | GBP | 0.67 | 0.43 |
| | USD | 2.08 | 1.73 |
| | EUR | (0.26) | (0.48) |
| | CHF | (0.56) | (0.67) |

Provisions for investment contracts with DPF are determined on an undiscounted deposit account basis.

#### *15.3.2 Maintenance expense inflation assumptions*

For the majority of individual unit linked products in the first five years of projections, the expense inflation rate was uplifted to reflect the impact of new business volumes and costs, as a result of changes to the business strategy. For Vision and Choice, the expense inflation is uplifted to 7.0% in year 1, thereafter falling gradually over the first 5 years, whilst for Retail Portfolio Bonds the expense inflation is uplifted to 4% for the first 3 years, then falling to 3.5% for year 4 and 3% for year 5. For all business, the implied inflation curve is used from year 6.

### 15.4 Sensitivity analysis

The sensitivity to change in assumptions was considered. The key sensitivity is to expense assumptions. An increase in expenses per policy by 10% has been estimated to increase the provisions by €10m.

All amounts in €000 unless otherwise stated

## 16 Financial liabilities at fair value through profit and loss

| | 2017 | 2016 |
|---|---|---|
| Investment contracts where the investment risk is borne by the contract holder | 3,524,224 | 3,579,277 |
| Decrease in value due to impairment | - | (30,468) |
| Investment contracts with fixed terms & guaranteed minimum returns | 7,571 | 13,323 |
| **Total Financial Liabilities at fair value through profit & loss** | 3,531,795 | 3,562,132 |

## 17 Payable Including Insurance Payables

| | 2017 | 2016 |
|---|---|---|
| Payables Arising Out Of Direct Insurance Operations | 10,012 | 12,969 |
| Payables Relating To Investment Contracts | 61,511 | 73,939 |
| Investment Trade Settlements Due | - | 3,663 |
| Payables Arising Out Of Reinsurance Operations | 27,836 | 29,444 |
| Reinsurance deposits | 58,508 | 45,753 |
| Income Tax | 299 | 403 |
| Social Security & Other Tax Payables | 604 | 291 |
| Payable to other related parties | 89,518 | - |
| Other Payables | 12,257 | 7,985 |
| **Total payables including insurance payables** | 260,545 | 174,447 |
| **Current Portion** | 260,545 | 174,447 |

The Company has the legal right to offset the reinsurance deposits included in the above table against the receivables due from contract holders, which have arisen from reinsurance contracts. (Note 9).

## 18 Accruals and deferred income

| | 2017 | 2016 |
|---|---|---|
| Deferred Income Liability | 41,371 | 46,675 |
| Accruals | 4,357 | 11,651 |
| Other | - | - |
| | 45,728 | 58,326 |

All amounts in €000 unless otherwise stated

## 19 Retirement benefit obligations

The amounts recognised in the statement of financial position for pension benefits are determined as follows:

| **Retirement Benefit Obligation** | **2017** | **2016** |
|---|---|---|
| Present Value Of Funded Obligations | (27,927) | (30,182) |
| Fair Value Of Plan Assets | 30,365 | 26,900 |
| Net Asset / (Liability) Recognised In the Statement of financial position | 2,438 | (3,282) |

The Amounts Recognised In The Statement Of Comprehensive Income Are as Follows

| | | |
|---|---|---|
| Net Interest On Defined Benefit Obligation | 53 | 7 |
| Re Measurement Recognised | 3,395 | (4,490) |
| Actual Return On Fund Assets | 2,698 | 2,500 |

| **Change in Defined Benefit Obligation** | **2017** | **2016** |
|---|---|---|
| Defined Benefit Obligation At 1 January | 30,182 | 26,934 |
| Effect Of Exchange Rate Differences On Liabilities | (1,168) | (3,688) |
| Benefits Paid | (441) | (60) |
| Interest On Obligation | 749 | 882 |
| Experience (Gains) | (414) | (688) |
| (Gains) / Losses From Changes In Financial Assumptions | - | 6,750 |
| Losses / (Gains) From Changes In Demographic Assumptions | (980) | 52 |
| Defined Benefit Obligation At 31 December | 27,928 | 30,182 |

| **Change of Plan Assets** | **2017** | **2016** |
|---|---|---|
| Opening Fair Value Of Plan Assets | 26,900 | 25,107 |
| Effect Of Exchange Rate Differences On Assets | (1,042) | (3,438) |
| Interest On Assets | 696 | 875 |
| Return On Assets (Not Including Interest) | 2,002 | 1,625 |
| Contribution By Employer | 2,250 | 2,791 |
| Benefits Paid | (441) | (60) |
| Closing Fair Value Of Plan Assets | 30,365 | 26,900 |

The weighted average duration of the liabilities of the Fund was 27 years as at 31 December 2017 (2016: 27 years).

All amounts in €000 unless otherwise stated

| **Plan Asset Disaggregation by Asset Class** | **2017 %** | **2016 %** |
|---|---|---|
| Equities | 61.6 | 58.9 |
| Gilts | 6.5 | 8.0 |
| Corporate Bonds | 18.7 | 21.8 |
| Property | 3.7 | - |
| Cash | 9.5 | 11.3 |
| | 100 | 100 |

| **Plan Assumptions** | **2017 %** | **2016 %** |
|---|---|---|
| Discount rate at end of year | 2.6 | 2.6 |
| Discount rate at start of year | 2.6 | 3.8 |
| Inflation | 3.6 | 3.6 |
| Rate of increase in deferred pensions | 3.4 | 3.4 |
| Rate of increase in pension payments | 3.4 | 3.4 |
| Rate of increase in pensions in payment for former Sun Alliance members | 3.5 | 3.5 |

*Mortality Assumptions*
The mortality assumptions are based on standard mortality tables, which allow for future mortality improvements. The assumptions are that a member aged 63 will live on average until age 88.3 if they are male and until age 89.3 if female.
For a member currently aged 45 the assumptions are that if they attain age 63 they will live on average until age 89.8 if they are male and until age 91.0 if female.

*Sensitivity Analysis*
The following table illustrates the sensitivity of the Defined Benefit Obligation at 31 December 2017 to changes in the significant actuarial assumptions.

| | | **2017 Impact on Defined Benefit Obligation** | |
|---|---|---|---|
| | **Change in Assumption** | **Increase in Assumption** | **Decrease in Assumption** |
| Discount Rate | 0.5% | Decrease by 12.6% | Increase by 10.4% |
| Inflation | 0.5% | Increase by 11.4% | Decrease by 7.6% |
| Pension Increases | 0.5% | Increase by 8.5% | Decrease by 7.9% |
| | | **Change to 105%** | **Change to 95%** |
| Scaling Factor applied to base mortality table | | Decrease by 1.4% | Increase by 1.5% |

All amounts in €000 unless otherwise stated

| | | 2016 Impact on Defined Benefit Obligation | |
|---|---|---|---|
| | **Change in Assumption** | **Increase in Assumption** | **Decrease in Assumption** |
| Discount Rate | 0.5% | Decrease by 13.3% | Increase by 15.9% |
| Inflation | 0.5% | Increase by 12.2% | Decrease by 10.6% |
| Pension Increases | 0.5% | Increase by 8.8% | Decrease by 7.9% |
| | | **Change to 105%** | **Change to 95%** |
| Scaling Factor applied to base mortality table | | Decrease by 1.5% | Increase by 1.6% |

*Funding Policy*
Following the cessation of accrual of benefits with effect from 31 December 2010, regular contributions to the Fund are no longer required. However, additional contributions are still made to cover any shortfalls that arise following each valuation. The funding method employed to calculate the value of previously accrued benefits is the Attained Age Method. The Trustee and Assicurazioni Generali SpA agree the level of contributions payable to the Fund by the Company to meet any shortfall arising following an actuarial valuation, with the proviso that the payment of contributions will be spread over a period of not more than five years from the valuation date.

The amounts recognised during the year for payments to the defined benefit schemes amounted to €2,250 (2016: €2,791).

## 20 Insurance premium revenue

| | 2017 | 2016 |
|---|---|---|
| **Direct Insurance Contracts** | | |
| Premium Revenue Arising From Insurance Contracts Issued | 144,309 | 157,680 |
| **Accepted Reinsurance Contracts** | | |
| Premium Revenue Arising From Insurance Contracts Accepted | 4,503 | 9,996 |
| Total Insurance Premium Revenue | 148,812 | 167,676 |

## 21 Income from subsidiaries and associates

| | 2017 | 2016 |
|---|---|---|
| Reversal of impairment of Subsidiaries | - | 17,737 |
| Profit / (Loss) on disposal of Subsidiaries | 173,800 | (17,230) |
| Dividend & income from other related parties | 2,006 | 1,065 |
| **Total income from Subsidiaries & Associates** | 175,806 | 1,572 |

All amounts in €000 unless otherwise stated

## 22 Net income / (Expenses) from financial instruments at fair value

| | 2017 | 2016 |
|---|---|---|
| **Dividend income** | | |
| Financial instruments at fair value through profit & loss – own risk | 344 | 186 |
| Financial instruments at fair value through profit & loss – policyholder risk | 22,110 | 35,445 |
| **Total dividend income** | 22,454 | 35,631 |
| | | |
| **Interest** | | |
| Income from financial instruments at fair value through profit & loss – own risk | 15,456 | 18,360 |
| Income from financial instruments at fair value through profit & loss – policyholder risk | 2,802 | 2,353 |
| Expense from financial instruments at fair value through profit & loss – policyholder risk | (44) | (13) |
| **Net interest income** | 18,214 | 20,700 |
| | | |
| Gain on available for sale financial assets – own risk | 515 | 318 |
| Loss on available for sale financial assets – own risk | (447) | (2,629) |
| Gain on financial assets at fair value through profit & loss – own risk | 2,324 | 1,705 |
| Loss on financial assets at fair value through profit & loss – own risk | (19,540) | (6,805) |
| Gain on financial assets at fair value through profit & loss – policyholder risk | 125,884 | 85,685 |
| Loss on financial assets at fair value through profit & loss – policyholder risk | (40,513) | (62,365) |
| **Net realised gains & (losses) on financial assets** | 68,223 | 15,909 |
| | | |
| **Net Unrealised Gains & (Losses) On Financial Assets** | | |
| Gain on financial assets at fair value through profit & loss – own risk | 37,926 | 30,356 |
| Loss on financial assets at fair value through profit & loss – own risk | (41,492) | (31,609) |
| Gain on financial assets at fair value through profit & loss – policyholder risk | 330,816 | (101,756) |
| Loss on financial assets at fair value through profit & loss – policyholder risk | (395,248) | 65,534 |
| **Net unrealised gains & (losses) on financial assets** | (67,998) | (37,475) |
| | | |
| Impairment of available for sale financial instruments at fair value | - | (9,797) |
| | | |
| Net income / (expense) from financial instruments at fair value | **40,893** | **24,968** |

All amounts in €000 unless otherwise stated

## 23 Net insurance benefits and claims

| **2017** | **Gross** | **Reinsurance Recovery** | **Net** |
|---|---|---|---|
| Payments, Direct & Accepted Insurance | 117,911 | (36,188) | 81,723 |
| Movements in provisions | | | |
| Other long term insurance contracts & investment contracts with DPF | (2,993) | (16) | (3,009) |
| Other, including short term insurance contracts | 16,863 | (19,254) | (2,391) |
| | 13,870 | (19,270) | (5,400) |
| **Total Net Insurance Benefits & Claims** | 131,781 | (55,458) | 76,323 |

| **2016** | **Gross** | **Reinsurance Recovery** | **Net** |
|---|---|---|---|
| Payments, Direct & Accepted Insurance | 135,937 | (37,548) | 98,389 |
| Movements in provisions | | | |
| Other long term insurance contracts & investment contracts with DPF | 1,128 | 16 | 1,144 |
| Other, including short term insurance contracts | 1,184 | 3,923 | 5,107 |
| | 2,312 | 3,939 | 6,251 |
| **Total Net Insurance Benefits & Claims** | 138,249 | (33,609) | 104,640 |

## 24 Interest expense

| | **2017** | **2016** |
|---|---|---|
| Interest Expense | | |
| Bank borrowings & other charges | 56 | 22 |
| **Total Interest Expense** | 56 | 22 |

All amounts in €000 unless otherwise stated

## 25 Administration costs

| | Note | 2017 | 2016 |
|---|---|---|---|
| Depreciation, Amortisation & Impairment Charges | 5&6 | 4,454 | 4,203 |
| Employee Benefit Expense | 26 | 18,810 | 20,421 |
| Operating Lease Rentals | | 1,661 | 1,832 |
| Software Costs | | 2,176 | 2,776 |
| Audit Fees | | 307 | 390 |
| Non-Audit Fees | | 141 | 159 |
| Purchase of Other Goods and Services | | 7,916 | 8,212 |
| **Total Administration Costs** | | 35,465 | 37,993 |

## 26 Employee benefit expense

| | 2017 | 2016 |
|---|---|---|
| Wages & Salaries | 16,873 | 18,355 |
| Social Security Costs | 828 | 845 |
| Pension Costs - Defined Contribution Plans | 1,109 | 1,221 |
| **Total Administration Costs** | 18,810 | 20,421 |

## 27 Income taxes

| | 2017 | 2016 |
|---|---|---|
| Current tax | 609 | 142 |
| **Total Income Tax** | 609 | 142 |
| Profit / (Loss) Before Tax | 371,977 | 27,564 |
| (Theoretical) Tax Calculated At The Agreed Tax Rate Of 10% | (37,198) | (2,756) |
| Permanent and Double Taxation Differences On Profits Tax In Other Jurisdictions | 36,589 | 2,614 |
| **Total** | (609) | (142) |

Tax on the Company's profit differs from the theoretical amount that would arise on the taxable profit using the standard rate of Guernsey taxation applicable to the Company as follows:

The applicable tax rate for the year in Guernsey was 10% on local business (2016 10%). Applicable tax rates in other jurisdictions where the Company suffers taxation were 16.5% in Hong Kong (2016: 16.5%) and 12.5% in Ireland (2016: 12.5%) and 17% in Singapore (2016: 17%).

Management recognises that there are carried forward losses in the Singapore Branch €1,159,464 but has chosen at this stage not to recognise a deferred tax asset until future profits are more probable.

All amounts in €000 unless otherwise stated

## 28 Cash generated from operations

| | 2017 | 2016 |
|---|---|---|
| Insurance Premium Received | 145,575 | 167,086 |
| Reinsurance Premium Paid | (83,560) | (77,423) |
| Insurance Benefits & Claims Paid | (118,156) | (147,944) |
| Reinsurance Claims Received | 55,863 | 37,160 |
| Investment Contracts Receipts | 484,880 | 445,345 |
| Investment Contracts Benefits Paid | (557,740) | (519,331) |
| Commission and Fee Income | 74,199 | 83,549 |
| Payments To Intermediaries To Acquire Insurance & Investment Contracts | (40,178) | (53,864) |
| Cash Paid To Employees, Intermediaries & Other Suppliers For Services & Goods | (34,186) | (86,042) |
| Dividend Received | 24,816 | 36,975 |
| Interest Received | 22,417 | 26,811 |
| Net Realised Gain | (84,906) | (167,066) |
| Other Operating Cash Flows | (1,367) | 65,447 |
| Net Sale / (Purchase) Of Operating Assets | | |
| Equity Securities | 169,406 | 274,366 |
| Debt Securities | (35,599) | (51,597) |
| **Total Insurance Liabilities - Gross** | 21,464 | 33,472 |

The Group classifies the cash flows for the purchase and disposal of financial assets in its operating cash flows, as the purchases are funded from the cash flows associated with the origination of insurance and investment contracts, net of the cash flows for payments of insurance benefits and claims and investment contracts benefits.

## 29 Contingencies, commitments and guarantees

In the normal course of business, the Company is subject to matters of litigation or arbitration. While there can be no assurances, at this time the directors believe, based on the information currently available to them, that it is not probable that the ultimate outcome of any of these matters will have a material adverse effect on the financial condition of the Company.

The Company is subject to insurance solvency regulations in all the territories in which it issues insurance and investment contracts, and it has complied with all the local solvency regulations. There are no contingencies associated with the Company's compliance or lack of compliance with these regulations.

*Commitments*
*Investment commitments*
The Company had uncalled capital contributions at the statement of financial position date of €nil (2016: €nil).

*Operating lease commitments – where the Company is the lessee*
The Company leases various offices under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

| Operating Lease Commitments - Where The Company Is The Lessee | 2017 | 2016 |
|---|---|---|
| No Later Than One Year | 2,213 | 1,966 |
| Later Than One Year & No Later Than 5 Years | 6,958 | 6,955 |
| Later Than 5 Years | 7,221 | 8,717 |

All amounts in €000 unless otherwise stated

## 30 Segment Report of The Bahamas direct business regulated by The Insurance Commission of The Bahamas

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | € | B$ | € | B$ |
| **Assets** | | | | |
| Tangible Assets | 299 | 338 | - | - |
| Investments | | | | |
| Other Investments | 3,433 | 4,127 | 3,886 | 4,099 |
| Amount ceded to reinsurers from insurance provisions | 8,760 | 10,531 | 5,539 | 5,842 |
| Receivables | | | | |
| Receivables arising out of direct insurance operations | 7,041 | 8,464 | 6,705 | 7,072 |
| Other receivables | 1,148 | 1,380 | 10 | 10 |
| Cash and cash equivalents | 6,851 | 8,235 | 9,126 | 9,627 |
| Accrued income and prepayments | 379 | 470 | 94 | 119 |
| | 27,911 | 33,545 | 25,360 | 26,769 |
| **Liabilities** | | | | |
| Revenue Reserves | (223) | (276) | 2,726 | 2,783 |
| Insurance provisions, direct insurance | 9,636 | 11,584 | 9,895 | 10,437 |
| Payables | | | | |
| Payables arising out of direct insurance operations | 28 | 34 | 176 | 186 |
| Payables arising out of reinsurance operations | 8,985 | 10,801 | 5,182 | 5,466 |
| Other payables | 221 | 265 | 261 | 275 |
| Other Liabilities | 9,264 | 11,137 | 283 | 299 |
| Accruals and deferred income | - | - | 6,837 | 7,323 |
| | 27,911 | 33,545 | 25,360 | 26,769 |

B$ - Bahamian Dollars

All amounts in €000 unless otherwise stated

**Segment Report of The Bahamas direct business regulated by The Insurance Commission of The Bahamas (continued)**

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | € | B$ | € | B$ |
| Gross earned premiums | 22,843 | 25,965 | 23,725 | 26,158 |
| Earned premium ceded | (17,141) | (19,728) | (12,915) | (14,240) |
| Net earned premiums | 5,702 | 6,237 | 10,810 | 11,918 |
| Interest and other investment income | 37 | 43 | 35 | 39 |
| Other income | 945 | 1,086 | 450 | 496 |
| Net insurance benefits and claims | 4,255 | 4,717 | 6,464 | 7,113 |
| Expenses for the acquisition of insurance and investment contracts | 596 | 664 | 1,257 | 1,389 |
| Administration costs | 1,076 | 1,236 | 712 | 785 |
| Other expenses | 178 | 209 | 294 | 321 |
| Losses on foreign currency | - | - | 56 | 62 |
| Revaluation | 802 | 826 | (214) | - |
| Total expenses | 6,907 | 7,652 | 8,569 | 9,670 |
| **(Loss) / profit before tax** | (223) | (286) | 2,726 | 2,783 |
| Income taxes | - | - | - | - |
| **(Loss) / profit for the year** | (223) | (286) | 2,726 | 2,783 |

B$ - Bahamian Dollars

All amounts in €000 unless otherwise stated

## 31 Related-party transactions

The following transactions were carried out with related parties.

*a)*

| | Note | 2017 | 2016 |
|---|---|---|---|
| **Amounts (payable to) / owed by other related parties reference insurance contracts** | | | |
| Reinsurance assets relating to business ceded to other related parties | | 77,454 | 56,024 |
| Provision for reinsurance accepted from other related parties | | (12,802) | (12,896) |
| Reinsurance deposits received from related parties | | (58,422) | (45,753) |
| Insurance & reinsurance payables to other related parties | | (22,732) | (16,851) |
| Insurance & reinsurance receivables due from other related parties | | 8,744 | 6,537 |
| **Sales and purchases of insurance contracts with other related parties** | | | |
| Reinsurance premium accepted from other related parties | | (4,503) | (9,996) |
| Change in provisions for insurance accepted from other related parties | | 1,747 | 5,700 |
| Reinsurance premium ceded to other related parties | | 80,330 | 63,845 |
| Claims recovered from other related parties | | (33,319) | (30,107) |
| Claims paid to other related parties on accepted reinsurance, | | 1,153 | 612 |
| Commission received from other related parties | | (11,252) | (10,402) |
| Commission paid to other related parties | | 137 | 142 |
| Change in reinsurance assets relating to business ceded to other related parties | | (28,051) | 3,911 |
| Interest paid to other related parties | | - | 6 |

*b)*

| | Note | 2017 | 2016 |
|---|---|---|---|
| **Income / Expenses from Group entities** | | | |
| Dividend income received GPM | | (2,006) | (1,000) |
| Dividend income received Generali Vienna | | - | (65) |

c)

| | 2017 | 2016 |
|---|---|---|
| **Key management compensation** | | |
| Salaries & other short term employee benefits | 1,412 | 1,964 |
| Post-employment benefit | 185 | 203 |

*d)*

| | 2017 | 2016 |
|---|---|---|
| **Transaction with parent** | | |
| Dividend paid | 27,422 | 45,000 |

All amounts in €000 unless otherwise stated

The Company shares its offices with some of its subsidiaries and other related parties. Some services are purchased by one related party on behalf of all and the costs allocated on an equitable basis. These recharges typically cover areas such as office services, shared personnel costs, rent and rates. The Company also provides services to a Group joint venture, for which a fee is charged.

*e)*

| | 2017 | 2016 |
|---|---|---|
| **Balances with subsidiaries** | | |
| GPM receivable / (payable) | 45 | (106) |
| (Payable to) Generali PanEurope (Held for sale) | (641) | (47) |
| | | |
| **Transactions with subsidiaries** | | |
| GPM recharges | 834 | 865 |
| (Income) / expenses from Generali PanEurope (Held for sale) | (66) | 1,129 |

*f)*

| | 2017 | 2016 |
|---|---|---|
| **Balances with joint ventures** | | |
| Receivable from UAE Branch | 527 | 52 |
| | | |
| **Transactions with joint venture** | | |
| (Income) from UAE Branch | (2,364) | (3,719) |

*g)*

| | 2017 | 2016 |
|---|---|---|
| **Balances with other related parties** | | |
| Receivable from / (payable to) Generali Link | 7 | (162) |
| | | |
| **Transactions with related parties** | | |
| Expenses from Group – brand royalties | 329 | 275 |
| Expenses from Assicurazioni Generali SpA – Trieste | 324 | 110 |
| Expenses from Swiss Branch / Generali Zurich | 20 | - |
| Expenses from HK Branch / Generali Hong Kong | 327 | 326 |
| Expenses from Generali Link | 5,492 | 3,000 |

h) The Company reinsures certain insurance exposures to related and non-related parties. The Company also accepts reinsurance whereby a related party's policyholders invest in funds provided by the Company.

| | 2017 | 2016 |
|---|---|---|
| **Balances in relation to reinsurance** | | |
| Amounts (payable to) related parties | (3,714) | (3,491) |
| Provisions ceded | 25 | 25 |

All amounts in €000 unless otherwise stated

*i)*

| | 2017 | 2016 |
|---|---|---|
| **Balances reference disposal of strategic investments** | | |
| Share premium payable | (75,115) | - |
| Dividend payable | (14,403) | (13,337) |
| Disposal of strategic investments receivable | 454,433 | - |
| **Transactions reference disposal of strategic investments** | | |
| Share premium | 294,958 | - |
| Interest income | (66) | - |
| GW Beta sale proceeds | (218,981) | |
| Redoze sale proceeds | (327,463) | - |
| Multi inc. GFH2 sale proceeds | (86,141) | - |
| KKR sale proceeds | (40,763) | - |

j) *Retirement benefit obligations*

Transactions and balances arising from the Company's retirement benefit obligations are disclosed in Note 19.