

Insurance and investment contracts

13 Insurance provisions

Insurance provisions

| (€ million) | Direct insurance | | Accepted reinsurance | | Total | |
|--|------------------|----------------|----------------------|--------------|----------------|----------------|
| | 31/12/2015 | 31/12/2014 | 31/12/2015 | 31/12/2014 | 31/12/2015 | 31/12/2014 |
| Non-life insurance provisions | 31,687 | 31,594 | 1,691 | 1,556 | 33,377 | 33,150 |
| Provisions for unearned premiums | 5,147 | 5,241 | 216 | 197 | 5,363 | 5,438 |
| Provisions for outstanding claims | 26,068 | 25,891 | 1,469 | 1,352 | 27,537 | 27,243 |
| Other insurance provisions | 471 | 462 | 7 | 7 | 478 | 469 |
| of which provisions for liability adequacy test | 12 | 20 | 0 | 0 | 12 | 20 |
| Life insurance provisions | 369,457 | 351,312 | 1,853 | 1,739 | 371,310 | 353,052 |
| Provisions for outstanding claims | 5,364 | 5,225 | 1,046 | 1,074 | 6,410 | 6,299 |
| Mathematical provisions | 263,099 | 249,760 | 663 | 530 | 263,762 | 250,290 |
| Provisions for policies where the investment risk is borne by the policyholders and provisions for pension funds | 57,783 | 51,663 | 11 | 11 | 57,793 | 51,674 |
| Other insurance provisions | 43,211 | 44,664 | 133 | 124 | 43,344 | 44,788 |
| of which provisions for liability adequacy test | 1,036 | 1,053 | 0 | 0 | 1,036 | 1,053 |
| of which deferred policyholder liabilities | 22,642 | 25,300 | 0 | 0 | 22,642 | 25,300 |
| Total | 401,143 | 382,906 | 3,544 | 3,296 | 404,687 | 386,202 |

In the Non-life segment insurance provisions remain substantially stable (+0.7% compared to 31 December 2014).

In the Life segment insurance provisions increase by 5.2%, mainly attributable to the development of net in-flow and the financial revaluation of technical reserves.

The overall total of the other life insurance provisions included both the provision for profit sharing and premium refunds, which amounts to € 6,725 million (€ 6,895 million in 2014) and the ageing provisions for life segment, which amount to € 12,242 million (€ 10,965 million in 2014).

14 Amounts ceded to reinsurers from insurance provisions

Insurance provisions ceded to reinsurers

| (€ million) | Direct insurance | | Accepted reinsurance | | Total | |
|--|------------------|--------------|----------------------|--------------|--------------|--------------|
| | 31/12/2015 | 31/12/2014 | 31/12/2015 | 31/12/2014 | 31/12/2015 | 31/12/2014 |
| Non-life amounts ceded to reinsurers from insurance provisions | 2,086 | 2,175 | 809 | 858 | 2,895 | 3,033 |
| Life amounts ceded to reinsurers from insurance provisions | 635 | 810 | 563 | 534 | 1,199 | 1,344 |
| Provisions for policies where the investment risk is borne by the policyholders and provisions for pension funds | 156 | 155 | 0 | 0 | 156 | 155 |
| Mathematical provisions and other insurance provisions | 480 | 655 | 563 | 534 | 1,043 | 1,189 |
| Total | 2,722 | 2,985 | 1,372 | 1,392 | 4,094 | 4,378 |

15 Deferred acquisition costs

Deferred acquisition costs

| (€ million) | Segment Life | | Segment Non Life | | Total | |
|--|--------------|--------------|------------------|------------|--------------|--------------|
| | 31/12/2015 | 31/12/2014 | 31/12/2015 | 31/12/2014 | 31/12/2015 | 31/12/2014 |
| Carrying amount as at 31 December previous year | 1,674 | 1,650 | 283 | 307 | 1,958 | 1,957 |
| Acquisition costs deferred | 366 | 458 | 69 | 203 | 435 | 662 |
| Changes in consolidation scope | 0 | 0 | 0 | 0 | 0 | 0 |
| Amortization of the period | -318 | -432 | -75 | -219 | -393 | -652 |
| Other movements | 0 | -1 | 1 | -8 | 1 | -9 |
| Carrying amount as at 31 December current year | 1,722 | 1,674 | 278 | 283 | 2,000 | 1,958 |

The deferred acquisition costs amounted to € 2,000 million, stable compared to the previous year.

Details on insurance and investment contracts

Insurance provisions and financial liabilities related to policies of the life segment

Insurance provisions and financial liabilities related to the life segment

| (€ million) | Net amount | |
|---|----------------|----------------|
| | 31/12/2015 | 31/12/2014 |
| Insurance contracts | 218,295 | 212,940 |
| Investment contracts with discretionary participation feature | 114,980 | 99,289 |
| Total insurance provisions | 333,275 | 312,228 |
| Investments contracts fair valued | 16,921 | 15,964 |
| Investments contracts at amortised cost | 5,070 | 4,811 |
| Total financial liabilities | 21,991 | 20,776 |
| Total | 355,266 | 333,004 |

Total insurance provisions include the mathematical provisions and provisions for policies where the investment risk is borne by policyholders and for pension funds net of reinsurance (which amounted to € 263,411 million and € 57,637 million respectively), and net ageing provisions for life segment, which amounted to € 12,227 million (accounted for in other insurance provisions of the life segment). In the Life portfolio the policies with significant insurance risk amounted to 61.4% (63.9% at 31 December 2014), whereas investment contracts with

discretionary participation feature amounted to 32.4% (29.8% at 31 December 2014).

The investment contracts within the scope of IAS 39 remained stable at 6.2% of Life portfolio. They are mainly unit/index linked policies without significant insurance risk.

Among life segment technical reserves, subject to the Liability Adequacy Test, also interest rate risk provisions as required by local regulations are included.

Mathematical provisions and ageing for life segment

| (€ million) | Gross direct insurance | |
|--|------------------------|----------------|
| | 31/12/2015 | 31/12/2014 |
| Carrying amount as at 31 December previous year | 260,722 | 248,878 |
| Foreign currency translation effects | 755 | 665 |
| Premiums and payments | 4,132 | 2,257 |
| Interests and bonuses credited to policyholders | 9,912 | 9,612 |
| Transfer to Non-current assets or disposal group classified as held for sale | 0 | -504 |
| Acquisitions, disinvestments and other movements | -183 | -186 |
| Carrying amount as at the ed of the period | 275,338 | 260,722 |

The increase in mathematical provisions and ageing for life segment shows both the development of net inflow and the financial revaluation of the period.

Provisions for policies where the investment risk is borne by policyholders and for pension funds

| (€ million) | Gross direct amount | |
|--|---------------------|---------------|
| | 31/12/2015 | 31/12/2014 |
| Carrying amount as at 31 December previous year | 51,663 | 45,795 |
| Foreign currency translation effects | 684 | 89 |
| Premiums and claims | 3,270 | 2,670 |
| Interests and bonuses credited to policyholders | 2,301 | 3,298 |
| Acquisitions, disinvestments and other | -135 | -190 |
| Transfer to Non-current assets or disposal group classified as held for sale | 0 | 0 |
| Carrying amount as at the end of the period | 57,783 | 51,663 |

The development of provisions for policies where the investment risk is borne by policyholders and for pension funds highlights the positive trend of net inflow, and the development in the value of assets backing unit/index linked policies, due to financial market movements.

Group's financial guarantee of life insurance provisions and financial liabilities of gross direct insurance is reported in the following table:

Life insurance provisions and financial liabilities: financial guarantees

| (€ million) | Gross direct insurance | |
|---|------------------------|-----------------|
| | 31/12/2015 | 31/12/2014 (**) |
| Liabilities with guaranteed interest (*) | 269,838 | 255,787 |
| between 0% and 1% | 73,958 | 69,516 |
| between 1% and 3% | 118,416 | 107,323 |
| between 3% and 4% | 46,654 | 47,979 |
| between 4% and 5% | 29,725 | 29,750 |
| more than 5 % | 1,084 | 1,219 |
| Provisions without guaranteed interest | 78,213 | 70,480 |
| Provisions matched by specific assets | 7,061 | 6,894 |
| Total | 355,112 | 333,160 |

(*) The upper bound of each range is excluded

(**) The 2014 comparative figures have been restated in order to adopt a better exposures allocation, especially for the classes with the higher interest guarantee.

The total insurance provisions include the gross direct amount of mathematical provisions, which amount to € 263,099 million (€249,760 million at 31 December 2014), the provisions for policies where the investment risk is borne by the policyholders and for pension fund, which amount to € 57,783 million (€ 51,663 million at 31 December 2014), the ageing provision for life segment, which amount to € 12,240 million (€ 10,962 million at 31 December 2014), and financial liabilities related to investment contracts, which amount to € 21,991 million (€ 20,776 million at 31 December 2014).

The table above shows a progressive shift of the

exposures towards 'less than 3%' guarantee classes, also due to the new business. Lastly, the amount of provisions without guaranteed interest showed an increase amounting to € 78,213 million (€70,480 million as at 31 December 2014).

The table below shows the amount of the life gross direct insurance provisions broken down by expected contractual residual duration. For contracts without maturity (annuity or whole life contracts) the expected residual duration is calculated considering an expected date of conclusion of the contract, according to the embedded value valuation.

Life insurance provisions and financial liabilities related to investment contracts: contractual term to maturity

| (€ million) | Gross direct insurance | |
|-------------------------|------------------------|----------------|
| | 31/12/2015 | 31/12/2014 |
| Up to 1 year | 34,491 | 34,464 |
| Between 1 and 5 years | 73,650 | 77,040 |
| Between 5 and 10 years | 67,255 | 68,975 |
| Between 11 and 20 years | 86,442 | 84,079 |
| More than 20 years | 93,273 | 68,602 |
| Total | 355,112 | 333,160 |

Deferred policyholders liabilities

| (€ million) | 31/12/2015 | 31/12/2014 |
|---|---------------|---------------|
| Carry amount as at the beginning of the period | 25,300 | 3,999 |
| Foreign currency translation effects | 59 | 3 |
| Change of the period | -2,717 | 21,300 |
| Acquisitions and disinvestments | 0 | -2 |
| Carry amount as at the end of the period | 22,642 | 25,300 |

Deferred policyholders liabilities recorded a decrease as a consequence of the decrease of the policyholders' share recognized on the fair value of the investment available for sale, with particular reference to the bonds component.

Provisions for outstanding claims

Provisions for outstanding claims

| (€ million) | Gross direct insurance | |
|-------------------------------|------------------------|---------------|
| | 31/12/2015 | 31/12/2014 |
| Motor | 11,821 | 11,604 |
| Non motor | 14,247 | 14,287 |
| Personal and commercial lines | 11,573 | 11,794 |
| Accident/Health (*) | 2,674 | 2,493 |
| Total | 26,068 | 25,891 |

(*) Life segment includes health insurance with life features

With reference to the gross direct claims provisions 45.3% was referred to the motor business in line with the prior year (44.8%). In the non-motor business, the personal and commercial lines weighted 81.2%.

With reference to non-life segment, the table below shows the amount of gross direct claims and unearned premiums reserves split by remaining maturity. The to-

tal liability is broken down by remaining duration in proportion to the cash flows expected to arise during each duration band.

It should be noted that the extension of terms to the classes with the highest duration was mainly due to regulatory changes, as well as to a better and more prudent approach in the estimates of long-tail claims.

Non-life insurance provisions: maturity

| (€ million) | Gross direct insurance | |
|-------------------------|------------------------|---------------|
| | 31/12/2015 | 31/12/2014 |
| Up to 1 year | 10,733 | 11,837 |
| Between 1 and 5 years | 11,888 | 11,753 |
| Between 5 and 10 years | 4,317 | 4,494 |
| Between 11 and 20 years | 2,928 | 3,048 |
| More than 20 years | 1,349 | 0 |
| Total | 31,215 | 31,132 |

The following table shows the cumulative claim payments and the ultimate cost of claims by accident year and their development from 2006 to 2015. The ultimate cost includes paid losses, outstanding reserves on reported losses, estimated reserves for IBNR claims and ULAE.

The amounts refer to direct business gross of reinsurance and recoveries (the latter amounting to € 477 million in 2015).

The difference between the ultimate cost of claims and the cumulative paid losses for calendar year 2015 con-

stitutes the claim reserve for accident years 2006 to 2015. The reserve reported in the balance sheet also includes a residual claim reserve that is composed almost exclusively by the accident years not reported in the development triangle.

The observed trend in the ultimate cost for generations 2006-2015 indicates the adequate level of prudence adopted by the Generali Group in its reserving policy.

Claims development

| (€ million) | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | Totale |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|---------------|---------------|-----------------|
| Cumulative claim payments | | | | | | | | | | | |
| at the end of accident year | 5,146 | 5,724 | 6,069 | 6,289 | 6,218 | 5,633 | 5,692 | 5,678 | 5,322 | 5,424 | |
| one year later | 8,735 | 9,531 | 10,002 | 10,158 | 10,054 | 9,244 | 9,232 | 9,095 | 8,536 | | |
| two years later | 9,776 | 10,597 | 11,103 | 11,315 | 11,145 | 10,302 | 10,334 | 10,047 | | | |
| three years later | 10,245 | 11,143 | 11,628 | 11,898 | 11,641 | 10,746 | 10,820 | | | | |
| four years later | 10,554 | 11,472 | 11,950 | 12,236 | 11,931 | 11,035 | | | | | |
| five years later | 10,772 | 11,667 | 12,176 | 12,482 | 12,176 | | | | | | |
| six years later | 10,941 | 11,817 | 12,359 | 12,668 | | | | | | | |
| seven years later | 11,025 | 11,954 | 12,494 | | | | | | | | |
| eight years later | 11,125 | 12,068 | | | | | | | | | |
| nine years later | 11,200 | | | | | | | | | | |
| Estimate of ultimate cumulative claims costs: | | | | | | | | | | | |
| at the end of accident year | 12,481 | 13,145 | 13,689 | 14,033 | 13,896 | 13,089 | 13,325 | 13,027 | 12,522 | 12,501 | 131,708 |
| one year later | 12,435 | 13,040 | 13,534 | 13,851 | 13,718 | 12,804 | 12,912 | 12,775 | 12,265 | | |
| two years later | 12,238 | 12,796 | 13,313 | 13,732 | 13,509 | 12,620 | 12,725 | 12,529 | | | |
| three years later | 12,092 | 12,668 | 13,351 | 13,657 | 13,478 | 12,534 | 12,552 | | | | |
| four years later | 12,028 | 12,783 | 13,282 | 13,642 | 13,399 | 12,483 | | | | | |
| five years later | 11,921 | 12,759 | 13,288 | 13,626 | 13,377 | | | | | | |
| six years later | 11,918 | 12,770 | 13,261 | 13,584 | | | | | | | |
| seven years later | 11,857 | 12,756 | 13,231 | | | | | | | | |
| eight years later | 11,824 | 12,728 | | | | | | | | | |
| nine years later | 11,788 | | | | | | | | | | |
| Estimate of ultimate cumulative claims costs at reporting date | 11,788 | 12,728 | 13,231 | 13,584 | 13,377 | 12,483 | 12,552 | 12,529 | 12,265 | 12,501 | 127,036 |
| Cumulative payments to date | -11,200 | -12,068 | -12,494 | -12,668 | -12,176 | -11,035 | -10,820 | -10,047 | -8,536 | -5,424 | -106,468 |
| Provision recognised in the balance sheet | 588 | 660 | 737 | 916 | 1,201 | 1,448 | 1,732 | 2,482 | 3,729 | 7,076 | 20,569 |
| Provision not included in the claims development table | | | | | | | | | | | 5,977 |
| Total provision included in the balance sheet | | | | | | | | | | | 26,545 |

Reinsurance policy of the Group

With reference to the reinsurance policy, the table proves that the careful criteria for the selection of reinsurers adopted by the Group over the past allowed Gen-

erali to have a significant presence of counterparties in rating classes of high quality. The small percentage of AAA counterparties reflects the almost total lack of market players that have maintained these characteristics.

Reinsurance policy of the Group

| (€ million) | 31/12/2015 | 31/12/2014 |
|----------------------|--------------|--------------|
| AAA | 3 | 3 |
| AA | 1,984 | 1,972 |
| A | 1,049 | 1,219 |
| BBB | 73 | 142 |
| Non investment grade | 1 | 0 |
| No Rating | 984 | 1,042 |
| Total | 4,094 | 4,378 |

Within the overall context of the technical reserves, the Group continued to experience the effects of an increasingly centralized management of reinsurance with a constant reduction in total reserves ceded to counterparties outside the Group, as well as a more efficient management of facultative reinsurance.

“Not rated” counterparties remain; as in the past, they also include a considerable amount of captive insurance companies of large industrial Groups that do not qualify for any rating while showing a good financial strength, companies that are no longer active in the reinsurance

market and not valued by the rating agencies, but not necessarily less financially sound, companies that are part of major insurance groups which benefit from high rating but who have abandoned their reinsurance activities, or, finally, of mutual and reinsurance pools.

In some circumstances, local regulations, market practice or specific types of business allow the Group to benefit from mitigation of the related reinsurance credit risk through deposits from reinsurers and/or letters of credit as a guarantee on ceded reserves.