2017 Solvency and Financial Condition Report

UnipolSai
ASSICURAZIONI

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UnipolSai Assicurazioni S.p.A.

Solvency and Financial Condition Report

2017

CONTENTS

Introduction

This "Solvency and Financial Condition Report" was prepared in application:

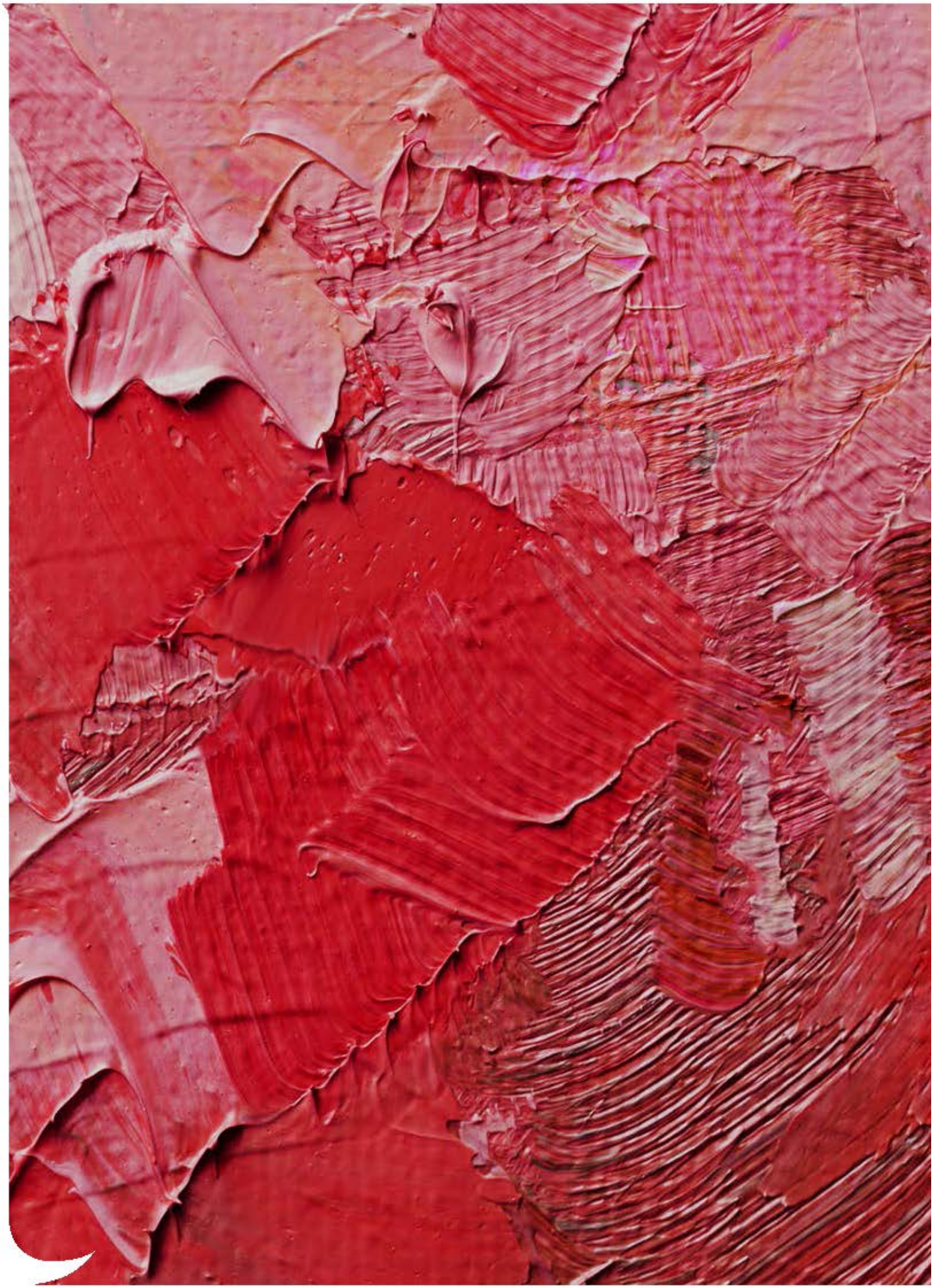
- of the provisions on disclosure to the public set forth in Articles 290-303 of Title I, Ch. XII, of Delegated regulation EU No. 2015/35 ("Regulation"), supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance ("Directive");
- of the implementing Regulation (EU) 2015/2452, 2 December 2015, as amended, laying down implementing technical standards with regard to the procedures, formats and templates of the solvency and financial condition report in accordance with the Directive;
- of IVASS Regulation No. 33, 6 December 2016, concerning the disclosure to the public and IVASS, carrying provisions integrating the contents of the "Solvency and Financial Condition Report" and the regular report to IVASS ("Regular Supervisory Report"), ("Regulation 33").
- of IVASS Letter to the Market Prot. No. 0093309/18 of 28 March 2018 concerning the "Results of comparative analyses on solvency and financial condition reports (SFCR)".

Unless otherwise specified, data are expressed in thousands of euros.

Definitions and glossary

The meaning of the main acronyms and expressions used in this document is summarised below.

Term	Meaning
Capital adequacy	Observance by the company/Group of regulatory solvency capital requirements.
BEL	Best estimate of liabilities deriving from insurance contracts ("Best Estimate of Liabilities").
CAP	Private Insurance Code (Legislative Decree No. 209 of 7 September 2005, as amended).
Capital at Risk	Total capital requirement relating to a specific risk that the company/Group deems necessary to cover losses exceeding a given expected level.
EIOPA	European supervisory authority for occupational pensions and insurance.
Corporate Control Functions	The Company's Audit, Risk Management and Compliance and Anti-Money Laundering Functions.
Key functions	The Corporate Control Functions and the Actuarial Function.
LoB	Line of Business of insurance activities as defined in annex I of the Regulation.
MCR	Minimum Capital Requirement as defined by Title I - chapter VII of the Regulation. It corresponds to the amount of eligible own funds below which policyholders and beneficiaries would be exposed to an unacceptable level of risk if the insurance companies were allowed to continue their activities.
PIM	Partial Internal Model used to determine the solvency capital requirement.
OF	Own Funds as defined by Title I Chapter IV and Title II Chapters I and II of the Regulation. They represent the financial resources steadily acquired by the company/Group and available to it to absorb losses and to overcome risks generated by business activities on a going concern basis.
ORSA	Own Risk and Solvency Assessment Report to the Authorities.
RAF	Risk Appetite Framework - reference framework which defines - in line with the maximum risk that may be assumed, the business model and the Strategic Plan - the Risk Appetite, any tolerance thresholds, the operational risk limits, specific risk management policies and the reference processes required to define and implement them.
Technical provisions (TP)	The amount that an insurance or reinsurance company would have to pay if its contractual rights and obligations were immediately transferred to another company. It corresponds to the sum of BEL and RM.
Risk Appetite	Level of risk (overall and by type) that the Group and/or the Company intends to assume for the pursuit of its strategic objectives.
RM	Risk Margin corresponding to the cost of holding an amount of eligible own funds equal to the SCR needed to support insurance and reinsurance obligations assumed throughout their contractual life.
SCR	Solvency Capital Requirement as set forth in Title I - chapters V and VI of the Regulation. The amount of that requirement is determined so as to enable insurance companies or groups to be capable, with a likelihood of at least 99.5%, of honouring their obligations to policyholders and beneficiaries in the next twelve months.
Standard Formula Market Wide	Methodology for the calculation of the solvency capital requirement which calls for the application of the standard parameters defined by the Regulation.
TCM	Temporary insurance in the event of death.
USP	Undertaking Specific Parameters used to determine the solvency requirement linked to insurance risks. These parameters, alternative to the standard parameters defined by the Regulation, may be used if specific conditions defined by the Regulation are met and with the authorisation of the Supervisory Authority.
VA	Volatility Adjustment corresponding to an optional adjustment to the risk-free interest rate curve (published by EIOPA) to be applied to determine the BELs.



SUMMARY

Summary

Introduction

This section summarises the key information and any substantial changes taking place in 2017 in the solvency and financial condition of the Company, with regard to:

A. business and performance
B. system of governance
C. risk profile
D. valuation for solvency purposes
E. capital management.

For more detailed information, we refer to later chapters, which provide the information required by current legal provisions summarised in the Introduction.

Business and performance [1]

Direct Non-Life premiums at 31 December 2017 amounted to €6,901.1m (-0.8% compared to 2016), €3,937.4m of which in the MV classes, down by 2.6% compared to 2016 due to competitive pressure on tariffs, and €2,963.7m in the Non-MV classes (+1.5%).

In terms of Non-Life claims, although there was an improvement in the final quarter of the year, 2017 was characterised by a significant increase in claims from atmospheric events and a greater presence of claims of significant amounts. The MV TPL class posted positive performance in terms of frequency and cost curbing, even within a scenario complicated by a further drop in the average premium. Overall, the year ended on 31 December 2017 recorded a slight deterioration of the loss ratio for direct business (including the balance of other technical items), which amounted to 68.1% versus 67.9% in 2016.
The expense ratio for direct business was 28.2% of premiums written, versus 28.4% in 2016. Overall, the combined ratio (direct business - including OTI ratio) was 96.3%, substantially in line with the previous year.

In the Life sector, 2017 was characterised by the proposal, on the agency network, of multisegment and linked products, which met with good commercial success within a market context in which interest rates were very low and even negative in the short term.
The Company recorded direct premiums of €2,891.8m, down slightly compared to the previous year (-4.9%), but with a breakdown of new business more oriented towards more advanced products and those with higher margins.

As regards the management of financial investments, the general recovery in the global economy made it possible to overcome the numerous geopolitical tensions that arose in the course of 2017. The main equity markets recorded very positive performance and, despite the fact that the ECB has started to wind down its expansionary monetary policy, the Eurozone's government bond yields have remained at very limited levels.

Real estate management continued to focus on the renovation of some of the portfolio's properties, particularly in Milan, in order to seek out opportunities to increase value or generate income, as well as structures intended for business use. 2017 was also characterised by the disposal of certain properties for significant amounts, in line with the expectations laid out in the Business Plan.

Of the significant extraordinary transactions that took place in 2017, please note that, as part of the Unipol Group's insurance sector restructuring project, the Company acquired the controlling interests in Compagnia Assicuratrice Linear S.p.A. and UniSalute S.p.A. from the Parent Company Unipol for a total consideration of €875m.

[1] The economic data reported in the section Business and performance are taken from the financial statements of the Company ("Financial Statements").

System of governance

The governance structure of the Company is based on a traditional management and control model, which has as its main bodies: the Shareholders' Meeting, the Board of Directors (which operates with the support of board committees) and the Board of Statutory Auditors. The Company has created an Audit Function, a Risk Management Function, a Compliance and Anti-money Laundering Function (jointly, "Corporate Control Functions") and an Actuarial Function.

The Board of Directors assesses the position of each of its members, the members of the Board of Statutory Auditors and the General Manager, establishing whether these meet the requirements set by legal and regulatory provisions in force at the time on honourableness, professionalism and independence, as well as on the absence of impediments, suspensions and incompatibilities pursuant to interlocking provisions. The Board of Directors also establishes whether the requirements of suitability to the office are met by the Managers of the Corporate Control Functions and the Manager of the Actuarial Function.

The Company has acquired an articulated and efficient Internal Control and Risk Management system, to ensure that the most significant risks arising from its activity are correctly identified, measured, managed and controlled, as well as being compatible with a sound and correct management. The Board of Directors is responsible for said System and regularly verifies its suitability and actual operation.

The Audit Function assesses the completeness, function, reliability and adequacy of the Internal Control and Risk Management System, in relation to the nature of the business activities and the level of risks taken, as well as for updating it, also through support and advisory activities provided to other company departments. This Report also describes the control tasks of the Actuarial Function with reference to Solvency II Technical Provisions and to the provisions of the Financial statements.

With regard to the outsourcing policies, lastly, UnipolSai is the main service provider of the Unipol Group, independent in almost all corporate areas; with its personnel and skills, it is able to carry out these activities also on behalf of other companies of the Group.

There were no substantial changes in the system of governance during the reference period.

Risk profile

The Company calculates its Solvency Capital Requirement using the Partial Internal Model (PIM), which can provide a better assessment of its actual risk profile than the standard formula. On 8 February 2017, the Company received from the supervisory authorities the authorisation to use the Partial Internal Model for regulatory purposes, from 31 December 2016 onwards.

To provide a more complete representation of the risk profile, the Company has adopted risk classification criteria somewhat different from those proposed by the Standard Formula, which is the method used to calculate the Solvency Capital Requirement ("SCR") for companies that have not developed an internal model. In particular, with regard to Market Risk, within the PIM, the Company also considers the risks relating to the volatility of share prices and interest rates. The Standard Formula is used for risk modules that are not in the PIM perimeter. Parameters specific to the company ("Undertaking Specific Parameters" or "USP") are used to calculate the Premium and Reserve Risk for the following Lines of Business ("LoB") (i) MV TPL (ii) General TPL and (iii) Fire and other damage to property, while the Standard Formula Market Wide is used for the other risk modules

The Solvency Capital Requirement (SCR) total for the Company at the end of the reference period was €2,925,918k, down by €66,658k compared to the SCR relating to 31 December 2016. The change in the SCR between the two periods subject to analysis was primarily due to the change in the value of:

- Non-Life and Health Insurance Technical Risks: there was a reduction in the Non-Life and Health SCR primarily due to the decline in the capital requirement of the Non-Life Premium and Reserve sub-module; this change in the requirement is explained by the decrease in volumes with respect to 2016 and the update in USP parameters;

- Credit Risk: there was a decrease in the Credit SCR primarily as a result of the reduction in the historical riskiness recognised for exposures to the insured;
- Market Risks: the rise in the overall SCR was primarily due to the increase in the interest rate and equity module. The interest rate rose primarily due to the increased duration mismatch between assets and liabilities following the introduction of new actuarial assumptions relating to whole life policies; such changes resulted in an extension in the duration of liabilities.
  On the other hand, equity risk rose due to the increase in exposures to securities/equity funds and alternative investments. There was also an increase in strategic equity investments following extraordinary corporate transactions; such transactions also caused concentration risk;
- Operational Risks: there was a reduction in the Operational SCR primarily deriving from the decline in the value of best estimates.

The amount of the SCR for each risk module is shown below along with a comparison with the data relating to 31 December 2016:

Amounts in €k	2017	2016	Change on 2016
Non-life and health underwriting risk	2,011,159	2,196,290	(185,131)
Life underwriting risk	193,999	212,599	(18,600)
Market risks	2,051,666	1,726,000	325,666
Credit risk	365,654	397,828	(32,174)
Diversification	(1,117,174)	(1,017,826)	(99,348)
Basic Solvency Capital Requirement (BSCR)	**3,505,304**	**3,514,891**	**(9,587)**
Operational risk	493,916	524,179	(30,263)
Loss-absorbing capacity of technical provisions	(276,433)	(200,414)	(76,019)
Loss-absorbing capacity of deferred taxes	(847,262)	(902,230)	54,968
Model Adjustment	50,393	56,151	(5,758)
Solvency Capital Requirement (SCR)	**2,925,918**	**2,992,577**	**(66,658)**

The SCR value of the Market, Life Underwriting and Operational Risk modules relating to 2016 is different than what was reported in the 2016 Report as a result of a different representation of the above-mentioned risk modules. In this report, the amount of risk relating to Ring Fenced Funds is included in the above-mentioned risk modules, in line with the representation adopted in the QRT S.25, while in the 2016 report this information was provided in de-aggregated form.

Note that the risk assessments are carried out applying as long-term measure the Volatility Adjustment (VA).

Valuation for solvency purposes

To calculate the own funds eligible for the coverage of the Solvency Capital Requirement, the Company must prepare a "Market Consistent Balance Sheet" ("MCBS"), enclosed to this Report, on the basis of specific criteria, specified by the Directive and the Regulation, which are different from those used for the preparation of the financial statements.
The criteria specified by the Solvency II provisions are based on the concept of fair value and, therefore:

a) Assets are valued at the amount at which they could be exchanged between knowledgeable and willing parties in an arm's length transaction;
b) Liabilities are valued at the amount at which they could be sold or settled between knowledgeable and willing parties in an arm's length transaction.

In the valuation of liabilities, any changes in the creditworthiness of the Company subsequent to the issue are not taken into consideration.
There were no substantial changes in the valuation criteria adopted compared to the previous year.

We provide a summary below of the differences between the valuation of assets and liabilities in the financial statements and the MCBS at 31 December 2017 and at the end of the previous year.

Amounts in €k		2017	2016
A	Shareholders' equity (Financial Statement)	5,832,122	5,607,762
	Adjustments by assets/liabilities type		
1	Intangible assets	(794,796)	(847,328)
2	Properties and tangible assets for investment and for own use	236,194	199,402
3	Other financial investments	2,798,475	3,497,043
4	Technical provisions	(1,090,412)	(2,292,741)
5	Deferred taxes	(662,104)	(296,559)
6	Other assets and liabilities	(238,327)	(249,813)
	Total adjustments	249,030	10,004
B	Shareholders' equity (MCBS)	6,081,152	5,617,766

It should be noted that the difference with the Total Shareholders' Equity, resulting from item 110 of the Financial Statements Liabilities of the Company's Annual Report (€5,752,829k at 31/12/2017) is due to the recognition, in that Statement, of the treasury shares (€79,292k) as an adjustment to the Shareholders' Equity.

Capital management

The Company has own funds eligible to cover the capital requirements equal to 2.63 times the SCR (2.43 at 31/12/2016) and 5.36 times the Minimum Capital Requirement ("MCR"), 4.84 at 31 December 2016.

The following tables show:

- the amount of own funds eligible to cover capital requirements, with a breakdown by individual tiering level;
- the capital requirements (SCR and MCR) compared to the figure from the previous year;
- the coverage ratios of the capital requirements compared to the data from the previous year.

Eligible amount of own funds

Amounts in €k	Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
Total eligible own funds to meet the SCR (A)	7,693,447	5,564,822	1,232,831	895,794	
Total eligible own funds to meet the MCR (B)	7,060,986	5,564,822	1,232,831	263,333	

SCR, MCR and Capital Requirement coverage ratios

Amounts in €k	2017	2016	Change on 2016
Solvency Capital Requirement (SCR) _ (C)	2,925,918	2,992,577	(66,659)
Minimum Capital Requirement (MCR) _ (D)	1,316,663	1,346,660	(29,997)
Ratio of Eligible own funds to SCR (A / C)	2.63	2.43	0.20
Ratio of Eligible own funds to MCR (B / D)	5.36	4.84	0.52

The amount of own funds of higher quality (Tier 1 unrestricted) equal to €5,564,822k (€5,002,619k at 31/12/2016), corresponds to the amount of shareholders' equity from MCBS (€6,081,152k compared to €5,617,766k at 31/12/2016), net of own shares held directly and indirectly (€107,667k compared to €112,257k at 31/12/2016), expected dividends (€402,298k compared to €346,802k at 31/12/2016) and other deductions provided for by the Regulation or by special provisions of the Supervisory authorities (€6,364k compared to €19,418k at 31/12/2016).

The SCR coverage ratio without the application of the volatility adjustment is 2.60 (2.36 at 31/12/2016). The MCR coverage ratio without the application of the volatility adjustment is 5.31 (4.56 at 31/12/2016).

We provide below the results of the sensitivity analyses carried out by the Company. The analyses refer to the year in question and take, as Base Scenario, the capital adequacy situation calculated according to the regulatory model adopted by the undertaking.

Sensitivities

Description	Impact with respect to central scenario	Impact on Solvency II Ratio
Shift upward of the interest yield curve	interest rate: +50 bps	-13%
Shift downward of the interest yield curve	interest rate: -10 bps	-1%
Shock on yield	interest rate: +25 bps credit spread +50 bps	-1%
Shock on equity market	equity market value: -20%	+1%
Shock on property market	property market value: -15%	-7%

During the year the Company has continuously maintained an adequate coverage of both SCR and MCR.

A. BUSINESS
AND PERFORMANCE

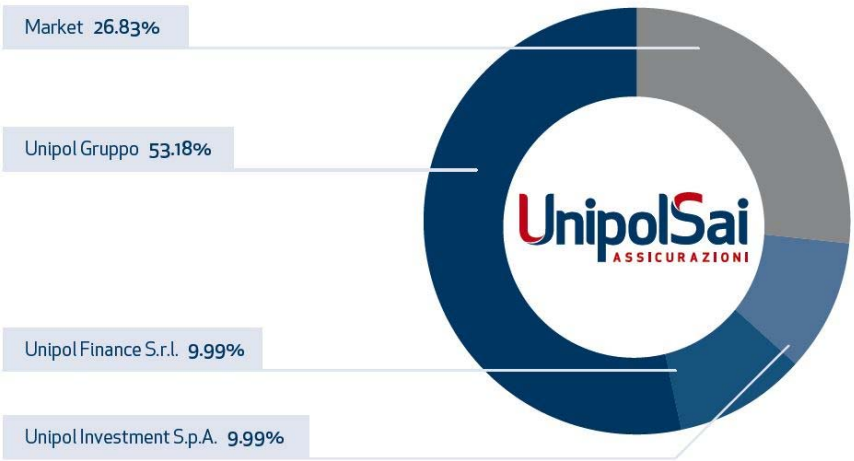
A.1 Business

Company information

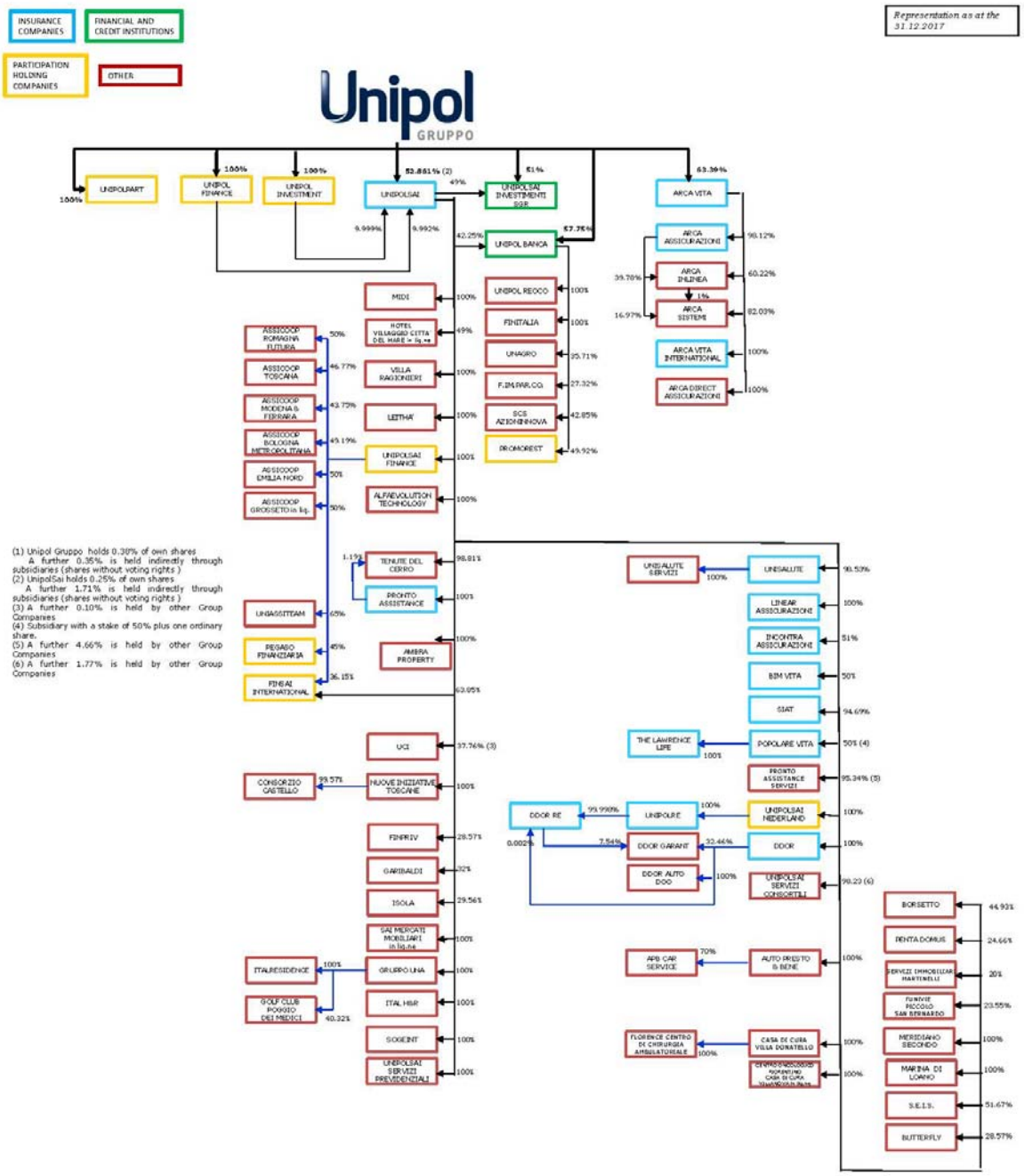
The business purpose of UnipolSai Assicurazioni S.p.A. (henceforth, also the "Company" or "UnipolSai Assicurazioni" or "UnipolSai") is the provision of all insurance, reinsurance and capitalisation classes allowed by law. The Company can also manage supplementary pension schemes allowed by current law, as well as set up, form and manage open pension funds and carry on activities additional to or functional for managing these funds.
Subject to the management and coordination activities of Unipol Gruppo S.p.A. (henceforth, also "Unipol" or "Parent Company"), which, at 31 December 2017, held directly 53.18% of the share capital and indirectly 19.98%, the Company is listed in the Register of Insurance and Re-insurance Companies Sect. I under No. 1.00006 and is part of the Unipol Insurance Group, with registered office in Via Stalingrado 45, 40128 Bologna, Register of Insurance Groups No. 046.

The shareholding structure is shown in the chart below:

Main Shareholders of UnipolSai Assicurazioni



The Company is subject to supervision by the *Istituto per la Vigilanza sulle Assicurazioni* (IVASS), in charge of the financial supervision of the Company and the Group to which this belongs.
The independent audit firm appointed by the Company is PricewaterhouseCoopers S.p.A..
The structure of the Unipol Group is shown below, with the position occupied by the Company within the Group itself.



(1) Unipol Gruppo holds 0.30% of own shares
A further 0.35% is held indirectly through subsidiaries (shares without voting rights)
(2) UnipolSai holds 0.25% of own shares
A further 1.71% is held indirectly through subsidiaries (shares without voting rights)
(3) A further 0.10% is held by other Group Companies
(4) Subsidiary with a stake of 50% plus one ordinary share.
(5) A further 4.66% is held by other Group Companies
(6) A further 1.77% is held by other Group Companies

We also provide a list of subsidiaries and associates, and companies subject to unified management at 31 December 2017.

List of subsidiaries and associates

Type (1)	Name	Legal form	Registered office	Portion held			Exercisable voting rights
				Direct %	Indirect %	Total	
a	AlfaEvolution Technology S.p.A.	Joint-stock company	Italy	100		100	100
a	Ambra Property S.r.l.	Limited liabilities company	Italy	100		100	100
a	APB Car Service S.r.l.	Limited liabilities company	Italy		70	70	70
b	Assicoop Bologna S.p.A.	Joint-stock company	Italy		49.19	49.19	49.19
b	Assicoop Emilia Nord S.r.l.	Limited liabilities company	Italy		50	50	50
b	Assicoop Grosseto S.p.A. in liquidazione	Joint-stock company	Italy		50	50	50
b	Assicoop Modena e Ferrara S.p.A.	Joint-stock company	Italy		43.75	43.75	43.75
b	Assicoop Romagna Futura S.r.l.	Limited liabilities company	Italy		50	50	50
b	Assicoop Toscana S.p.A.	Joint-stock company	Italy		46.77	46.77	46.77
a	Auto Presto & Bene S.p.A.	Joint-stock company	Italy	100		100	100
a	Bim Vita S.p.A.	Joint-stock company	Italy	50		50	50
b	Borsetto S.r.l.	Limited liabilities company	Italy	44.93		44.93	44.93
b	Butterfly Am S.a r.l.	Société à Responsabilité Limitée	Luxembourg	28.57		28.57	28.57
a	Casa Di Cura Villa Donatello S.p.A.	Joint-stock company	Italy	100		100	100
a	Centro Oncologico Fiorentino Casa Di Cura Villanova S.r.l. in liquidazione	Limited liabilities company	Italy	100		100	100
a	Compagnia Assicuratrice Linear S.p.A.	Joint-stock company	Italy	100		100	100
a	Consorzio per l'attuazione del Piano Urbanistico Esecutivo di Castello in Comune di Firenze	Consortium	Italy		99.57	99.57	99.57
a	Ddor Auto D.o.o.	društvo sa ograničenom odgovornošću - Limited liabilities company	Serbia		100	100	100
b	Ddor Garant	akcionarsko društvo - Joint-stock company	Serbia		40	40	40
a	Ddor Novi Sad A.D.O.	akcionarsko društvo - Joint-stock company	Serbia	100		100	100
a	Ddor Re Joint Stock Reinsurance Company	akcionarsko društvo - Joint-stock company	Serbia		100	100	100
b	Fin.Priv. S.r.l.	Limited liabilities company	Italy	28.57		28.57	28.57
a	Finsai International S.a.	Société Anonyme	Luxembourg	63.85	36.15	100	100
a	Florence Centro Di Chirurgia Ambulatoriale S.r.l.	Limited liabilities company	Italy		100	100	100
b	Funivie Del Piccolo San Bernardo S.p.A.	Joint-stock company	Italy	23.55		23.55	23.55

Type (1)	Name	Legal form	Registered office	Portion held			Exercisable voting rights
				Direct %	Indirect %	Total	
b	Garibaldi S.c.a.	Société en commandite par actions	Luxembourg	32		32	32
b	Golf Club Poggio Dei Medici S.p.A. - Societa' Sportiva Dilettantistica	Joint-stock company	Italy		40.32	40.32	40.32
a	Gruppo Una S.p.A.	Joint-stock company	Italy	100		100	100
a	Hotel Terme Di Saint Vincent S.r.l.	Limited liabilities company	Italy		100	100	100
b	Hotel Villaggio Citta' Del Mare S.p.A. in liquidazione	Joint-stock company	Italy	49		49	49
a	Incontra Assicurazioni S.p.A.	Joint-stock company	Italy	51		51	51
b	Isola S.c.a.	Société en commandite par actions	Luxembourg	29.56		29.56	29.56
a	Ital H&R S.r.l.	Limited liabilities company	Italy	100		100	100
a	Italresidence S.r.l.	Limited liabilities company	Italy		100	100	100
a	Leitha' S.r.l.	Limited liabilities company	Italy	100		100	100
a	Marina Di Loano S.p.A.	Joint-stock company	Italy	100		100	100
a	Meridiano Secondo S.r.l.	Limited liabilities company	Italy	100		100	100
a	Midi S.r.l.	Limited liabilities company	Italy	100		100	100
a	Nuove Iniziative Toscane S.r.l.	Limited liabilities company	Italy	100		100	100
b	Pegaso Finanziaria S.p.A.	Joint-stock company	Italy		45	45	45
b	Penta Domus S.p.A.	Joint-stock company	Italy	24.66		24.66	24.66
a	Popolare Vita S.p.A.	Joint-stock company	Italy	50		50	50
a	Pronto Assistance Servizi S.c.a r.l.	Limited liabilities company	Italy	95.34	4.56	99.90	99.90
a	Pronto Assistance S.p.A.	Joint-stock company	Italy	100		100	100
a	Sai Mercati Mobiliari S.p.A. in liquidazione	Joint-stock company	Italy	100		100	100
b	Servizi Immobiliari Martinelli S.p.A.	Joint-stock company	Italy	20		20	20
a	Siat-Società Italiana Assicurazioni e Riassicurazioni S.p.A.	Joint-stock company	Italy	94.69		94.69	94.69
a	Società Edilizia Immobiliare Sarda - S.E.I.S. - S.p.A.	Joint-stock company	Italy	51.67		51.67	51.67
a	Sogeint S.r.l.	Limited liabilities company	Italy	100		100	100
a	Tenute Del Cerro S.p.A. - Societa' Agricola	Joint-stock company	Italy	98.81	1.19	100	100
a	The Lawrence Life Assurance Company DAC	Designated Activity Company	Ireland		100	100	100

Type (1)	Name	Legal form	Registered office	Portion held			Exercisable voting rights
				Direct %	Indirect %	Total	
b	Ufficio Centrale Italiano S.c.a r.l.	Limited liabilities consortium	Italy	37.76	0.1	37.76	37.76
a	UniAssi Team S.r.l.	Limited liabilities company	Italy	65		65	65
b	Unipol Banca S.p.A.	Joint-stock company	Italy	42.25		42.25	42.25
a	UnipolRe DAC	Designated Activity Company	Ireland		100	100	100
a	UnipolSai Finance S.p.A.	Joint-stock company	Italy	100		100	100
b	UnipolSai Investimenti SGR S.p.A.	Joint-stock company	Italy	49		49	49
a	UnipolSai Nederland Bv	Besloten vennootschap	The Netherlands	100		100	100
a	UnipolSai Servizi Consortili Societa' Consortile a Responsabilita' Limitata	Limited liabilities consortium	Italy	98.23	1.51	99.74	99.74
a	UnipolSai Servizi Previdenziali S.r.l.	Limited liabilities company	Italy	100		100	100
a	UniSalute Servizi S.r.l.	Limited liabilities company	Italy		100	100	100
a	UniSalute S.p.A.	Joint-stock company	Italy	98.53		98.53	98.53
a	Villa Ragionieri S.r.l.	Limited liabilities company	Italy	100		100	100

Key

a: Subsidiary

b: Associate

Relations with Group companies

The areas of UnipolSai Assicurazioni that provide the most economically significant services to Group companies are as follows:

- Governance (services supporting internal control, risk management and compliance);
- Anti-money laundering and Anti-terrorism;
- Financial;
- Controls pursuant to Legislative Decree No. 231;
- Chief Economist & Innovation Officer;
- Communications and Media Relations;
- External Relations;
- Assessment of Investments;
- Human Resources and Organisation (personnel administration, external selection, training, development, remuneration systems, personnel management, trade union relations, employee disputes, employee welfare, safety and organisation);
- Legal (corporate affairs, Group legal, anti-fraud, institutional response, legal insurance consulting, privacy, general legal and disputes, corporate legal, complaints, management of investments);
- Claims Settlement;
- Insurance (regulatory management of distribution networks, MV tariffs and portfolio management, reinsurance, marketing, bancassurance Life business unit);
- IT services;
- Actuarial Function Validation;
- Administration (accounting, tax, administrative and financial statements services, management control, purchases and general services);

- Real Estate (coordination of urban planning processes, real estate asset and investment management, portfolio trading, value added, portfolio core, project & construction management, tenders and contracts, logistics and real estate services, facility management, tax and duty property management, real estate appraisals and property management).

These services are charged to the Group companies using the allocated cost method, with the exception of Financial Management, whose consideration is calculated by applying a commission to the assets managed and for some services relating to real estate asset management that require fixed prices.

UniSalute performs the following services in favour of UnipolSai Assicurazioni:
- managing addressing services, providing medical advice and assistance by telephone, making bookings, managing and settling claims relating to specific guarantees/products on behalf of the Company;
- policyholder record updating services and administrative services associated with the payment of health policy claims.

SIAT - *Società Italiana Assicurazione e Riassicurazioni* performs the following services in favour of UnipolSai Assicurazioni:
- technical assistance in the negotiation and stipulation of transport and aviation contracts;
- portfolio services for agreements in the transport sector;
- administrative support in the relationships with insurance counterparties.

Directly or through qualified third-party suppliers AlfaEvolution Technology is in charge of the supply and industrial management at the network of installers and agencies of "black boxes", providing connectivity and data transmission services, online data management and additional services that may be activated on the installed devices.

Auto Presto & Bene performs car repair services for UnipolSai Assicurazioni.

UnipolSai Servizi Previdenziali, performs administrative management of open pension funds on behalf of UnipolSai.

UnipolRe carries out for UnipolSai Assicurazioni administrative and accounting services for inwards and outwards reinsurance.

UnipolSai Investimenti administers on behalf of UnipolSai the units of property funds set up by third-party asset managers, owned by UnipolSai Assicurazioni.

Leithà provides, in favour of UnipolSai, innovative services with high technological value and study and analysis of data to support the development of new products and processes and business evolution, including the necessary preparatory and instrumental activities for the realisation of the Research Project, and, possibly the development of operating system software, operating systems and applications and database management pertaining to the Research Project.

Pronto Assistance Servizi provides the following services for the consortium member companies:
- organisation, provision and 24/7 management of services provided by the assistance insurance coverage, by taking the action requested and managing relations with professionals and independent suppliers to which the material execution of the action is assigned, also including settlement of the related remuneration. As part of the Tourism claims management, in addition to the provision of normal Assistance services, Pronto Assistance Servizi, at the request of an individual consortium member will be able to advance medical expense payments on behalf of that member.
- Contact centre activities for customers, specialists and agencies of the Group, whose services consist in:
  - providing front office services to existing or potential customers at all stages of relations with the consortium members and their respective sales networks, or to any intermediaries acting on their behalf (brokers, banks);
  - providing after-sales services on policy statuses or on any transactions that can be made on existing policies;
  - providing customer services;
  - providing support services to the agency network in relations with customers and consortium members;
  - providing contact centre services dedicated to opening claims and related information requests.

UnipolSai Servizi Consortili continued to manage supply and service activities with regard to:

- Logistic and organisational services;
- General services;
- Communications, image and brand management.

The transactions described above were concluded in compliance with applicable regulations, i.e. the cases set out in Art. 2391 of the Civil Code (Directors' interests), the Guidelines on intragroup transactions and the regulations of transactions with related parties.

Moreover, it is noted that UnipolSai conducts the following transactions with Group companies:

- normal insurance and reinsurance transactions;
- leasing of property;
- agency mandates;
- secondment of personnel.

These transactions, which do not include atypical or unusual transactions, are settled at normal market conditions.

Please see what is reported below in the Significant events in 2017 section for a description of the extraordinary transactions carried out with Group companies.

Lines of Business

The Company carries out insurance and re-insurance activities both in the Non-Life sector, and in the Life sector and operates in the following Lines of Business ("LoB"), as specified in Annex I of the Delegated Regulation 2015/35:

Line of business Non-Life/Life

	NON-LIFE	
A	Non-Life insurance obligations	
1	*Medical expense insurance*	Medical expense insurance obligations where the underlying business is not pursued on a similar technical basis to that of life insurance.
2	*Income protection insurance*	Income protection insurance obligations where the underlying business is not pursued on a similar technical basis to that of life insurance, other than obligations included in line of business 3.
4	*Motor vehicle liability insurance*	Insurance obligations which cover all liabilities arising out of the use of motor vehicles operating on land (including carrier's liability).
5	*Other motor insurance*	Insurance obligations which cover all damage to or loss of land vehicles (including railway rolling stock).
6	*Marine, aviation and transport insurance*	Insurance obligations which cover all damage or loss to sea, lake, river and canal vessels, aircraft, and damage to or loss of goods in transit or baggage irrespective of the form of transport. Insurance obligations which cover liabilities arising out of the use of aircraft, ships, vessels or boats on the sea, lakes, rivers or canals (including carrier's liability).
7	*Fire and other damage to property insurance*	Insurance obligations which cover all damage to or loss of property other than those included in the lines of business 5 and 6 due to fire, explosion, natural forces including storm, hail or frost, nuclear energy, land subsidence and any event such as theft.
8	*General liability insurance*	Insurance obligations which cover all liabilities other than those in the lines of business 4 and 6. (9)
9	*Credit and suretyship insurance*	Insurance obligations which cover insolvency, export credit, instalment credit, mortgages, agricultural credit and direct and indirect suretyship.
10	*Legal expenses insurance*	Insurance obligations which cover legal expenses and cost of litigation.
11	*Assistance*	Insurance obligations which cover assistance for persons who get into difficulties while travelling, while away from home or while away from their habitual residence.
12	*Miscellaneous financial loss*	Insurance obligations which cover employment risk, insufficiency of income, bad weather, loss of benefit, continuing general expenses, unforeseen trading expenses, loss of market value, loss of rent or revenue, indirect trading losses other than those mentioned above, other financial losses (non-trading) as well as any other risk of non-life insurance not covered by the lines of business 1 to 11.
B	Proportional non-life reinsurance obligations	
13-24	Proportional reinsurance obligations which relate to the obligations included in lines of business 1 to 12 respectively.	
C	Non-proportional non-life reinsurance obligations	
25	*Non-proportional health reinsurance*	Non-proportional reinsurance obligations relating to insurance obligations included in lines of business 1 to 3
26	*Non-proportional casualty reinsurance*	Non-proportional reinsurance obligations relating to insurance obligations included in lines of business 4 and 8.
27	*Non-proportional marine, aviation and transport reinsurance*	Non-proportional reinsurance obligations relating to insurance obligations included in line of business 6.
28	*Non-proportional property reinsurance*	Non-proportional reinsurance obligations relating to insurance obligations included in lines of business 5, 7 and 9 to 12.
	LIFE	
D	Life insurance obligations	
30	*Insurance with profit participation*	Insurance obligations with profit participation.
31	*Index-linked and unit-linked insurance*	Insurance obligations with index-linked and unit-linked benefits.
32	*Other life insurance*	Other life insurance obligations.
E	Life reinsurance obligations	
36	*Life reinsurance*	Reinsurance obligations which relate to the obligations included in lines of business 30 to 32.

The Company operates mainly in Italy, although a marginal part of the premiums is collected in some EU and non-EU countries under the freedom to provide services. Please see Par. A.2, which deals with the underwriting activity performance, for a breakdown of the results in terms of lines of business and geographic areas.

Significant events in 2017

Project for streamlining the insurance sector

On 29 June 2017, the Boards of Directors of Unipol and UnipolSai approved a project that aims to definitively streamline the insurance sector of the Unipol Group, as part of which, on 16 November 2017, after obtaining the necessary authorisations from the Supervisory Authority, Unipol sold to UnipolSai the equity investments it held in:

- UniSalute S.p.A., an insurance company specialised in the health segment (the top insurance company in Italy by number of customers managed), equal to 98.53% of the share capital, for consideration of €715m, and
- Compagnia Assicuratrice Linear S.p.A. ("Linear"), an insurance company specialised in the direct sale of Non-Life products, in particular MV, equal to the entire share capital, for consideration of €160m.

The considerations of the aforementioned disposals were determined within the *range* of values identified with the support of Mediobanca - Banca di Credito Finanziario S.p.A. and JP Morgan Limited, in the capacity of financial advisors, respectively for Unipol and UnipolSai, by applying the estimation methodologies normally used in accordance with the best Italian and international valuation practices.

As part of the insurance sector streamlining project noted above, the Boards of Directors of Unipol and UnipolSai approved the disposal of Arca Vita to UnipolSai for consideration of €475m on 22 March 2018. In this regard, please note that in November 2017 Unipol Gruppo S.p.A., BPER Banca S.p.A. and Banca Popolare di Sondrio S.c.p.A. agreed to the early renewal of their strategic bancassurance partnership in the Life and Non-Life segments launched in 2009, the natural maturity of which was 31 December 2019. The new agreements entered into will have a duration of five years, starting on 1 January 2018, and will be renewable again upon agreement between the parties.

The Project is meant to aggregate the entire insurance business referring to the Unipol Group under the control of UnipolSai, with a number of benefits in terms of consistency and effectiveness in policy governance and in the organisational and operational coordination of the overall insurance activity. In particular, the Project will facilitate the development of an integrated multichannel offer model, meant to take into account the evolution of consumer conduct and requirements, while also maintaining the identity and corporate autonomy of the individual companies which operate as the top market leaders in their respective reference sectors.

Banking sector restructuring plan

On 29 June 2017, the Board of Directors of Unipol, in its capacity as Parent Company of the banking group of the same name, approved the guidelines of a Group banking sector restructuring plan (the "**Restructuring Plan**" or the "**Plan**"), which envisaged the transfer by means of proportional partial spin-off of Unipol Banca S.p.A. (henceforth, "**Unipol Banca**" or the "**Company being divided**") in favour of a newly established company ("**NewCo**" or the "**Beneficiary**"), of a company complex inclusive, inter alia, of a portfolio of bad and doubtful loans of the Bank (the "**Bad and Doubtful Loans**"), gross of valuation reserves, for an amount of roughly €3bn, after (i) the adjustment of their value in accordance with the conditions currently prevailing in the market for disposal transactions, and (ii) the strengthening of the average rate of coverage of loans classified as "unlikely to pay" and those classified as "past due", which will remain within Unipol Banca, to the best levels of the banking industry.
These Bad and Doubtful Loans corresponded to the entire portfolio of bad and doubtful loans of the Bank at the date of approval of the half-yearly report at 30 June 2017, with the exclusion of those deriving from loans for leases and unsecured commitments.

The transfer of the above-mentioned company complex (the "**Company Complex**"), inclusive of the stock of Bad and Doubtful Loans, to a separate business specialised in the collection of these positions, will enable:

- Unipol Banca, as a result of the transfer of the Bad and Doubtful Loans and the strengthening of rates of coverage on other impaired loans:

- to focus on its core activities with a financial position and a reduced risk profile, a necessary condition to guarantee potential growth in profitability for the benefit of all stakeholders;
- to obtain risk indicators (NPL ratio) at excellent levels within the scope of the domestic banking system;

- the entire Unipol Group:
  - to increase the efficiency of credit collection activities, thanks to specialised structures which are completely dedicated to this activity. In this regard, in line with what was approved by the Board of Directors of the Parent Company Unipol on 22 December 2016, Unipol Banca established the special purpose vehicle Unipol Reoco S.p.A. ("**Reoco**"), wholly owned by the Bank and now included within the scope of the spin-off in favour of the NewCo, which is called upon to concentrate on the acquisition, valuation and sale of the real estate assets pledged as collateral against the Bad and Doubtful Loans, in order to facilitate their recovery;
  - to keep with NewCo, and as a result within the Group, the value linked to the future recovery of the Bad and Doubtful Loans, also through any future assignments to third parties on the basis of economic conditions deemed consistent, thus avoiding a large-scale assignment of non-performing loans to third party investors which could result in a significant transfer of value outside the Group;
  - to thus facilitate the pursuit of all possible strategic options that may arise within the process of streamlining and concentration of the Italian banking system.

On 18 July 2017, Unipol transmitted to UnipolSai Assicurazioni S.p.A. ("**UnipolSai**") and to Unipol Banca a specific note describing the activities and phases for carrying out the Plan which is broken down into the following transactions (overall, the "**Transaction**"):

i) an increase in rates of coverage of existing impaired loans, taking into account the changed outlooks for their realisation;

ii) signing on 3 August 2011 by Unipol and Unipol Banca of an agreement for the early dissolution of the indemnity agreement currently in place on non-performing loans meant to be included in the Bad and Doubtful Loans subject to transfer;

iii) following the completion of the transactions described above, the disbursement by Unipol and UnipolSai of capital account payments in favour of the Bank for a total of €900m, in proportion with the stakes in the share capital of Unipol Banca held by the same shareholders, in order to replenish the Bank's capital in line with the capital ratios existing before the adjustments pursuant to the previous point (i), also taking into account the capital of the bank that will be allocated to NewCo at the time of the Spin-Off;

iv) following the transactions described above, the proportional partial spin-off of Unipol Banca in favour of NewCo (the "**Spin-Off**"), through the spin-off in favour of the latter, with continuity of carrying amounts, of the Bank's Company Complex consisting essentially (i) in the assets: of Bad and Doubtful Loans (along with specialised personnel for the management and processing of such Bad and Doubtful Loans and the functional contracts), the 100% stake in Reoco and deferred tax assets relating to the Company Complex; and (ii) in the liabilities: of shareholders' equity and several payables relating to the Company Complex, including the payable deriving from the Shareholder Loan to be disbursed to the Bank within the context of the Transaction, subsequent to obtaining the authorisation for the Spin-Off from the Bank of Italy and before the completion thereof.

The Boards of Directors of UnipolSai and Unipol Banca, which met on 27 and 28 July 2017, respectively, examined and approved the Transaction as outlined by the Parent Company Unipol and, as a result of the resolutions they passed, the following transactions were completed:

- on 31 July 2017, Unipol and Unipol Banca entered into the **Agreement for the early Termination of the credit indemnity agreement**, signed on 3 August 2011 and subsequently amended, effective as of 30 June 2017, defining the indemnity due from Unipol to Unipol Banca as €670.4m. A first tranche equal to €170.4m was paid by Unipol to Unipol Banca on the same date. The remaining €500m will be paid in 10 annual instalments of €50m each, on 31 July each year from 31 July 2018, plus deferred interest to be calculated at an annual rate of 2.75% per year and without prejudice, for Unipol, to the right to early payment of the residual amount in a lump sum on each annual interest payment date;

- on 31 July 2017, Unipol and UnipolSai Assicurazioni made a **non-repayable capital account contribution** (which therefore will not be repeated and is not reimbursable) to Unipol Banca for a total of **€900m**, respectively for €519.74m and €380.26m, in order to (i) replenish the capital of Unipol Banca in line with the Bank's capital ratios preceding the write-downs on loans recognised at 30 June 2017, also taking into account the capital of the Bank which will be allocated to the NewCo at the time of the Spin-Off. As these payments are not repayable, they are eligible for calculation for supervisory purposes amongst the elements of the bank's individual highest quality own funds (CET 1).
- Pursuant to the put/call option contract in place between Unipol and UnipolSai on a share of 27.49% of the share capital of Unipol Banca, the put exercise price of €331.6m at 30 June 2017 increased by the amount paid by UnipolSai in favour of Unipol Banca by way of payment of the capital account contribution with no right to reimbursement. At 31 December 2017 the option exercise price is therefore equal to €579.1m. Please recall that the five-year option contract will expire on 6 January 2019.
- on 2 August 2017, Unipol Banca approved the **Project for the proportional partial spin-off**, in favour of a NewCo, of a company complex (the "**Complex involved in the division**") inclusive, inter alia, of a portfolio of bad and doubtful loans in the amount of €2,936m, gross of value adjustments, and €587m net of value adjustments. The amount of the Bad and Doubtful Loans included in the Complex involved in the division was determined on the basis of Unipol Banca's half-yearly accounting statement at 30 June 2017, after the (i) adjustment of the value of the Bad and Doubtful Loans, in accordance with conditions prevailing in the market for disposal transactions, and (ii) the strengthening of the average rate of coverage of unlikely to pay positions, which remained within Unipol Banca, to the best levels of the banking system.
- on 31 January 2018, before the Spin-Off became effective, Unipol and UnipolSai disbursed a **shareholder loan** to Unipol Banca for €173.2m and €126.8m, respectively, and therefore a **total of €300m** which, as envisaged in the Spin-Off Plan, was included in the Complex involved in the division transferred to the NewCo;
- on 1 February 2018 (the "**Effective Date**"), once the Bank of Italy had released specific approval on 30 October 2017, the proportional spin-off took effect of Unipol Banca to UnipolReC S.p.A. ("**UnipolReC**"), a credit recovery company operating pursuant to Article 115 of Italian Royal Decree 773 of 18 June 1931 (TULPS), established on the same date. UnipolReC has the same shareholders as Unipol Banca in the same proportions, i.e., Unipol holds 57.75% and UnipolSai 42.25%, and is a special purpose vehicle of the Unipol Banking Group. The Complex involved in the division was transferred from Unipol Banca to UnipolReC for a shareholders' equity value of €313.2m, comprising €290.1m share capital and around €23m capital reserves. As a result of the Spin-Off, the share capital and capital reserves of Unipol Banca reduced by corresponding amounts, with no change in the number of Unipol Banca shares without nominal value outstanding. Pursuant to the contractual agreements in force, the put/call option referenced above, in place between Unipol and UnipolSai and involving Unipol Banca shares, was automatically extended to UnipolReC shares issued at the time of the Spin-Off for a share corresponding to 27.49%, without triggering any changes on the total put exercise price;
- on 15 March 2018, Unipol Banca and UnipolRec entered into a dedicated deed recognising the exact amount of the statement of financial position asset and liability elements transferred to the Beneficiary Company at the Effective Date, which lays out an adjustment in cash of €32.2m, due to UnipolReC from Unipol Banca. Indeed, the Spin-Off deed calls for the differences arising in the amount of the statement of financial position asset and liability elements constituting the Complex involved in the division between 30 June 2017 and the Effective Date, resulting from company trends and/or a more specific identification of such elements, to be settled between the Company being divided and the Beneficiary Company with debit and credit items and/or with adjustments in cash, without entailing changes in the equity value of the Complex involved in the division. The amount of Bad and Doubtful Loans included in the Complex involved in the division at the Effective Date is equal to €2,900.8m gross of value adjustments and €553.0m net of value adjustments.

As a result of the above, with effect from 30 June 2017 Unipol Banca and the Unipol Group amended the model for the management of impaired loans, with regard not only to the Bad and Doubtful Loans subject to transfer to UnipolReC, but also to the remaining NPL portfolio existing at the same date and meant to remain with the Bank after the Spin-Off, with a view to facilitating their recovery within a more limited time horizon, also through any future realisation transactions other than the ordinary management of the relationship with the debtor.
In line with the changed model for the management of the existing NPL portfolio, the estimation criteria applied in the valuation of loans were revised, with the recognition of significant value adjustments.
As a result of what is laid out above, Unipol Banca closed the financial statements at 31 December 2017 with a net loss for the year of €752m. Consequently, UnipolSai wrote down the equity investment held in the associated company by a total amount of €92.8m, taking into account the effects of the put/call option on Unipol Banca shares.

Evolution of the agreements relating to the subsidiary Popolare Vita

On 29 June 2017, the UnipolSai Board of Directors approved the termination of the Distribution Agreement in place between the subsidiary Popolare Vita S.p.A. ("Popolare Vita" or the "Company") and Banco BPM S.p.A. and, consequently, the exercise of the put option available to UnipolSai on the basis of the shareholders' agreement (the "Agreement") in place with Banco BPM, concerning the equity investment held by UnipolSai in Popolare Vita, equal to 50% of its share capital plus one share. The equity investment sale price was determined, as prescribed in the Agreement, on the basis of a specific procedure which, inter alia, referred the definition of the consideration to two independent experts identified for this purpose (a business bank or a leading auditing firm and an actuarial expert), applying the methodologies defined in the Agreement.
BDO Italia S.p.A. and BDO AG Wirtschaftsprüfungsgesellschaft – Actuarial Services, engaged to determine, pursuant to the shareholders' agreements in force, the price to be paid by Banco BPM S.p.A. for the acquisition of the equity investment held by UnipolSai in Popolare Vita, issued their final report on 14 November 2017, determining the total value of the Company at 30 June 2017 as €1,071m and, as a result, the sale price of the 21,960,001 shares of Popolare Vita held by UnipolSai as €535.5m, confirming the appraisal contained in the draft report transmitted to UnipolSai and to Banco BPM on 27 October 2017.

Taking into account the distribution of freely available profit reserves of Popolare Vita S.p.A., approved unanimously by the shareholders' meeting on 30 June 2017 (share attributable to UnipolSai equal to €53.4m), the total income referring to the disposal of the equity investment held by UnipolSai amounts to €588.9m.
On 29 March 2018, after the necessary authorisations were obtained from the Supervisory Authority, the disposal of the Popolare Vita equity investment was completed with the resulting collection of the price of €535.5m.

Acquisition of the equity investment in Ambra Property by the parent company Unipol

On 30 June 2017, UnipolSai and Unipol Gruppo stipulated the preliminary sale agreement, pertaining to the acquisition by UnipolSai of the equity investment equal to 100% of the share capital of Ambra Property S.r.l., already owned by Unipol Gruppo. Having obtained authorisation from IVASS, on 29 September 2017, with effective date 30 September 2017, the deed of sale of the equity investment was stipulated, upon payment by UnipolSai of the purchase price, i.e. €56.2m.

A.2 Underwriting performance

Non-Life insurance business

In the MV sector, premiums declined primarily as a result of the decrease in average premiums and, in part, in the customer portfolio, only partially offset by growth in the Land Vehicle Hulls segment (other motor insurance).
In any event, the year ended with an improved technical result in the MV TPL class especially owing to the drop in claims frequency, while some significant atmospheric events in the second half of the year contributed to a large extent to the decline in Land Vehicle Hulls.

In the other classes, the premium growth trend recorded already in the first half of the year was confirmed, although the year was characterised by significant atmospheric events occurring throughout the country as well as some considerable claims impacting Fire benefits.

With regard to claims reported, during the year 2,213,799 claims were received for all Non-Life classes, a decrease of 5.1% from those received in 2016.
In 2017 the Claims Department managed for the Company 1,368,253 claims reported during the year (of which nearly 79% have already been settled with payment) in addition to 499,085 claims from previous years existing at 1 January or reopened (of which more than 62% already settled with payment). The average cost (amount paid plus amount reserved) for claims reported declined by 0.7% in 2017 (-1.2% in 2016). The average cost of the amount paid out rose by 2.0%.

The "combined ratio" (including oti ratio), which also includes operating expenses, came to 96.3% of premiums for the year, unchanged compared to 2016 (96.3%).

We describe below the qualitative and quantitative results of the underwriting activities of the company, both at the aggregate level, and by line of business / geographic area in which the activities were carried out during the reference period.

The table below shows the amounts recorded for premiums written, premiums earned, claims incurred, changes in other technical provisions and expenses, broken down by line of business, to match the quantitative model ("Quantitative Reporting Template" or "QRT") S.05.01.02. "Premiums claims and expenses by LoB", which can be found among the annexes of this report.

To provide a better understanding of the "underwriting performance" object of this disclosure with respect to data reported in the financial statements, we note the following:

- "premiums written" include the premiums written in the reference period, net of the reversals and profit participation, as well as reversals of premiums issued during the year;
- "premiums earned" include, in addition to premiums written, the change in pro rata premium provision and the provision for unexpired risks. For the Life business, the change in the provision for premiums brought forward is included;
- "claims incurred" includes all charges related to claims paid out and the change in the provision for direct reimbursements and expenses, while, in compliance with the specific directions provided by legal and regulatory provisions, this item does not include the settlement expenses and the corresponding change in the provision for settlement expenses. This item also includes contributions of a technical nature, such as, for example, the fund for victims of road accidents, the legal defence costs, the amounts recovered or to be recovered from third parties for deductibles and/or reimbursements and some specific technical charges that by nature may be treated as claim expenses (for example the contribution to the management of TPL claims);
- the "changes in other technical provisions" includes all other provisions not included in the previous item. For the Life business, the change in the mathematical provisions and the Class D provisions were also allocated to this item;
- the "expenses incurred" include all expenses of the period directly related to the specific activity such as the commissions and any other acquisition charge, collection commissions, administrative expenses, investment management charges (which, in the financial statements, are reported in the non-technical account), some technical charges that for their nature may be treated as expenses, for example convention costs, the CARD contributions and management rights, as well as the settlement expenses and the change in the corresponding provision for expenses as required by reference provisions;

- all items, reported below, are shown net of the amount ceded under re-insurance agreements;
- in the case of net gains (losses) and/or other income statement items (e.g. changes in provisions) that can take values both positive and negative, the negative figures represent a cost for the Company.

If it is believed to be useful for a clearer description, as required by Art. 307 of the Regulation, in the rest of the paragraph we will comment on the underwriting performance of the main LoBs, bringing their perimeters back to those identified on the basis of activity classes ("Classes") identified in the Insurance Code, Legislative Decree 7 September 2005, No. 209, Art. 2;

Non-life underwriting performance 2017

Amounts in €k	Line of business	Premiums written (a)	Premiums earned (b)	Claims incurred (c)	Changes in other techcnical provisions (d)	Expenses incurred (e)	Other expenses (f)	Underwriting performance (g)=(b)-(c)+(d)-(e)-(f)
Insurance and reinsurance obligations (direct business and accepted proportional reinsurance)	1- Medical expense insurance	232,116	221,642	112,614	2,520	100,032		11,516
	2-Income protection insurance	542,204	543,243	226,146	(1,143)	207,013		108,941
	3-Workers' compensation insurance							
	4-Motor vehicle liability insurance	3,267,628	3,287,930	2,198,092		1,050,864		38,973
	5- Other motor insurance	622,550	611,104	383,710	(1,359)	203,441		22,594
	6-Marine, aviation and transport insurance	17,890	17,983	11,565	(67)	15,571		(9,219)
	7-Fire and other damage to property insurance	1,025,810	1,008,409	639,629	(25,798)	459,282		(116,301)
	8-General liability insurance	664,622	663,895	295,411		307,544		60,940
	9-Credit and suretyship insurance	26,593	21,725	13,060	8,547	31,370		(14,158)
	10-Legal expenses insurance	13,275	11,055	6,756		(12,206)		16,505
	11-Assistance	17,340	16,093	6,321		6,940		2,833
	12-Miscellaneous financial loss	57,486	58,865	21,399	(11)	24,350		13,105
Accepted non-proportional reinsurance	13- Health	228	228	(450)				678
	14-Casualty	991	991	617				374
	15-Marine, aviation and transport							
	16-Property	250	250	248	202			204
	Total	6,488,984	6,463,413	3,915,119	(17,109)	2,394,201	0	136,984

Non-life underwriting performance 2017 and 2016

Amounts in €k	Line of business	Underwriting performance 2017	Underwriting performance 2016	Change on 2016
Insurance and reinsurance obligations (direct business and accepted proportional reinsurance)	1- Medical expense insurance	11,516	42,645	(31,129)
	2-Income protection insurance	108,941	108,618	323
	3-Workers' compensation insurance			
	4-Motor vehicle liability insurance	38,973	(25,855)	64,829
	5- Other motor insurance	22,594	42,605	(20,011)
	6-Marine, aviation and transport insurance	(9,219)	(5,846)	(3,373)
	7-Fire and other damage to property insurance	(116,301)	(6,871)	(109,430)
	8-General liability insurance	60,940	(25,056)	85,996
	9-Credit and suretyship insurance	(14,158)	(5,903)	(8,255)
	10-Legal expenses insurance	16,505	14,380	2,124
	11-Assistance	2,833	15,496	(12,663)
	12-Miscellaneous financial loss	13,105	13,219	(115)
Accepted non-proportional reinsurance	13- Health	678	(512)	1,190
	14-Casualty	374	1,023	(650)
	15-Marine, aviation and transport		(4)	4
	16-Property	204	1,075	(871)
	Total	**136,984**	**169,015**	**(32,030)**

Premiums written, equal to €6,488,984k (€6,545,659k at 31/12/2016), include premiums related to the gross direct (€6,891,445k compared to €6,954,308k at 31/12/2016) and indirect business (€9,175k compared to €7,994k at 31/12/2016), net of the premiums ceded and retroceded (€411,636k compared to €416,643k at 31/12/2016).

Premiums earned were €6,463,413k (€6,598,511k at 31/12/2016), corresponding to premiums for gross direct (€6,867,584k compared to €7,016,234k at 31/12/2016) and indirect business (€9,454k compared to €9,829k at 31/12/2016), net of premiums ceded and retroceded (€413,625k compared to €427,552k at 31/12/2016).

Claims incurred were €3,915,119k (€4,013,584k at 31/12/2016), of which €4,078,219k related to the gross direct business (€4,197,191k at 31/12/2016) and €6,308k to the indirect business (€1,677k at 31/12/2016), net of claims ceded and retroceded (€169,408k compared to €185,284k at 31/12/2016). There were no significant variances in the change in the component of other technical provisions.

Expenses incurred were €2,394,201k, substantially in line with the figure from the previous year (€2,393,110k), of which:

- administrative expenses were €335,731k (€364,282k at 31/12/2016);
- expenses for the management of investments were €30,971k (€27,906k at 31/12/2016);
- expenses for the management of claims were €420,639k (€393,813k at 31/12/2016);
- acquisition costs were €1,148,456k (€1,119,544k at 31/12/2016), of which €1,819k relating to indirect business, net of the reinsurers' share equal to €149,913k (€142,700k at 31/12/2016);
- overheads were €458,404k (€487,566k at 31/12/2016).

Overall, the Non-Life business had positive underwriting performance of €136,984k (€169,015k at 31/12/2016), mainly due to the positive underwriting performance broken down by LoB as shown in the previous tables.

We provide below some brief comments on the underwriting performance of the main LoBs.

The positive performance in LoB 1 and 2 is due, although with a different segmentation, to the favourable performance of the corresponding Accidents and Health Classes. In particular, in the Accident Class, in the segment of the retail products the commercial initiatives and the sales campaigns activated positively sustained the new business, offsetting the contraction of the portfolio, influenced by a still significant number of cancellations. Within the scope of collective risks of note are both new, important acquisitions and a negative trend on contract cancellations, together with the reduction of already existing coverage of significant value. The number of claims decreased thanks to the strict subscription policies and to the disposal of some high frequency cumulative contracts.
As regards the Health class, the premiums of the class grew slightly, mostly because of the Households and Small and Medium Enterprises sectors, in which the sales initiatives, directed both at maintaining the contracts in the portfolio and at acquiring new customers, were met with good success.
The reduction in the number of claims and costs is mostly a consequence of the transfer of some major contracts to the subsidiary UniSalute, a specialist company of the group in the class, but it is also due to the improvement in the Household and Small and Medium Enterprises sectors, in which the constant action to reform the portfolio with the introduction of the silent extension exclusion clause in nearly all contracts, made it possible to obtain the right equilibrium between guarantees issued, age of the policyholders and cost of the coverage.

The positive underwriting performance of €38,973k (negative at €25,855k in 2016) for LoB 4 (Motor vehicle liability insurance), corresponding to Class 10 (TPL land vehicles), is instead mainly due to the decrease in the frequency of the claims and total costs on the decline, which basically caused the improvement in the technical result, although there was a decrease in premiums in line with market trends.

The positive performance in LoB 5 (Other motor insurance), corresponding to Class 3, is due to an increase in premiums, made possible by favourable market conditions, related to the recovery in new vehicle registrations and the resulting gradual rejuvenation of the fleet on the road. The number of claims increased as a result of the numerous, severe atmospheric events that took place during the year.

For LoB 7 (Fire and other damage to property), corresponding to Class 8 (Fire) and Class 9 (Other damage to property), the underwriting performance, significantly negative, was primarily due:

- as regards the Fire component, to an increase in claims associated with the atmospheric events that struck various regions in the second half of the year, and several claims of considerable size, in part for which compensation has already been provided;
- in the Other damage to property class, while on one hand there was a good increase in premiums, as regards of claims, for the Hail class there were significant frost phenomena taking place in April 2017 and in subsequent months, damages from atmospheric events (hail but also drought) which caused a considerable rise in claims incurred.

Premiums in LoB 8, corresponding to Class 13 (General Liability Insurance) rose compared to the previous year, especially in the Corporate and Professionals segment, while the decline in premiums continued, also due to the decisions made by the company, in the public authorities segment. The careful selection of the risks has made possible a significant decrease in the number, as well as in the total cost, of claims.

Life insurance business

In the Life business, the contraction in premiums compared to the previous year was due mainly to the decline in premiums from traditional products connected to the segregated funds in Class I (-21.5%) and, to a lesser extent, in Class V (-5.8%) which stems from the decision to direct the flow of premiums to revaluable products, through a process of optimisation of the allocation on the segregated funds.
Starting from 2017, the single premium revaluable product UnipolSai Investimento Garantito was placed only through ad hoc campaigns, while the sale of the single premium revaluable Class V product UnipolSai Investimento Capital was limited only to policyholders represented by legal persons.
Consequently, the premiums from single premium policies declined by 23.1% compared to the premiums of 2016. First year premiums instead increased by 28.7%.

In the individual policies sector, the considerable increase in Class III premiums continued, recording significant growth (€194.6m versus €63.5m in the fourth quarter of 2016), as a result of the progressive shift of the Company's Life offer from traditional products to products with financial content, such as the multisegment products of the UnipolSai Gestimix line and the UnipolSai Energy line unit-linked products.

In 2017, the offer was enhanced with two new unit-linked products: "UnipolSai Risparmio Energy" and "UnipolSai Investimento PIR"; in addition, the offer of the UnipolSai Energy line was improved with three new internal funds.
Premiums on collective policies increased relative to 31 December 2016 (+10.7%) as a result in particular of growth in Class VI (+18.7%), particularly contracts with Occupational Pension Funds.
In class VI, there was also a significant increase in the amounts of benefits due essentially to the liquidation of two guaranteed funds for roughly €810m as the mandate had come to an end.

Life underwriting performance 2017

Amounts in €k	Line of business	Premiums written (a)	Premiums earned (b)	Claims incurred (c)	Changes in other techcnical provisions (d)	Expenses incurred (e)	Other expenses (f)	Underwriting performance (g)=(b)-(c)+(d)-(e)-(f)
Life insurance obligations	1-Health insurance							
	2-Insurance with profit participation	1,996,807	2,008,481	2,248,474	(335,764)	189,273		(765,030)
	3-Index-linked and unit-linked insurance	789,786	789,786	1,198,017	352,649	23,343		(78,924)
	4-Other life insurance	98,940	91,837	22,098	617	7,422		62,934
	5-Annuities stemming from non-life insurance contracts and relating to health insurance obligations							
	6-Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations							
Life reinsurance obligations	7-Health reinsurance							
	8-Life reinsurance	298	298	1,927	1,605	68		(91)
	Total	2,885,831	2,890,402	3,470,516	19,108	220,106		(781,111)

Life underwriting performance 2017 and 2016

Amounts in €k	Line of business	Underwriting performance 2017	Underwriting performance 2016	Change on 2016
Life insurance obligations	1-Health insurance			
	2-Insurance with profit participation	(765,030)	(777,789)	12,760
	3-Index-linked and unit-linked insurance	(78,924)	(90,030)	11,106
	4-Other life insurance	62,934	64,705	(1,771)
	5-Annuities stemming from non-life insurance contracts and relating to health insurance obligations			
	6-Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations			
Life reinsurance obligations	7-Health reinsurance			
	8-Life reinsurance	(91)	84	(175)
	Total	**(781,111)**	**(803,031)**	**21,920**

Premiums written, equal to €2,885,831k (€3,034,015k at 31/12/2016), include premiums related to the gross direct (€2,891,818k compared to €3,041,710k at 31/12/2016) and indirect business (€370k compared to €579k at 31/12/2016), net of the premiums ceded and retroceded (€6,356k compared to €8,274k at 31/12/2016).

Premiums earned were €2,890,402k (€3,041,388k at 31/12/2016), corresponding to premiums for gross direct (€2,896,388k compared to €3,049,083k at 31/12/2016) and indirect business (€370k compared to €579k at 31/12/2016), net of premiums ceded and retroceded (€6,356k compared to €8,274k at 31/12/2016).

Claims incurred were €3,470,516k (€2,504,947k at 31/12/2016), of which €3,478,055k related to the gross direct business (€2,517,840k at 31/12/2016) and €3,479k to the indirect business (€3,568k at 31/12/2016), net of claims ceded and retroceded (€11,019k compared to €16,461k at 31/12/2016).

The increase in other provisions totalled €19,108k (-€1,121,634k net at 31/12/2016), net of the share reinsured and retroceded equal to a cost of €7,580k, and consisted mainly of:
- the cost for the change in mathematical provisions for €340,700k (income of €894,173k at 31/12/2016);
- the income for the change in class D provisions for €359,808k (income of €308,472k at 31/12/2016);

The "expenses incurred" were €220,106k (€217,838k at 31/12/2016) and included:
- administrative expenses for €54,779k (€56,941k at 31/12/2016);
- expenses for the management of investments for €59,865k (€53,051k at 31/12/2016);
- expenses for the management of claims for €3,655k (€3,618k at 31/12/2016);
- acquisition costs for €30,683k (€30,583k at 31/12/2016), net of the reinsurers' share equal to €374k (€431k at 31/12/2016);
- overheads for €71,123k (€73,645k at 31/12/2016).

Overall, the Life business shows a negative performance for €781,111k (€803,031k at 31/12/2016).
This performance was due to a negative underwriting performance equal to €765,030k for the LoB "Insurance with profit participation" (Class I and Class V) and €78,924k of the LoB "Index-linked and Unit-linked Insurance" (Class III and VI) and the positive performance of €62,934k from the LoB "Other Life insurance" (Class IV). The result of indirect business, completely marginal in the life segment, was negative for €91k.

We note that, as required by legal and regulatory provisions, the positive and negative income items that produce the net underwriting performance of the Life business do not include the income of the financial assets to which the revaluation of the services provided to policyholders is linked; this is instead discussed in Par. A.3 Investment performance.

The policies in the LoB Insurance with profit participation, which record premiums written equal to €1,998,855k (€2,373,384k at 31/12/2016), have the most significant impact on total premiums of the Life business, showing the preference of customers for products offering financial protection such as the revaluable products.

The LoB Index-linked and Unit-linked Insurance, with premiums written for €789,786k (€568,319k at 31/12/2016), includes the activity for the management of mutual funds created for the provision of services in the case of death, in the case of life or in the case of discontinuance or curtailment of work activity and the insurance on the length of human life, whose main benefits are directly linked to the value of units of a UCITS, or the value of the assets in an internal fund or else to an index or other reference values.

The LoB "Other life insurance" also includes the premiums, claims, provisions and expense components deriving from "temporary insurance in the event of death", as required by regulations.

Geographic areas

As regards direct business, for all lines of business specified in Annex I to the Delegated Regulation (EU) 2015/35, information must be broken down by the country in which the contract was concluded, which is understood to be:

a) the country in which the insurance company (country of origin) is located, if the contract was not sold through a branch or under the freedom to provide services;
b) the country in which the secondary office (host country) is located, if the contract was sold through a branch;
c) the country in which the freedom to provide services (host country) was notified, if the contract was sold under the freedom to provide services.

Unlike what is specified above, direct insurance activity for LoB 1 Medical Expense (Classes 1 and 2), LoB 2 Income Protection (Classes 1 and 2), LoB 7 Fire and other damage to property (Classes 8 and 9) and LoB 9 Credit and suretyship (Classes 14 and 15), is reported by the country in which the risk is located.

For proportional and non-proportional re-insurance, the information is provided according to the country in which the transferring company is located.

We note, in this regard, that the Company carries out its insurance activity almost exclusively (more than 99% of premiums) in Italy.

A.3 Investment performance

As regards the management of financial investments, the general recovery in the global economy made it possible to overcome the numerous geopolitical tensions that arose in the course of 2017. The main equity markets recorded very positive performance and, despite the fact that the ECB has started to wind down its expansionary monetary policy, the Eurozone's government bond yields have remained at very limited levels.
Financial operations in 2017 were consistent with the Investment Policy guidelines adopted by the Company and with the recommendations of the Group Investments Committee and Financial Investments Committee. The criteria of high liquidity of investments and prudence were the guidelines of the investment policy, maintaining the necessary consistency with the liability profile. The investment policy applied the criteria of optimising the portfolio's risk-return profile. Operations in interest rate derivatives on the Life portfolio were functional to the optimisation of the ALM profile. Derivatives were marginally increased for the Non-Life portfolio to mitigate the risk of a rise in interest rates.

With a view to simplifying the asset portfolio, the reduction of level 2 and 3 structured securities according to the IFRS 13 hierarchy continued, both through sales and when the securities reached their natural maturity.
The year 2017 was also characterised by operations focused on bonds and stocks. There was a decrease in the weight of the investment in government securities while the exposure to bonds of non-government issuers, in particular financial corporate bonds. Of the activities carried out in this sector, 75% pertained to financial issuers and the remaining 25% to industrial issuers.
Exposure to equity instruments and to alternative instruments is increasing compared to the previous year.

With respect to real estate management, during the year the Company continued to renovate its owned property assets in order to subsequently leverage the refurbished properties with a view to leasing or use for business purposes. The projects are characterised by the use of technologies designed to maximise energy savings, including by relying on renewable energy.
Concerning sales, during the year the sale agreements of approximately 500 real estate units located in various areas of Italy were stipulated. The transaction was carried out ii) to further optimise the portfolio through the disposal of non qualifying properties; ii) to reduce management costs, given the number of property units involved; iii) to obtain savings on investments that would have been necessary for the renovation of such properties.
In addition, amongst other transactions, some properties located in Genoa (office), Milan (office/commercial), Naples (office) and Florence (residential), respectively, were sold for significant amounts, as were to the aforesaid units in Milan in Via Pantano 26 and residential units in Milan in Via Dei Missaglia (Le Terrazze complex), Via Oldofredi and Via Manin. Overall, in the course of the year, properties were sold for a total amount of approximately €190m.

The breakdown of current gains on assets and financial income and gains and losses on trading are shown in the table below, with separate indication of net income relating to investments for the benefit of policyholders that bear the risk arising from pension fund management (Class D).

Gains on investments and financial income

Amounts in €k	FY 2017	% Comp.	FY 2016	% Comp.	Variation 2017/2016 amount	%
Gains on investments and financial income						
Land and buildings	69,060	4.1	80,342	4.8	*(11,282)*	*(14.0)*
Shares and holdings	122,686	7.2	74,632	4.4	*48,054*	*64.4*
Bonds	1,333,270	78.7	1,392,920	82.5	*(59,649)*	*(4.3)*
Mutual investment fund units	71,656	4.2	36,493	2.2	*35,163*	*96.4*
Loans	11,699	0.7	12,217	0.7	*(519)*	*(4.2)*
Bank deposits	73	0.0	574	0.0	*(501)*	*(87.3)*
Bank and post office deposits	76	0.0	24	0.0	*52*	*212.8*
Sundry financial investments	84,189	5.0	91,593	5.4	*(7,403)*	*(8.1)*
Reinsurance deposits	535	0.0	528	0.0	*7*	*1.3*
Total (a)	**1,693,245**	**100.0**	**1,689,324**	**100.0**	***3,921***	***0.2***
Gains on sale						
Land and buildings	23,125	5.5	24,669	5.9	*(1,544)*	*(6.3)*
Shares and holdings	72,591	17.3	27,295	6.6	*45,296*	*165.9*
Bonds	221,434	52.8	296,092	71.4	*(74,658)*	*(25.2)*
Sundry financial investments	13,695	3.3	15,196	3.7	*(1,501)*	*(9.9)*
Mutual investment fund units	88,480	21.1	51,496	12.4	*36,984*	*71.8*
Total (b)	**419,324**	**100.0**	**414,747**	**100.0**	**4,577**	**1.1**
Total (a+b)	**2,112,569**		**2,104,070**		**8,499**	**0.4**
Reversals on investments						
Land and buildings						
Shares and holdings	11,739	8.2	10,637	10.0	*1,102*	*10.4*
Bonds	106,747	75.0	78,204	73.6	*28,542*	*36.5*
Sundry financial investments	7,288	5.1	10,353	9.7	*(3,065)*	*(29.6)*
Mutual investment fund units	16,573	11.6	7,002	6.6	*9,571*	*136.7*
Total (c)	**142,347**	**100.0**	**106,196**	**100.0**	***36,151***	***34.0***
TOTAL (a+b+c)	**2,254,916**		**2,210,266**		***44,650***	***2.0***
Investment income of Class D						
Investment funds and market indices	30,378		24,733		*5,645*	*22.8*
Pension funds	140,593		153,058		*(12,465)*	*(8.1)*
Total Class D	**170,972**		**177,791**		***(6,820)***	***(3.8)***
GRAND TOTAL	**2,425,887**		**2,388,057**		***37,830***	***1.6***

Ordinary income from investments and uses of cash was €1,693,245k (€1,689,324k at 31/12/2016): this item includes accrued interest receivables, accrued rent, dividends collected, any capitalised issue and trading discount and positive differential collected against interest rate swap contracts.

Capital gains on disposal were overall equal to €419,324k (€414,747k at 31/12/2016). The reversals of impairment losses were equal to €142,327k (€106,196k at 31/12/2016).

Overall, net financial income, including the reversals of impairment losses on investments and excluding the income on investments of Class D, was €2,254,916k (€2,210,266k at 31/12/2016).

The income from investments for the benefit of policyholders who bear the risk arising from pension fund management (Class D) was equal to €170,972k (€177,791k at 31/12/2016).

Asset and financial charges

Amounts in €k	FY 2017	% Comp.	FY 2016	% Comp.	Variation 2017/2016 amount	%
Asset and financial charges						
Land and buildings	21,979	11.7	24,200	12.0	*(2,220)*	*(9.2)*
Shares and holdings	1,283	0.7	1,198	0.6	*85*	*7.1*
Bonds	51,929	27.5	72,015	35.8	*(20,086)*	*(27.9)*
Mutual investment fund units						
Loans						
Bank deposits						
Bank and post office deposits	1	0.0	4	0.0	*(3)*	*(75.6)*
Sundry financial investments	110,247	58.4	100,082	49.8	*10,165*	*10.2*
Reinsurance deposits	3,220	1.7	3,458	1.7	*(238)*	*(6.9)*
Total (a)	**188,659**	**100.0**	**200,956**	**100.0**	***(12,298)***	***(6.1)***
Losses on sale						
Land and buildings	6,818	3.8	197	0.1	*6,621*	*3354.1*
Shares and holdings	15,673	8.8	182,919	74.1	*(167,246)*	*(91.4)*
Bonds	49,761	27.8	23,661	9.6	*26,100*	*110.3*
Sundry financial investments	94,080	52.6	11,462	4.6	*82,617*	*720.8*
Mutual investment fund units	12,389	6.9	28,670	11.6	*(16,281)*	*(56.8)*
Total (b)	**178,721**	**100.0**	**246,910**	**100.0**	***(68,189)***	***(27.6)***
Total (a+b)	**367,380**		**447,867**		***(80,486)***	***(18.0)***
Value adjustments to investments						
Land and buildings	56,560	18.7	115,180	30.9	*(58,620)*	*(50.9)*
Shares and holdings	137,035	45.3	35,160	9.4	*101,875*	*289.7*
Bonds	8,181	2.7	104,393	28.0	*(96,212)*	*(92.2)*
Sundry financial investments	18,881	6.2	32,929	8.8	*(14,048)*	*(42.7)*
Mutual investment fund units	81,543	27.0	84,827	22.8	*(3,284)*	*(3.9)*
Total (c)	**302,200**	**100.0**	**372,489**	**100.0**	***(70,289)***	***(18.9)***
TOTAL (a+b+c)	**669,580**		**820,355**		***(150,775)***	***(18.4)***
Charges investments of Class D						
Investment funds and market indices	15,058		13,438		*1,621*	*12.1*
Pension funds	97,358		94,739		*2,618*	*2.8*
Total Class D	**112,416**		**108,177**		***4,239***	***3.9***
GRAND TOTAL	**781,996**		**928,533**		***(146,536)***	***(15.8)***

Asset and financial charges, summarised in the table above, do not include the expenses for the management of investments, equal €90,837k (€119,981k at 31/12/2016), because, as per regulation, classified in the item "expenses incurred" in the table "underwriting performance".

Investment charges, which include, as an example, depreciation, accrued interest expense and any rate differential exchanged on derivative contracts, were €188,659k (€200,956k at 31/12/2016), while total realised capital losses on disposal were €178,721k (€246,910k at 31/12/2016).

Value adjustments were equal to €302,200k (€372,489k at 31/12/2016) and include €56,560k of adjustments on land and buildings, of which €10,200k related to impairments on real estate. Value adjustments included €99,610k referring to group companies. The main amount referred to the associated company Unipol Banca concerned by the restructuring operation commented on under the main events for the period, for an amount of €92,844k. For the other investees, the main value adjustments amounted to €2,588k for Villa Ragionieri, €2,325k referring to Butterfly and €1,385k for Nuove Iniziative Toscane.

Overall, financial charges, including value adjustments to investments, with the exception of those related to the Class D, were therefore equal to €669,580k (€820,356k at 31/12/2016), while the income from investments for the benefit of policyholders who bear the risk arising from pension fund management (Class D) was equal to €112,416k (€108,177k at 31/12/2016).

Investment in securitisations

We provide below the amount of the investments in securitisations, divided by rating, recognised in the financial statements at 31 December 2017[2].

Rating on investments in securitisations

Amounts in €k	2017	2016	Change on 2016
AAA			
AA			
A			
BBB	25,269	29,368	(4,099)
< BBB			
-			
Total investments in securitisations	**25,269**	**29,368**	**(4,099)**

The following table provides details on the financial income and charges recognised in the financial statements at 31 December 2017 with regard to investments in securitisations:

Income and charges on investments in securitisations

Amounts in €k	2017	2016	Change on 2016
Financial income	829	1,103	(274)
(Financial charges)			
Financial income (charges)	**829**	**1,103**	**(274)**

As shown by the tables above, investments in securitisation represent a marginal portion of the total portfolio of financial assets of the Company.

[2] The value reported is the value of financial statements including the accrued coupon rate.

A.4 Performance of other activities

We provide below a breakdown of other significant income and charges, which were not already included in Par. A.2 and A.3. above.

Other income

Amounts in €k	FY 2017	FY 2016	Variation 2017/2016 amount	%
Interest income	8,273	7,637	*635*	*8.3*
Other technical income	67,787	66,905	*882*	*1.3*
Recovery of expenses	53,680	55,806	*(2,126)*	*(3.8)*
Positive exchange rate differences	16,150	847	*15,303*	*1807.7*
Withdrawals from provisions	73,650	77,863	*(4,212)*	*(5.4)*
Commission on placement of bank products	7,228	7,756	*(528)*	*(6.8)*
Other income	9,623	18,148	*(8,526)*	*(47.0)*
Recovery of expenses for management of Roadway Accident Victims Fund (FVS)	8,294	11,303	*(3,009)*	*(26.6)*
Total other income	**244,685**	**246,265**	***(1,580)***	***(0.6)***
Gains on trading of other assets	271	51	*219*	*427.1*
Other extraordinary income	54		*54*	
Extraordinary gains	43,507	65,449	*(21,942)*	*(33.5)*
Total extraordinary income	**43,832**	**65,501**	***(21,669)***	***(33.1)***

At 31 December 2017, the item "Total other income" was equal to €244,685k (€246,265k at 31/12/2016) and included:

- other technical income for €67,787k (€66,905k at 31/12/2016), of which €14,189k (€16,421k in 2016) for commissions on premiums of previous years cancelled and €20,912k (€18,193k in 2016) for commissions for investments relating to benefits linked to investment funds and market indices and investments arising from pension fund management. Among the items of indirect business, we note reinstated premiums estimated on claims provision for €8,776k (€13,768k in 2016).
- recovery of expenses from services provided to the other Group companies for €53,680k (€55,806k at 31/12/2016);
- withdrawals from provisions, of which €17,888k (€35,252k at 31/12/2016) from the bad debt provision and €55,762k (€42,611k at 31/12/2016) from the provision for sundry risks and charges, for liabilities set aside in previous years and occurred in the current year; and
- other income includes €2,550k (€2,923k in 2016), which represent the compensation for the management of real estate assets.

Extraordinary income was €43,832k (€65,501k at 31/12/2016), mainly consisting of contingent assets for €43,507k compared to €65,449k in 2016.
Among the extraordinary gains, of note is income of €11,800k, relating to the indemnity recognised to the Company by UniCredit S.p.A. on the basis of the bancassurance agreements in force in relation to the subsidiary Incontra Assicurazioni S.p.A. Indeed, as part of the above-mentioned agreements, if the subsidiary did not reach a given volume of actual gross premiums (as defined in the agreement) in the period between 1 January 2012 and 31 December 2016, variable indemnity was agreed upon in favour of UnipolSai based on cumulative premiums during the observation period. The indemnity was paid out in May 2017, following the verification of the degree to which the business objective had been reached by the subsidiary.
There was also income of €21,007k relating to previous years' taxes. In particular, in 2017 reductions were recognised on the taxes allocated in the 2016 financial statements as a result of positive replies received to tax clarification requests, of better qualifications of components that affected the taxes allocated in the 2016 financial statements and of favourable adjustments deriving from the re-filing of the 2016 Tax Return for 2015.

Other charges

Amounts in €k	FY 2017	FY 2016	Variation 2017/2016 amount	%
Interest expense	75,235	76,649	(1,415)	(1.8)
Other technical charges	130,043	140,671	(10,628)	(7.6)
Allocations to provisions	23,202	33,031	(9,828)	(29.8)
IVASS penalties	1,416	2,517	(1,100)	(43.7)
Negative exchange rate differences		6,816	(6,816)	(100.0)
Sundry taxes	2,020	2,874	(854)	(29.7)
Charges on behalf of third parties	39,283	38,436	847	2.2
Sundry charges	154,169	167,188	(13,019)	(7.8)
Total other charges	**425,369**	**468,182**	**(42,813)**	**(9.1)**
Extraordinary losses	9,533	21,630	(12,097)	(55.9)
Settlements	31,409	12,573	18,836	149.8
Other charges	5,214	545	4,669	857.4
Losses on disposals of other assets	5	24	(19)	(78.0)
Total extraordinary losses	**46,162**	**34,772**	**11,390**	**32.8**
Current taxes	212,957	172,823	40,133	23.2
Deferred tax assets and liabilities	26,595	3,020	23,576	780.8
Total taxes charges	**239,552**	**175,843**	**63,709**	**36.2**

The item "Total other charges" was €425,369k (€468,182k at 31/12/2016) and mainly consisted of:

- interest expense, for €75,235k (€76,649k at 31/12/2016), of which €72,274k (€73,126k in 2016) representing interest on subordinated loans;
- other technical charges, equal to €130,043k (€140,671k at 31/12/2016), of which €115,636k representing premium cancellations. Among the items of premiums ceded, reinstated premiums estimated on claims provisions were €9,733k;
- charges on behalf of third parties, equal to €39,283k (€38,436k at 31/12/2016), including costs and other administrative charges for seconded personnel at other companies;
- sundry charges, equal to €157,838k (€167,188k at 31/12/2016), of which €59,756k for amortisation of intangible assets, €55,071k for amortisation of goodwill and insurance portfolios acquired in previous years, €13,451k for impairment losses on receivables and €11,399k for other charges regarding the payment of reimbursed indemnities.

Total extraordinary losses were €46,162k (€34,772k at 31/12/2016) and mainly consisted of contingent losses for taxes of previous years, equal to €3,785k, and charges for sentences, orders and settlements, equal to €31,409k.

Current tax charges were €239,552k (€175,843k at 31/12/2016), of which €210,472k for current IRES and IRAP, €2,485k for substitute taxes under Art. 1, Par. 137-140 of Law No. 296/2006 in addition to the net balance of deferred tax assets and liabilities, equal to €26,595k.

Use of leasing and rental agreements

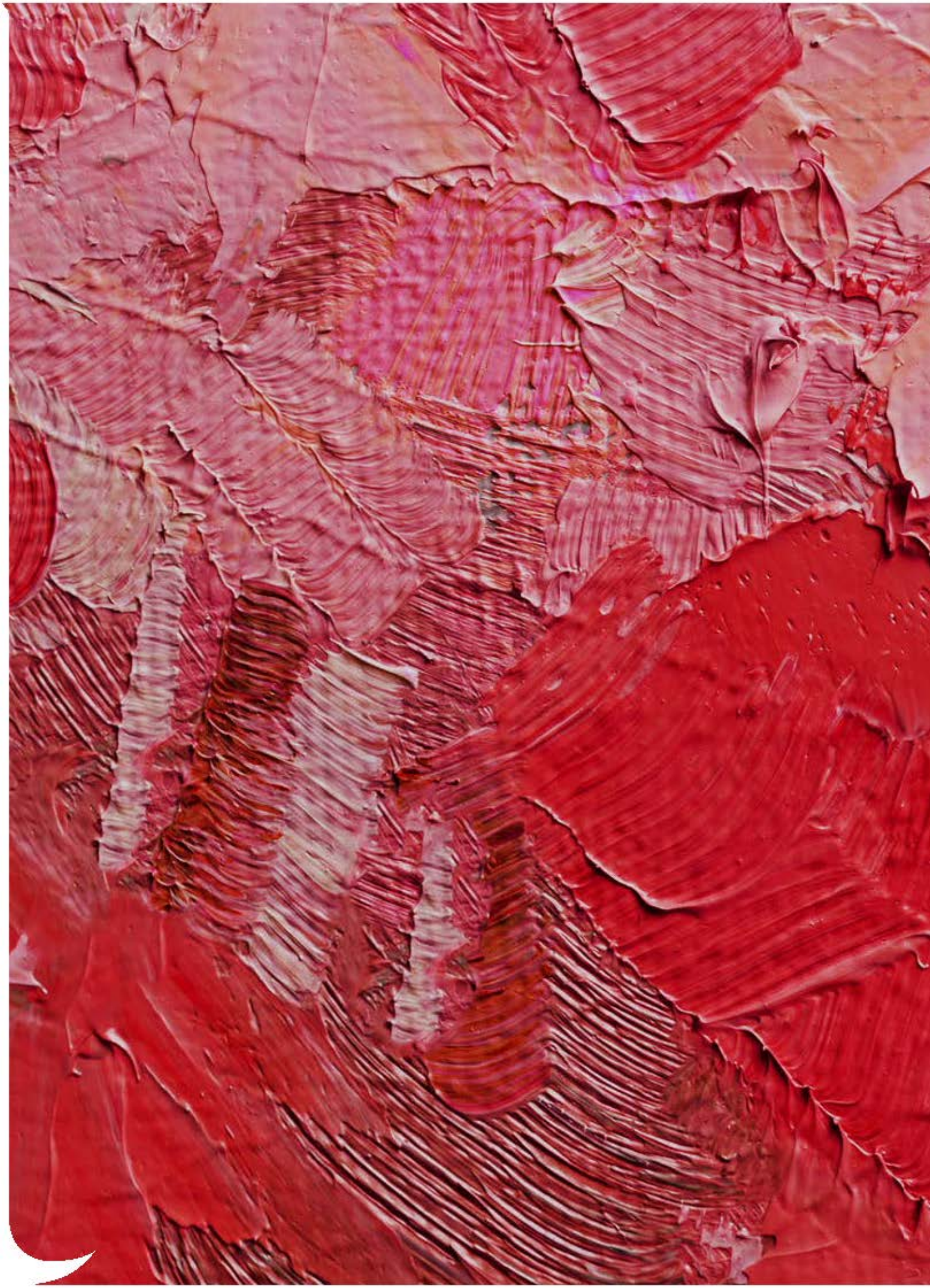
There are no assets leased to third parties.
As established by Italian law, leasing agreements, both operating and finance leases, are recognised as rental agreements.

In 2017, all lease agreements pertaining mainly to IT machinery and equipment such as disaster recovery systems and the data transmission network in place at the end of the previous year were closed. The effects that would have been recognised in the income statement, represented by the difference between the higher amortisation costs and the lower lease costs, would amount to €13k.

The Company has concluded an important rental contract on real estate owned by the subsidiary MIDI; the contract has a duration of 12 years (expiry 31/12/2027) and the total rent (for the entire duration of the contract) is €103,068k.

A.5 Any other information

Note that there is no significant information to report in addition to that already illustrated in previous paragraphs.



B. SYSTEM
OF GOVERNANCE

B.1 General information on the system of governance

B.1.1 Tasks and responsibilities of Board of Directors

The governance structure of the Company is based on a traditional management and control model, where the main bodies are the Shareholders' Meeting, the Board of Directors (which operates with the support of board committees) and the Board of Statutory Auditors.

Shareholders' Meeting
The Shareholders' Meeting is the body that expresses the will of the company with its resolutions; the resolutions taken in compliance with the law and the by-laws are binding for all Shareholders, even if absent or dissenting.

Board of Directors
The by-laws give the management of the Company to a Board of Directors, with no less than 9 and no more than 19 members, appointed by the Shareholders' Meeting, which sets their number. They must meet the requirements of professionalism, honourableness and independence set by applicable legal and regulatory provisions.
Directors are in office for three years, or for the shorter period set by the Shareholders' Meeting at the time of their appointment, and may be re-elected.
The Ordinary Shareholders' Meeting of 27 April 2016 has, most recently, appointed the Board of Directors, consisting of 18 members, giving them a mandate of three years and, therefore, up to the Meeting called to approve the 2018 financial statements.
The Board of Directors is vested with the broadest powers for the ordinary and extraordinary management of the Company. Therefore, it can carry out all deeds, including disposals, that it deems appropriate to achieve the corporate purpose, excluding only those that the law expressly places under the responsibility of the Shareholders' Meeting.
In line with said principle of centrality of the Board, according to Art. 17 of the by-laws, the Board of Directors resolves, as well as on the issue of non-convertible bonds, on:

i. the merger, in the cases considered by Art. 2505 and 2505-bis of the Civil Code, also as referred to, for spin-offs, by Art. 2506-ter of the Civil Code;
ii. the opening or closing of secondary offices;
iii. the indication of which Director - in addition to the Chairman, the Deputy Chairman (Chairmen) and the General Managers - and which Executive of the Company has the power to represent the Company, pursuant to Art. 21 of the by-laws;
iv. the capital reductions in the case of withdrawal of a Shareholder;
v. the amendments to the by-laws to bring them in line with legal provisions;
vi. the transfer of the registered office within Italy.

Pursuant to the law, the by-laws and the policies in force, the Board of Directors, among other things:

a. examines and approves the strategic, financial and business plans of the Company, including consolidated, regularly monitoring their implementation;
b. sets:
   - the tasks and the responsibilities of the Corporate Control Bodies (the Audit, Risk Management and Compliance Functions), as well as the reporting activities, including their timing, between these Functions and between Corporate Bodies, as well as the co-ordination and co-operation activities, in the case of potential overlapping of the control areas or to realise synergies;
   - the nature and the level of risk compatible with the strategic objectives of the Company and its subsidiaries, including in its assessments all risks that may be relevant in terms of medium-long term sustainability;
c. appoints one or more Directors to supervise the operation of the internal control and risk management system (the "Director in charge of the internal control system");
d. after hearing the opinion of the Control and Risk Committee:
   - sets the guidelines of the internal control and risk management system, so that the main risks to which the Company and its subsidiaries are exposed are correctly identified and appropriately measured, managed and monitored, also assessing the compatibility of these risks with a management of the company in line with the strategic objectives identified;
   - at least once a year, assesses the current and forward-looking suitability of the internal control and risk management system with respect to the characteristics of the Company and its subsidiaries and the risk appetite specified, as well as its effectiveness and ability to identify the trends of corporate risks and their interaction;

  - at least once a year, approves the action plan prepared by the managers of the Corporate Control Functions, after consulting the Board of Statutory Auditors and the Director in charge of the internal control system;
  - describes the main characteristics of the internal control and risk management system, in the report on corporate governance, and the co-ordination between the parties involved, expressing its opinion on its suitability;
  - after consulting the Board of Statutory Auditors, reviews the comments made by the audit firm in its letter of suggestions and in the report on the key questions identified during the audit;

e. requests timely information on the most significant issues and gives timely instructions for the adoption of corrective measures, of which later it assesses the effectiveness;

f. sets the risk appetite of the Company and its subsidiaries in line with the objective of safeguarding the Group assets and sets accordingly the risk tolerance levels, which are revised at least once a year, to ensure their effectiveness over time;

g. appoints, replaces and revokes, on proposal of the Director in charge of the internal control system - after favourable opinion of the Control and Risk Committee, as well as after consulting the Board of Statutory Auditors - the managers of the Corporate Control Functions, in compliance with the fit and proper policy in force, to ensure the honourableness and professionalism requirements are met, and sets their remuneration in line with the remuneration policies adopted by the Company;

h. may establish internal commissions and committees to make suggestions and provide advice, as appropriate and necessary to the good operation and growth of the Company, ensuring that there is a suitable and constant interaction between them, the Top Management and the Corporate Control Functions;

i. sets, after hearing the proposals of the Remuneration Committee, the general policies providing the guidelines for the remuneration of the Directors and Key Executives (including the Managers of the Audit, Compliance and Risk Management Functions), as well as of the Risk Takers, to be approved pursuant to applicable legal and regulatory provisions;

j. appoints and revokes the members of the Supervisory Body (Organismo di Vigilanza, or "SB") of the Company pursuant to Legislative Decree 231/2001; sets, with the assistance of the Remuneration Committee, the remuneration of said members; approves, once a year and on proposal of the SB, the forecast of the expenses, ordinary and extraordinary, needed to carry out the supervision and control provided for by the Organisational, Management and Control Model, as well as the final figures of the expenses of the previous year;

k. assesses the general management of the business, taking into account, in particular, the information received from the delegated bodies, as well as comparing, regularly, the results achieved with those planned;

l. carries out, at least once a year, with the assistance of the Appointments and Corporate Governance Committee, an evaluation on the operation of the Board of Directors and its Committees (henceforth, the "Board Performance Evaluation"), as well as on their size and composition, also taking into account elements such as professional characteristics, experience, also of management, and gender of its members, as well as their seniority in office;

m. keeping into account the results of the Board Performance Evaluation, before the appointment of a new Board, gives to the Shareholders directions on the professional and managerial roles the presence of which is believed to be appropriate on the Board;

n. approves, monitoring its suitability over time, the system of the delegation of powers and responsibilities of the Company, taking care to avoid an excessive concentration of powers in a single body and implementing controls on the exercise of the delegated powers, with the power of defining appropriate emergency plans ("contingency arrangements") if it decides to take upon itself the delegated powers;

o. approves the guidelines and the policies applicable to the Company as required by industry regulations.

Additional powers are reserved to the Board of Directors pursuant to (i) the policies adopted by the Company on, among other things, insurance underwriting and provisioning, investments and divestments in financial, real estate and equity assets, management of funding and credit sources and (ii) the system of the delegations of powers granted to the General Manager. These provisions aim at ensuring that the Board of Directors reviews and resolves on the transactions with a significant strategic relevance and significant amount.
Consistently with the recommendations of the Corporate Governance Code of listed companies promoted by Borsa Italiana S.p.A. ("Corporate Governance Code") - and in particular with Art. 7 of this Code, which provides for the Board of Directors to carry out "*a role of direction and evaluation of the suitability of the system*" and to "*identify among its members one or more directors, to set up and manage an effective internal control and risk management system*" - the Board of Directors, most recently in the Board meeting held on 27 April 2016, has appointed as Director in charge of the internal control system - because of his in-depth knowledge of the corporate processes and the internal control and risk management system within the Unipol Group – its Chairman, Mr Carlo Cimbri.
Pursuant to Art. 15 of the by-laws, the Board of Directors meets at least once a quarter and every time the Chairman, or his substitute, believes it to be appropriate, or when a request in this sense is made by at least three Directors. The Board of Directors may also be called, after notification to the Chairman, by at least one Statutory Auditor.
Resolutions are taken with the absolute majority of those attending, unless otherwise provided by law, and, in the case of parity, the chair of the meeting has the casting vote.
On 10 May 2017, the Company's Board of Directors acknowledged the resignation from the Board of Directors of Mr Salvatore Lauria for personal reasons, effective as of the same date. The outgoing non-executive and non-independent Director, who was not part of any board committee, was appointed by the Company's Ordinary Shareholders' Meeting on 27 April 2016 from the majority list submitted by Unipol, which included 18 candidates, 17 of whom were elected by that Shareholders' Meeting, along with the first candidate on the list that received the second greatest number of votes. Taking into account that the last person designated on the above-mentioned majority list, the candidate for the replacement of the outgoing Director pursuant to the by-laws, disclosed that at that moment she was unable to assume office taking into account her current professional commitments, and as there were no further candidates to be elected from that list, the Board appointed, pursuant to Art. 2386, Par. 1 of the Civil Code and the current by-laws, Mr Vittorio Giovetti as non-executive and non-independent Director until the next Shareholders' Meeting.

Subsequently, on 5 October 2017, the Company's Board of Directors acknowledged the resignation from the Board of Directors of Ms Milva Carletti for professional and working reasons. The outgoing non-executive and independent Director, appointed by the Shareholders' Meeting of the Company on 27 April 2016 on the basis of the list that came in first by number of votes submitted by the majority shareholder Unipol, was not part of any board committee; in this regard, during the meeting of 9 November 2017 the Board of Directors appointed - pursuant to Art. 2386, Par. 1 of the Civil Code and the current by-laws, until the next Shareholders' Meeting - Ms Cristina De Benetti, the last person designated on the majority list submitted by Unipol as non-executive and independent Director of the Company to replace Ms Carletti, as in the meantime the impediments existing previously were eliminated.

The Board of Directors punctually verified the fulfilment of legal and regulatory requirements by the co-opted Directors.

Board Committees
To increase the efficiency and the effectiveness of its activity, the Board of Directors has set up among its members specific Committees, with the power to provide opinions and make proposals, specifying their tasks keeping also into account the criteria set in the Corporate Governance Code of listed companies.
In particular, on 12 May 2016, the Board of Directors resolved to establish the following internal Committees:
- Chairman's Committee';
- Appointments and Corporate Governance Committee;
- Remuneration Committee;
- Control and Risk Committee;
- Committee for Related Party Transactions.

The members of each Committee were appointed by the Board of Directors and chosen among the members of the latter. The Committees are dissolved when the entire Board of Directors reaches the end of its mandate; if one or more members become unavailable, for any reason, the Board shall find a replacement.
In this regard:

- the Chairman's Committee is composed of the Chairman of the Board of Directors and the Deputy Chairmen. The General Manager of the Company attends, by right, the sessions of the Chairman's Committee, with advisory vote. During 2017 this Committee met once. The Chairman's Committee is given functions of advice and co-operation for the definition of the development policies and the guidelines of the strategic and operating plans of the Company, to be submitted to the Board of Directors, in particular on the following issues:
  a. dividend policies and/or capital remuneration policies;
  b. extraordinary transactions pertaining to the Shareholders' Meeting, in particular capital increases and convertible bond issues, mergers, spin-offs, distribution of reserves, purchase of own shares and amendments to the by-laws;
  c. extraordinary transactions of significant strategic interest, or in any case bound to have a significant effect on the value and/or composition of the equity capital or on the share price of the company, such as purchase or sale of significant participations, combinations or alliances with other groups, significant changes in the structure or composition of the Group;
  d. multi-year strategic plans and annual budget of the Company;
- the Appointments and Corporate Governance Committee consists of three Directors, all non-executive and independent. During 2017 this Committee met 4 times. The Appointments and Corporate Governance Committee has a role of proposal and advice in the identification of the optimal composition of the Board of Directors and in the definition of the system of corporate governance; in this regard, said Committee has been given the following functions:
  a. to propose to the Board of Directors the candidates to the office of Director in the cases of co-optation, if it is necessary to replace independent Directors;
  b. to define schedule and procedures for the execution of the Board Performance Evaluation;
  c. to inform the Board of Directors on regulatory developments and on the best corporate governance practices;
  d. to express opinions to the Board of Directors, on:
    - the appointment of the members of the Board Committees of the Company;
    - the appointment of the General Manager and the Deputy General Manager of the Company;
    - the implementation of the Company's system of governance;
    - the size and composition of the Board of Directors, making recommendations on the professional qualifications the presence of which within the Board of Directors is believed to be appropriate, as well as on the maximum number of offices and derogations from no-competition rules;
- the Remuneration Committee consists of three Directors, all non-executive and independent. During 2017 this Committee met 3 times. The Remuneration Committee has the following functions on remunerations:
  a. to make proposals to the Board of Directors on the Remuneration Policies for the Directors and the Key Executives of the Company (including the Managers of the Corporate Control Functions, in line with the guidelines set by the Parent Company);
  b. to make proposals to the Board of Directors for the remuneration of the executive Directors and the other Directors holding special offices, as well as for the performance targets to be set for the variable component of this remuneration, in line with the Remuneration Policies adopted by the Board of Directors, keeping into account the guidelines of the Parent Company;
  c. to express opinions on the monitoring of the implementation of the resolutions of the Board of Directors, verifying the actual achievement of the performance targets;
  d. to express opinions on the regular evaluation of the suitability, overall consistency and practical application of the Remuneration Policies of the Directors and Key Executives (including the Managers of the Corporate Control Functions) adopted by the Company – making use, in this regard, of the information provided by the Chief Executive Officer of the Parent Company – and making proposals to the Board of Directors;
  e. to express opinions to the Board of Directors on the remuneration of the members of the SB;

- the Control and Risk Committee consists of three Directors, all non-executive and independent, and one of which with adequate experience in accounting and financial issues or risk management. During 2017 this Committee met 8 times. The Control and Risk Committee has the following tasks:
  a. to express to the Board of Directors opinions on:
     - the definition of the guidelines of the internal control and risk management system, so that the main risks for the Company and its subsidiaries may be correctly identified, as well as appropriately measured, managed and monitored, assessing also the compatibility of these risks with a management of the company in line with the strategic objectives identified;
     - the assessment - at least on an annual basis - of the adequacy of the internal control system and the management of existing and future risks with respect to the features of the Company and its subsidiaries and to the risk appetite set as well as its effectiveness and its ability to grasp the evolution of corporate risks and the interaction between them;
     - the approval, at least once a year, of the action plan prepared by the Managers of the Corporate Control Functions;
     - the description, in the annual report on corporate governance, of the main characteristics of the internal control and risk management system and the procedures of co-ordination between the parties involved and the assessment of its suitability;
     - the evaluation, after consulting the Board of Statutory Auditors, of the results presented by the audit firm in its letter of suggestions and in the report on the key questions identified during the audit;
     - the appointment and revocation of the Managers of the Corporate Control Functions, the allocation of resources needed for the execution of their tasks and the definition of their remuneration, in line with the corporate policies adopted on the issue (binding opinion);
  b. to assess, together with the Manager in charge of financial reporting, after consulting the audit firm and the Board of Statutory Auditors, the correct use of the accounting principles and, with reference to the drafting of the consolidated financial statements, their homogeneity at the Group level;
  c. to express opinions on specific aspects concerning the identification of the main corporate risks; to review the regular reports on the evaluation of the internal control and risk management system and those of special relevance prepared by the Corporate Control Functions;
  d. to monitor the independence, suitability, effectiveness and efficiency of the Corporate Control Functions;
  e. to ask, if appropriate, the Audit Function to carry out assessments on specific operational areas, giving contextual notification to the Chairman of the Board of Directors and the Chairman of the Board of Statutory Auditors;
  f. to report to the Board of Directors, at least once every six months, at the time of the approval of the annual and six-month financial report, on the activities carried out as well as on the suitability of the internal control and risk management system with respect to the characteristics of the company and the risk profile taken, as well as to its effectiveness;
  g. to support, with appropriate investigation activity, the assessments and the decisions of the Board of Directors on the management of risks arising from detrimental events of which the Board of Directors has become aware;
  h. to examine the guidelines and policies relevant to the Company and the subsidiaries required by industry regulations;
- the Committee for Transactions with Related Parties consists of four Directors, all non-executive and independent. During 2017 this Committee met 12 times. The Committee for Transactions with Related Parties has functions of advice, dialogue, and proposal towards the Board of Directors and the units of UnipolSai and the Subsidiaries on Transactions with Related Parties, in compliance with the provisions of the Regulation issued by CONSOB with Resolution No. 17221 of 12 March 2010 and subsequent amendments and the internal procedure adopted by the Board of UnipolSai for the execution of the Transactions with Related Parties ("Related Party Procedure"). In particular, the Committee:
  a. expresses to the Board of Directors of the Company an opinion on the procedures to create and maintain the register in which Related Parties are recorded ("Register of Related Parties");
  b. takes part in the investigation and any negotiation concerning the Transactions of Greater Relevance (as specified in the Related Party Procedure);

c. expresses a reasoned opinion to the decision-making body, on the basis of timely and complete information provided by the company's units during the investigation and, if appropriate, the negotiation, on the interest of the Company to the execution of the Transactions of Greater Relevance, as well as on the convenience and fairness of the corresponding terms;
d. expresses to the decision-making body a reasoned non-binding opinion on the interest of the Company to the execution of the Transactions of Lesser Relevance (as specified in the Related Party Procedure), as well as on the convenience and fairness of the corresponding terms;
e. expresses to the Delegated Body of UnipolSai (identified by the internal Procedure in the Board of Directors or the General Manager according to the respective areas of competence and/or delegations of powers) that approves the Transactions carried out through the Subsidiaries, of Greater or Lesser Relevance, a reasoned non-binding opinion on the interest of the subsidiaries and UnipolSai to the execution of the Transaction, as well as on the convenience and fairness of the corresponding terms;
f. expresses to the Board of Directors an opinion on the updates of the Related Party Procedure.

Delegated bodies

We note that the Board of Directors of the Company, at its meeting on 27 April 2016, agreed on the need to carry out a review of the governance structure and resolved:

- not to appoint an Executive Committee and a Chief Executive Officer, believing that these appointments are currently not necessary;
- to appoint a General Manager, with appropriate functions and powers, in charge of the operating management of the Company.

The General Manager was given by the Board of Directors the following functions:

i) to ensure the execution of the resolutions of the Board of Directors and the Shareholders' Meeting of the Company;
ii) to ensure the ordinary management of the business of the Company, as well as the governance, supervision and co-ordination of all corporate activities;
iii) to promote the corporate policies of the Company;
iv) to propose to the Chairman of the Board of Directors the plan for the activities of the Board of Directors;
v) to make the proposals on the multi-year plans and annual budget of the Company, to be submitted to the review and approval of the Board of Directors;
vi) to give directions for the preparation of the financial statements of the Company; to prepare the proposals on the draft financial statements and consolidated financial statements, as well as on the interim financial reports, to be submitted to the Board of Directors;
vii) to support the Director in charge of the internal control system in the performance of his functions, also by:
   - ensuring continued operability and overall suitability of the organisation structure and the internal controls and risk management system;
   - defining in detail the organisation structure of the Company, the tasks and the responsibilities of the operational units and their personnel, as well as the corresponding decision-making processes, in line with the guidelines given by the Board of Directors; in this context, ensuring a suitable separation of tasks both between individual parties and between functions, to avoid, as much as possible, conflicts of interest;
   - implementing the policies of valuation, also forward-looking, and risk management set by the Board of Directors, ensuring the definition of operational limits and the timely verification of these limits, as well as the monitoring of the risk exposures and the compliance with risk tolerance levels;
   - carrying out, on the basis of the strategic objectives and in line with the risk management policy, the policies of underwriting, provisioning, re-insurance, of other techniques of mitigation of the risk and management Operational Risk, as well as the other policies and guidelines specified by the Board of Directors; supporting the Director in charge of the internal control system to implement the directions of the Board of Directors on the measures needed to correct the anomalies observed and/or make improvements.

The Board of Directors has also granted to the General Manager special executive powers, defining procedures and quantitative limits for their exercise.

Board of Statutory Auditors

Pursuant to Legislative Decree No. 39/2010, as amended by Legislative Decree No. 135/2016, on the audit of the annual and consolidated financial statements, the Board of Statutory Auditors of the Company, as well as monitoring the compliance with the law and the by-laws and with the principles of proper management, is in charge, also in the execution of its functions as internal control and audit committee, of:

- informing the Board of Directors of the Company of the result of the audit;
- monitoring the process of financial reporting and submitting recommendations or proposals aimed at ensuring its integrity;
- monitoring the effectiveness of the systems of internal control of the quality and risk management of the company and the internal audit, with regard to the financial reporting of the Company;
- monitoring the audit of the accounts;
- verifying and monitoring the independence of the audit company, in particular reviewing the services other than audit services provided to the Company by this audit company and the entities that belong to its network;
- making proposals on the audit appointment to be submitted to the Shareholders' Meeting, at the end of the selection procedure of the audit company. The Board of Statutory Auditors is also responsible for the fairness of this procedure.

Supervisory Body

Legislative Decree no. 231 of 8 June 2001, "Discipline of the administrative responsibility of legal persons, companies and associations even without legal personality" ("Decree 231/2001") - which introduced the administrative liability of entities as a result of certain offences committed in the interest or for the advantage of the entity by directors, managers, employees and company representatives - establishes in Art. 6 an exemption from above-mentioned liability for entities that demonstrate: (i) that before the offence was committed, they adopted and effectively implemented organisation, management and control models suitable to prevent the occurrence of the offences considered therein; (ii) that they have established an internal control body with the task of supervising the functioning and observance of the model (the "Body" or the "SB") as well as its actual effectiveness and adequacy and, when necessary, managing any updates of the model; (iii) that the offence was committed by fraudulently circumventing the model, and (iv) that the above-mentioned Body did not fail to supervise or enact insufficient supervision.

In compliance with the above regulations, the Company adopted the Organisation, Management and Control Model (the "MOG" or the "Model") and established and appointed the SB pursuant to Art. 6, letter b) of Decree 231/2001.

The Body is assigned the task of supervising:

- the effective observance of the Model by its addressees: employees, corporate bodies and, within the limits laid out therein, agents, associates and suppliers;
- the actual effectiveness and adequacy of the Model with respect to the structure of the company and its real capacity for preventing the commission of the offences pursuant to Decree 231/2001;
- the possibility of updating the Model, when it is found that it needs to be adjusted in light of changed company and/or regulatory conditions, contacting the competent bodies for this purpose.

The SB is also given the right to conduct targeted verifications, even without providing prior notice, on specific transactions or deeds entered into by the Company, especially as regards sensitive activities, the results of which need to be summarised in reporting to the competent corporate bodies.

These powers are to be exercised within the limits of what is strictly functional to the mission of the SB, which has no management powers whatsoever.

Company committees

In the context of the governance and the internal control and risk management system, a few internal committees have been established by the Board of Directors, or by the General Manager, mainly consisting of the Heads of the Joint Local Departments of UnipolSai, with functions of support to the General Manager in the implementation and supervision of the policies of direction, coordination and operational strategy specified by the Board of Directors.

B.1.2 Transactions with related parties

In the reference period, the Company has maintained with the Parent Company ordinary relations deriving from its choice of a tax consolidation regime and provided some operational services, including the management of the financial portfolio; these relationships are governed under normal arm's length conditions.
At 31 December 2017, there were two loans outstanding in favour of the Parent Company for a total of €267.8m, granted in 2009, as part of the subrogation of Unipol Assicurazioni S.p.A. - later incorporated into UnipolSai - in the role of issuer of two bond issues "Unipol 7%", maturing in 2021, and "Unipol 5,66%", maturing in 2023, originally issued by the Parent Company, with a total repayment value of €561.7m at the same date. Against said transaction, Unipol has issued, in the interest of UnipolSai, guarantees of equal amount in favour of the subscribers of the relative bonds.
As part of the broader project aiming for the streamlining of the Unipol Group's insurance sector, approved, insofar as they are responsible, by the Boards of Directors of Unipol and UnipolSai on 29 June 2017, on 16 November 2017 the acquisition from Unipol was completed of the equity investment held in UniSalute S.p.A. equal to 98.53% of the relative share capital, and the equity investment held in Compagnia Assicuratrice Linear S.p.A., equal to the entire share capital, for consideration of €715m and €160m.
In implementation of the Unipol Group banking sector restructuring plan approved, insofar as it is responsible, by the Board of Directors of UnipolSai on 27 July 2017, the Company, as shareholder of Unipol Banca S.p.A. ("Unipol Banca" or the "Bank"), with a stake of 42.25% of the share capital, made a capital account contribution of €380.3m on 31 July 2017 equal to its share of the total contribution of €900m laid out in that restructuring plan. Furthermore, also within the scope of the plan, on 31 January 2018 the Company disbursed a shareholder loan of €126.8m to the Bank, equal to its share of the total shareholder loan of €300m, later transferred as part of the company complex subject to the proportional partial spin-off of the Bank in favour of the newly established beneficiary company UnipolReC S.p.A., completed on 1 February 2018.
With reference to the equity investment held by UnipolSai in the share capital of Unipol Banca, there is a put/call option agreement in place between Unipol and UnipolSai, expiring on 6 January 2019, by virtue of which, inter alia, the Company is entitled to sell, and Unipol is required to purchase, 246,726,761 shares of the Bank, corresponding to 27.49% of its share capital, for a total value of €579.07m at 31 December 2017. Pursuant to the agreements in force governing the relative contract, the option was also automatically extended to the shares of UnipolReC – the beneficiary company of the above-mentioned Bank spin-off - for an amount corresponding to 27.49% of its share capital, without causing any changes in the total put option exercise price.
Lastly, in the context of the allocation of 2016 profits, UnipolSai paid to its shareholders Unipol, Unipol Finance S.r.l. and Unipol Investment S.p.A. dividends respectively for €180.5m, €35.3m and €35.4m.
The relations with the members of the administrative or supervision body refer to the remuneration paid in compliance with the resolutions of the Shareholders and/or the Board adopted and compliant with current Group remuneration policies. At 31 December 2017, to implement the programme for the purchase of shares of the holding company Unipol, in the service of compensation plans based on financial instruments (performance share type), intended for the managers of the Company, it holds 2,374,398 Unipol shares.

B.1.3 Tasks and responsibilities of key functions

The following key functions have been established at the Company:

- The Audit Function, which is responsible for assessing the completeness, function, reliability and adequacy of the Internal Control and Risk Management System, verifying both on an ongoing basis and in relation to specific requests and in compliance with international standards, its functionality and suitability, through an audit plan approved by the Board of Directors, based on a structured process of analysis that focuses on the main risks;
- The Risk Management Function, which is in charge of identifying, measuring, assessing and monitoring the current and prospective risks at the individual and aggregated level to which the Company is or may be exposed and their correlation;
- The Compliance and Anti-Money Laundering Function, which is responsible for evaluating the suitability of procedures, processes, policies and internal organisation according to a risk-based approach; its objective is to prevent compliance risk, considered as the risk of judicial or administrative sanctions, substantial financial losses or reputational damages as a result of failure to observe laws, regulations or measures of the Supervisory Authority or internal regulations such as by-laws, codes of conduct or corporate governance codes, policies and corporate communication documents;

- The Actuarial Function[3], which has the main task of verifying - pursuant to Solvency II provisions - the suitability of the technical provisions, the reliability and adequacy of the data used to calculate these as well as of assessing the suitability of the overall underwriting policy and the re-insurance agreements, pursuant to the provisions of Legislative Decree 7 September 2005, No. 209, as amended by Legislative Decree 12 May 2015, No. 74, which has implemented the Solvency II Directive.

Within the Internal Control and Risk Management system, it is essential to ensure the dialogue between the Corporate Control Functions, and regular reporting between these functions and the Corporate Bodies.
The Board of Statutory Auditors, the audit firm, the Audit, Risk Management, Compliance and Anti-Money Laundering Functions, the SB and any other body and function that has been given specific control tasks exchange all information useful to the execution of the tasks assigned. To this purpose, appropriate reporting is required on the activities carried out and the risk exposure, both to the corporate bodies and the Top Management, and within the board and corporate committees, ensuring the involvement and the dialogue of all functions.
In particular, reciprocal information flows between the different Corporate Control Functions are already in place:
- participation in the meetings of the Control and Risk Committee and the SB;
- information and discussion on the annual plans of the Functions themselves;
- regular meetings to share the results of the control activities carried out and the evaluation of the residual risks and the Internal Control and Risk Management system, also through a common application platform, as described below;
- reporting activities with exchange of the documentation produced by the individual functions (as for example the results of the assessment activities carried out, the cases of non-compliance, the regular claim reports, etc.).

Once a year, the Corporate Control Functions present to the Board of Directors their action plan and every six months they report to the Board of Directors on the activities carried out and the main issues observed, as well as on any initiative proposed. Moreover, in the execution of their power to provide opinions and make proposals on the internal control and risk management system, the Corporate Control Functions provide to the Control and Risk Committee and the Board of Statutory Auditors the action plan and regular reports on their activities.
The Group has also acquired a common application platform, which the Corporate Control Functions and the other bodies/parties with control functions may access, to ensure an integrated approach to the mapping and analysis of the processes, risks and controls, for each company of the Group, as well as the ongoing monitoring of any corrective action notified to the operating units following the analysis carried out by the Corporate Control Functions.
This platform allows the Corporate Control Functions:
- to share the information gathered as a result of analysis/assessment activities;
- to achieve synergies for a better monitoring of all corporate activities;
- to produce summary reports for Top Management.

The Actuarial Function, at the organisational level located within the Administration, Management Control and Operations Joint Department, directly reports to the Board of Directors and has been given the necessary independence and separation in the performance of its tasks to avoid conflicts of interest with the Group divisions in charge of the technical and operational management. Any potential conflict of interest is addressed by an appropriate diversification and separation of the tasks within the Actuarial Function itself. In particular, within UnipolSai, the "Actuarial Function – Validation", with areas of competence both for the Non-Life and Life business, and the "Actuarial Function – Calculation" office, which carries out the calculation of the Solvency II technical provisions for the Non-Life business of UnipolSai, report to the manager of the Actuarial Function.
To execute the activities within its area of competence, the personnel of the Actuarial Function has unlimited access to company data and relevant information.
At least once a year, the Actuarial Function prepares a written report for the Board of Directors, documenting all activities carried out and their outcome, identifying any significant deficiency, also in regard to the quality of the data, and making recommendations on how to address them, also to increase the quality and quantity of available data. The Actuarial Function also reports promptly to the Board on any element identified as a result of activities carried out that may have a significant impact on the financial condition of the Company.
The manager of the Actuarial Function also draft the technical report on the provisions made in the financial statements for the Life direct business - Italy, for MV and Boats TPL direct business - Italy and for re-insurance activities, to be submitted to the Board of Directors and Board of Statutory Auditors.

[3] The Actuarial Function is exercised by an actuary listed in the professional register set up by Law No. 194, 9 February 1942, or by parties with knowledge of actuarial and financial mathematics appropriate to the nature, magnitude and complexity of the risks intrinsic to the business activities of the company and with proven professional experience in the issues relevant to the execution of the task.

The Actuarial Function takes part in the meetings of the main corporate Committees, or in any case is informed of the topics discussed and decisions taken.
According to the organisation model of the Group, the Corporate Control Functions and the Actuarial Function of UnipolSai carry out the activities within their area of competence both for UnipolSai and for the companies that outsource to the latter these functions, on the basis of special outsourcing agreements.

B.1.4 Remuneration policies

The primary objective of the remuneration policies is to guarantee a fair remuneration, according to the position, responsibilities, professionalism level and individual skillset. In compliance with legal and regulatory provisions, the remuneration policies of the Company ensure the consistency between remuneration and sustainability requirements, in compliance with a sound and prudent risk management policy, in line with the long-term strategic objectives, profitability and balance of the Company and the Group. The Company does not adopt remuneration policies based exclusively or mainly on short-term performance, as this would encourage excessive risk exposure.
On the basis of these principles, the fixed remuneration component rewards the expertise, skills and, above all, responsibilities related to the position, with a fixed financial basis, calculated according to the level in the organisation and seniority.
The variable remuneration component reward performance both in the short and in the medium/long-term, not only in terms of revenue, but also in terms of focus on risk.
In the light of the above, in 2017 as in 2016, the remuneration of personnel[4] is set on the basis of the following principles:

- appropriate balance between fixed and variable component, with the latter linked to pre-set and measurable efficiency criteria, to strengthen the link between performance and remuneration;
- limits specified for the variable component;
- sustainability, with balance between short and long-term efficiency criteria, to which the remuneration is subordinated, both by ensuring the deferred and diversified payment of the variable component, and by reserving the right not to pay or ask for the repayment of this component in the presence of some negative elements.

The variable component of the remuneration is awarded to management personnel through the activation of an incentive system. This provides for a short-term component to be paid through a cash bonus, and a long-term component to be paid through allocation of shares, carried out over a period of several years.
The incentive system links:

- the performance of the Group and of the company that the employee belongs to, current and/or future, expressed in terms of achievement of gross profit and solvency capital targets as well as performance of the ordinary shares of Unipol and UnipolSai;
- the individual performance, measured in terms of both qualitative and quantitative targets, related to the specific organisational area of the recipient.

As regards the remuneration of the Board of Directors, annual Director compensation is fixed; they also receive reimbursements for expenses incurred to carry out their official duties and attendance fees for participation in each Board meeting, the Shareholders' Meeting and the meetings of any Committees of which they are members. Thus, Directors were not acknowledged any variable remuneration component linked to results or based on financial instruments.
There are no supplementary pension schemes for the members of the Board, while all employees, whether in an executive position or not, may join specific corporate Pension Funds, divided into Employees' Pension Funds and Executives' Pension Funds. These Funds are based on voluntary contributions made by the recipient and the company and envisage supplementary pension provisions on termination of the employment relation due to retirement.

B.2 Fit and proper requirements

The Board of Directors adopted, in its meeting on 10 February 2015, pursuant to the industry regulations introduced in 2014, the Policy for the evaluation of fulfilment of the requirements in terms of suitability for office (the "Fit&Proper Policy"), which entered into force on 1 April 2015, and which describes, *inter alia*, the procedures to assess the requirements of suitability for office – in terms of honourableness, professionalism and independence, as well as of absence of causes of impediment, suspension and incompatibility – of the members of the administrative and control body, the Managers of the Corporate Control Functions and the Chief Risk Officer ("CRO").

[4] As identified by ISVAP Regulation No. 39/2011.

The Board of Directors assesses whether each of its members and the General Manager meet the requirements set by legal and regulatory provisions in force at the time in terms of honourableness, professionalism and independence, as well as assessing the absence of causes of impediment, suspension and incompatibility pursuant to legal and regulatory provisions on interlocking directorships.
With regard to the requirements of independence of its members, the Board carries out its assessments also considering the cases specified by application criterion 3.C.4. of the Corporate Governance Code and with reference to the cases specified by application criterion 3.C.1. of the Code.
With particular reference to the evaluation of the independence requirement pursuant to the Corporate Governance Code and the Fit&Proper Policy mentioned above, we note that:

- in line with international best practice, special attention is paid to the requirement of the "substantial" independence, to ensure the composition of the interest of all Shareholders, both majority and minority; without prejudice, with reference to UnipolSai, to Art. 37 of CONSOB's Market Regulation, the Group has adopted a restrictive interpretation of the principles stated by the Corporate Governance Code, not counting as independent Directors pursuant to the Code, among others, the Directors holding offices within the Corporate Bodies of the companies that control directly and indirectly Unipol and UnipolSai;
- for the purposes of the evaluation of the independence requirement of a Director, attention is also paid to the annual consideration for any professional services provided to the company and/or subsidiary, if this represents more than 5% of the annual sales of the Company or the Entity of which the Director has the control or a significant position, or the Professional Practice or consulting company of which he is a partner or shareholder or, in any case, if it exceeds €200k.

With regard to the suitability requirements described above, the Board of Directors carries out its evaluation:

- for the entire Board of Directors, after this is appointed by the Shareholders' Meeting and, afterwards, at least once a year;
- for individual Directors, at the time of co-optation of one or more new Directors by the Board and after the appointment by Shareholders' Meeting, as well as in later board meetings when it is assessed whether all Directors continue to meet the requirements specified;
- for the General Manager, on appointment by the Board and, afterwards, at least once a year.

The Board carries out the evaluation reviewing the information provided by the individuals involved on the basis of their curricula vitae and the statements in lieu of certification provided by these, taking also into account the assessments carried out by the competent functions of the Company and the Group. This documentation is made available for review during the Board meeting and is put to the record.
The Board of Directors takes its resolutions with the abstention, each time, of the individual Director being assessed.
In particular, when verifying the possession of the requirements of professionalism specifically made for the Chairman of the Board of Directors, the Chief Executive Officer and the General Manager, if one is appointed, the Board assesses their experience also in regard to the management requirements of the Company.
The Board of Directors, during its meeting on 10 May 2017, fulfilled its obligations pursuant to current legal provisions with regard to the assessment of the possession by its members of the legal and regulatory requirements – in terms of honourableness, professionalism and independence, as well as of absence of causes of impediment, suspension and incompatibility. This assessment was carried out in compliance with the Fit&Proper Policy.
Lastly, to assess whether Directors are able to carry out effectively their functions, the Board of Directors carries out – after its appointment and, later, once a year – an assessment of the compliance with the provisions on overlapping offices, as indicated in a specific regulation adopted by the Board as guideline for the maximum number of offices as director or statutory auditor that may be considered compatible with an effective execution of the tasks of Director, according to the provisions of the application criteria 1.C.2. and 1.C.3. of the Corporate Governance Code. This Regulation (which is available in the Corporate Governance Section of the UnipolSai website) sets some general criteria, which take into account the actual role that the Director has in other companies as well as the nature and size of these companies, introducing differentiated limits, respectively, for the position of Chairman and of executive, non-executive or independent Director, also considering the prohibitions on interlocking directorships set by legal and regulatory provisions.

In line with the best international practice and with the provisions of the Corporate Governance Code as well as with the relevant provisions of ISVAP Regulation No. 20/2008, the Board of Directors carries out an annual self-assessment (Board Performance Evaluation) on the size, composition and operation of the Board and its committees. The evaluation concerns also the possession, by the Board as a whole, of the technical expertise needed to the execution of the tasks assigned by current legal provisions, in compliance with the principle that, in the choice of the Directors, it is necessary to keep into account the size of the Group as well as the complexity and specificity of the sectors in which this operates, to ensure that the Board as a whole has the appropriate technical expertise in insurance and financial markets, systems of governance, financial and actuarial analysis, regulatory framework, sales strategies and business models.
The Manager of the Audit, Compliance and Anti-money Laundering and Risk Management Functions are appointed by the Board of Directors among those in possession of the same requirements of honourableness specified by current legal provisions for Directors and Statutory Auditors and of appropriate professionalism, who have carried out management activities in administration/accounting or financial or management control or audit, risk management or compliance of a company with securities listed on a regulated market or that carries out banking, insurance or financial activities or in any case activities strictly related to the latter, or, in any case, at companies of significant size, identified according to the criteria indicated in the regulation on overlapping offices.
Moreover, the Corporate Control Functions and their Managers must meet the independence requirements set by ISVAP Regulation 20/2008. The Board of Directors verifies that these requirements are met by all Managers of the Corporate Control Functions at the time of their appointment and, later, at least once a year, during the regular assessment of the requirements of Directors and Statutory Auditors. The evaluation is carried out through the review of the information provided by the individual involved in their curricula vitae and the statements in lieu of certification provided by these, taking also into account the assessments carried out by the competent units of the Company and the Group. This documentation is made available for review during the Board meeting and is put to the record.
The Board of Directors of UnipolSai, in its meeting on 10 May 2017, carried out, among other things, the regular assessment of the requirements of the Managers of the Corporate Control Functions and the CRO, verifying their fulfilment of the requirements defined in the Policy referred to above for the assessment of the possession of the suitability requirements.
The possession of the suitability requirements of the Manager of the Actuarial Function was assessed, at the same Board meeting, applying the same rules specified in the Fit&Proper Policy for the Managers of the Audit, Compliance and Risk Management Functions.

B.3 Risk management system, including the own risk and solvency assessment

B.3.1 Risk management system

The risk management system is the set of processes and tools used to support the risk management strategy of the Unipol Group; it provides an appropriate understanding of the nature and the significance of the risks to which the Group and the individual companies, including UnipolSai, are exposed. The risk management system makes it possible to have a single point of view and a holistic approach to risk management, and it is an integral part of the management of the business. The risk management system specifies the risk management process, applied also by UnipolSai, which is articulated as follows:

- identification of the risks, which consists in the identification of the risks believed to be significant, or those risks the consequences of which may jeopardise the solvency or the reputation of UnipolSai or represent a serious obstacle to the achievement of the strategic objectives;
- current and forward-looking assessment of the risk exposure; the current evaluation of the risks identified is carried out by using the methodologies specified by regulations and best practice with regard to the risks for which the measurement is not regulated or is specified with high-level principles. With regard to the forward-looking evaluation, we note that the internal assessment of risk and solvency (the "Own Risk and Solvency Assessment" or "ORSA") is used to support the strategic decisions of the company;

- monitoring of the risk exposure and reporting, a system implemented – on the basis of the principles of completeness, timeliness and effectiveness of the disclosure – to ensure a timely and constant monitoring of the evolution of the Risk Profile and the compliance with the specified Risk Appetite. This system ensures that the quality and quantity of the information provided are proportional to the requirements of the different recipients and the complexity of the business managed, so that this may be used as a strategic and operational tool for the evaluation of the potential impact of the decisions on the risk profile and the solvency of the company;
- risk mitigation, which consists in the identification and proposal of actions and initiatives necessary and/or useful to mitigate current or future risk levels, when these are not in line with the risk objectives specified.

The identification, evaluation and monitoring of the risks are carried out on ongoing basis to take into account the changes occurred both in the nature and size of the business and in the market context, and whether new risks arise or the existing ones change.
The risk management system follows an Enterprise Risk Management ("ERM") approach, that is, is based on the assessment of all current and forward-looking risks to which the Group is exposed, assessing the impact that these risks may have on the achievement of the strategic objectives.
To pursue these high-level objectives, the approach adopted takes into account the need to reconcile multiple requirements expressed by the main stakeholders. In particular, the risk management system must meet:
- the requirement of safeguarding the assets and the reputation of the company;
- the requirements of safety and solvency;
- the target rating;
- the need to diversify the risks and ensure sufficient liquidity.

B.3.1.1. Risk management and monitoring system: Risk Appetite

Based on these principles, to pursue the objectives assigned, the risk management system relies on a key element: the Risk Appetite.
The Risk Appetite may be set as a minimum target to be respected and is broken down into quantitative and qualitative elements.
The calculation of the Risk Appetite is articulated, in quantitative terms, according to the following elements:
- capital at risk;
- capital adequacy;
- Liquidity/ALM (Asset Liability Management) ratios.

Quality objectives are defined in reference to compliance, strategic, emerging, reputational and operational risks.
The Risk Appetite is formalised in the Risk Appetite Statement, which indicates the risks that the Company intends to take or avoid, sets the quantitative limits and the qualitative criteria to be taken into account for the management of unquantified risks.
The Risk Appetite is part of a reference framework - the Risk Appetite Framework (RAF). The RAF is defined in strict compliance and prompt reconciliation with the business model, the strategic plan, ORSA process, the budget, company organisation and the internal control system. The RAF defines the Risk Appetite and other components ensuring its management, both in normal and stress conditions. These components are:
- the Risk Capacity;
- the Risk Tolerance;
- the Risk Limit (or Operational Risk limits);
- the Risk Profile.

The activity to define the RAF components is dynamic, and reflects the risk management objectives associated with the objectives of the Strategic Plan. Verification is performed annually as part of the process of assigning Budget objectives. Further analyses for ex ante control of the Risk Appetite, and capital adequacy in particular, are performed when considering extraordinary transactions (mergers, acquisitions, disposals, etc.).
The RAF is broken down into several analysis macro areas with the aim of guaranteeing continuous monitoring of risk trends. The main analysis macro areas are risk type, group, subgroup and individual company.
The risk management system is formalised by the risk management policy, adopted by the Board of Directors of UnipolSai and subject to regular updates, the most recent one on 21 December 2017, which sets, in reference to the perimeter of competence, suitable guidelines for the identification, evaluation, monitoring and mitigation of the risks and the operational limits in line with the Risk Appetite specified. The Parent Company ensures that the risk management policy is implemented consistently and continuously within the entire Group, taking into account the risks of each company in the scope of additional supervision and their mutual interdependencies.

The principles and processes of the Risk Management System as a whole are governed by the following Group policies: "Current and forward-looking risk assessment policy", "Operational Risk Management Policy", "Group-level Risk Concentration Policy". The Risk Management System also includes policies setting the principles and guidelines for: (i) management of specific risk factors (e.g. Investment Policy for Market Risk and Credit Policy for Credit Risk, etc.), (ii) risk management as part of a specific process, (iii) risk mitigation and (iv) risk measurement model management.

B.3.1.2. Objectives and Core principles of Risk Management

Within the Risk Management System, the Risk Management Function is in charge of continuously identifying, measuring, assessing and monitoring the current and prospective risks at the individual and aggregated level that the Company is or may be exposed to and their correlations. In the exercise of its role, the Risk Management Function develops, implements and maintain the risk measurement and control systems. Among these, particular relevance is given to the definition and the use of tools aimed at assessing the capital needed against the risks identified.
In this regard, we note that, with measure of 7 February 2017, IVASS authorised UnipolSai to use the Partial Internal Model ("PIM") to calculate the individual Solvency Capital Requirement with effect from 31 December 2016.
Within the Company, the responsibility for the development and implementation of the Partial Internal Model is separated from the responsibility for its validation.
The Risk Management Function also contributes to the dissemination of a risk culture throughout the Group.

B.3.2 Own risk and solvency assessment (ORSA)

The process for the execution of the current and forward-looking risk assessment is described - at the Group level - in the Current and Forward-looking Risk Assessment Policy, adopted also by the Board of Directors of UnipolSai and subject to regular updates, the most recent of which took place on 21 December 2017. This also specifies tasks, roles and responsibilities of the Corporate Bodies and the units involved, the frequency of the quantitative analysis and the corresponding rationale and the quality standards for the data used in the analysis, as well as the cases when a new evaluation of the risks is required.
Through the own risk and solvency assessment, the Group pursues the following objectives:
- to highlight the link between the business strategy, the capital allocation process and the risk profile;
- to obtain an overall view of all risks to which the Group and the companies are exposed, or could be exposed in the future, and the current and forward-looking solvency;
- to provide to the Board of Directors and Top Management an evaluation on the design and the effectiveness of the risk management system, highlighting at the same time any deficiency and suggesting remedial actions.

In particular, with reference to the current evaluation, these objectives are achieved by:
- the measurement of the capital required according to current legal and regulatory provisions and on the basis of the Solvency II requirements, making use of the Internal Model;
- the evaluation of the capital adequacy of the Group and the companies, on the basis of the results obtained under the previous point.

With reference instead to the forward-looking evaluation, the objectives are pursued through ORSA, which allows the analysis of the risk profile of the Group based on strategy, market scenarios and business trends.
In designing ORSA, the Group has followed the following principles:
- the evaluation of the risks at the Group level includes the risks from all companies included in the supplementary supervision area and takes into account their correlations;
- ORSA, as well as being a legal requirement, represents an internal assessment element to support operational and strategic decisions; ORSA and strategic planning processes are strictly related:
- the estimates taken as reference for the development of the strategic plan are the basis for ORSA in a forward-looking approach;
- ORSA is used in support of the drafting/review of the strategic plan;
- ORSA takes into account all risks that may cause a significant decrease in Own Funds at the Group level and for each individual Company, or that have an impact on the ability to meet the commitments towards the policyholders, in line with the risk management policy. For the risks not included in the calculation of the capital requirements set by Pillar I of the Solvency II Directive, the Group carries out a qualitative assessment. Therefore, the assessment on these risks is basically aimed, rather than to quantify the potential loss, to verify the effectiveness of the controls implemented and the good operation of the management and monitoring processes.

– ORSA is carried out in compliance with the data quality standard set by the Data Governance Standard and the Data Quality Management Policy in force.

The current evaluation provides the monitoring of the indicators specified in the Risk Appetite Statement and is carried out at least once a quarter and, in any case, every time there are circumstances that could lead to a substantial change in the risk profile. These are mainly events such as concentration transactions, sale of business units or other extraordinary events, which require additional ORSA to be carried out with respect to the standard plan.

The execution of ORSA and the drafting of the corresponding report are started after the end of the reference year and follow a schedule consistent with the deadlines set by supervisory regulations.

Before the meeting called to approve the ORSA Report, the administrative bodies of Unipol, UnipolSai and the other companies meet to approve the criteria and the methodologies – including the types of stress test - to be used for the drafting of the ORSA Report. The administrative bodies of UnipolSai and the other companies later approve, within their respective areas of competence, the sections of the ORSA Report that concerns them, before this is submitted to the Board of Directors of Unipol to be approved as a whole. In compliance with legal and regulatory provisions in force, the Group sends the ORSA Report to IVASS within two weeks of its approval.

B.3.2.1 Solvency needs

The current and forward-looking assessment is an integral part of the risk management system and the decision-making process of the Insurance Group and the companies and presents therefore points of contact with other core corporate processes, such as:

- strategic planning and capital allocation;
- definition of the Risk Appetite;
- monitoring and mitigation of risk.

In particular, as already said, the current assessment, carried out at least once a quarter, provides the monitoring of the indicators specified in the Risk Appetite Statement.

The forward-looking assessment, instead, is developed in line with the schedule and the elements of the strategic plan and the annual budget, through which the economic capital is allocated to each Company and risk category. The capital allocation process provides for each year of the Strategic Plan a projection of the Own Funds and an estimate, through Internal Model, of the capital required according to the strategic plan scenarios. This analysis is in line with the Risk Appetite Framework, as specified within the risk management policy.

B.3.3 Internal model governance

UnipolSai was authorised by IVASS[5] to use a Partial Internal Model to calculate the Solvency Capital Requirement, since 31 December 2016, with reference to the following risk elements, as well as in the aggregation process:

– Market Risks;
– Credit Risk;
– Life Underwriting Risks;
– Non-Life and Health Underwriting Risks for the earthquake disaster component.

The PIM is also used in the risk management system and in the decision-making processes as a tool to support of the decisions of strategic relevance of the Company and the business activities. This model is in fact used for the definition and quarterly monitoring of the Risk Appetite, in line to which operational limits are specified for each risk factor, reviewed at least once a year to ensure their effectiveness over time and reported within the Group corporate Policies.

The governance, update and validation of the PIM are regulated, respectively, by the Internal Model Governance Policy, the Internal Model Update Policy and the Internal Model Validation Policy, adopted by the Board of Directors of UnipolSai and subject to regular updates, the most recent of which took place on 21 December 2017.

[5] See Communication No. 0025726/17 of 7 February 2017.

B.3.3.1. Board of Directors

The Board of Directors has the final responsibility for ensuring that the PIM is appropriate in terms of design and functionality, that it continues to reflect the risk profile of the Company and that the resources involved in the development, monitoring and maintenance of the Model are appropriate in terms of number, experience and areas of competence with respect to the objectives of these activities. The Board of Directors has a clear understanding of the Internal Model, with particular reference to its structure and the ways in which this reflects the business and is integrated in the risk management system, of the context of application and its limitations, of the methodologies and the diversification effects considered.

B.3.3.2. Role of the Committees

In support of the Board of Directors, the Control and Risk Committee provides non-binding opinions on the validation of the PIM and any risk mitigation initiative related to PIM deficiencies identified during validation.

B.3.3.3. The Risk Management Function

The CRO - who reports to the Board of Directors and to whom the Risk Management Function and the Compliance and Anti-money Laundering Function report - ensures the integrated control of the risks and responds to the Board of Directors of the suitability of the validation of the current PIM.
To ensure the independence between development and validation of the PIM, the execution of the validation activities is carried out by the Risk Management Models Validation Office, a structure specifically created and reporting directly to the CRO, which verifies the methodologies and assumptions underlying the PIM and produces the Validation Report.
The Risk Management Function supports the Board of Directors in the evaluation of the design and the effectiveness of the risk management system, highlighting any deficiency and suggesting the way to address them. With reference to the governance of the PIM, the Risk Management Function has the responsibility to design, implement and review the Model.

B.3.3.4. Description of the validation processes used to continuously monitor the results and adequacy of the internal model

The validation process includes all elements of the PIM, the monitoring of its good operation, the ongoing monitoring of the suitability of its specifications and the cross-check of its results against historical data.
The perimeter of the validation extends to all operational units of the Company and all risks included in the perimeter of the PIM.
Besides the validation on first adoption, before authorisation by the supervisory authorities to use the PIM to calculate the SCR, the PIM is subject to:
- regular validation, with annual frequency[6];
- occasional validation, in addition to the regular validation cycle, in the cases indicated in the Internal Model Update Policy.

The stages of the validation process are:
- definition of the PIM elements to be validated and the tests to be carried out and their priorities;
- execution of validation tests;
- analysis and interpretation of the results;
- collection and presentation of the results;
- escalation process.

[6] The Chief Risk Officer, also on indication of the Manager of the Risk Management Function, may opt for a more frequent validation for some specific elements of the Internal Model according to:
- the complexity of the element;
- the relevance of the element for the purposes of the operation of the Model, in terms of process or impact on the calculation of the SCR;
- the relevance of any deficiency identified with regard to the element in the previous validation processes.

The Chief Risk Officer may also decide that a given element of the Internal Model, for which a greater frequency of validation had been demanded, should be subject to annual validation, if the reasons that had resulted in more frequent validations no longer apply.

The validation process, as developed within the Group, is an iterative process that accompanies the entire lifecycle of the PIM. This results in a series of intermediate meetings between the developers of the PIM and the Validation Office when the PIM is basically specified in its essential parts. In this context, therefore, although preserving the independence required by legal and regulatory provisions in the execution of validation activities, the Validation Office makes recommendations, in terms of additional analysis and tests, to the developers of the PIM, with the objective of constantly improving its operation. The results of the intermediate meetings are appropriately formalised.

B.4 Internal control system

The Internal Control and Risk Management System is a fundamental element in the overall corporate system of governance; it consists of the set of rules, procedures and organisational units that aim to ensure:
- the effectiveness and efficiency of the corporate processes;
- the appropriate mitigation of the current and forward-looking risks;
- the prevention of the risk that the company be involved, even unintentionally, in illegal activities, in particular those related to money laundering, usury and terrorism financing;
- the prevention and correct management of the potential conflicts of interest with related parties and associated parties, as identified by reference laws and regulations;
- the assessment of the implementation of corporate strategies and policies;
- the safeguard of the value of corporate assets, also in the medium-long term;
- the reliability and completeness of the information provided to the Corporate Bodies and the market and the IT processes;
- the suitability and timeliness of the company reporting system;
- the compliance of the business activities of the company and the transactions carried out on behalf of the customers with the laws and regulations, corporate governance codes and internal company provisions.

The Company implements an articulated and efficient Internal Control and Risk Management system, taking into account all applicable laws and regulations and business segments, in line with the guidelines provided by the Parent Company, to ensure that the main risks arising from its activities are correctly identified, measured, managed and controlled, as well as being compatible with sound and correct management.
The Internal Control and Risk Management system is an integral part of the company and must extend to all sectors and units, involving all employees, each for his own level and responsibility, to ensure a constant and effective control of the risk.
The Internal Control and Risk Management system is specified in the corresponding Directive (the "SCI Directive"), adopted by the Board of Directors of UnipolSai and subject to regular updates, the most recent of which took place on 21 December 2017.
The Board of Directors is in charge of the Internal Control and Risk Management system, and, in line with the guidelines set by the Parent Company, regularly verifies its suitability and actual operation, approving the Current and Forward-looking Risk Assessment and Risk Management Policies, as well as the SCI Directives – which are the basis of the Internal Control and Risk Management system - and ensuring that the main corporate risks are identified, assessed - also on a forward-looking basis - and controlled, as well as approving an organisational structure able to ensure, through an appropriate and consistent articulation, the separation of the roles in the execution of process activities, the traceability and visibility of the transactions and the transparency of the decision-making processes concerning to the individual operational processes.
The Director in charge of the internal control system, appointed by the Board of Directors, supervises the operation of the internal control and risk management system.
The Top Management (the General Manager and the senior executives carrying out tasks of management supervision[7]) supports the Director in designing and implementing the Internal control and risk management system, including those risks deriving from non-compliance with the regulations, in line with the instructions and the risk governance policies defined by the Board and with the guidelines provided by the Parent Company.

The Internal Control and Risk Management system is designed according to the guidelines described below:
- *separation of tasks and responsibilities*: the areas of competence and the responsibilities are clearly divided among bodies and units, to avoid gaps or overlaps that may affect the operations of the company;

[7] These are the Key Executives identified for the purposes of the application of the supervisory provisions on intra-group operations.

- *formalisation:* the activities of the administrative bodies and delegated parties must always be documented, to ensure the control on the management and the decisions taken;
- *integrity, completeness and fairness of the data stored:* it is necessary to ensure that the data recording system and the corresponding reports have appropriate information on the elements that may affect the risk profile of the company and its solvency;
- *independence of controls:* the independence of the control functions with respect to the operational units must be guaranteed.

The Internal Control and Risk Management system is regularly submitted to evaluation and review, according to the developments of the corporate activity and the reference context.

The Internal Control and Risk Management system is articulated on multiple levels:

i. line controls ("first-level controls"), aimed at ensuring the correct execution of the transactions. They are carried out by the operating units (e.g. hierarchical, system and sampling controls), also through different units that report to the managers of the operating units, or carried out as part of back-office activities; as much as possible, they are incorporated in the IT processes. The operating units are the first line of the risk management process and must ensure the compliance with the procedures adopted for the execution of the process and compliance with the risk tolerance level chosen;
ii. controls on risks and compliance ("second-level controls"), which aims at ensuring, among other things, the correct implementation of the risk management process, the execution of the activities assigned by the risk management process, compliance with the operational limits assigned to the different functions and the compliance of corporate operations with external and internal regulations. The functions in charge of these controls are separated from the operational units; they contribute to the definition of the risk governance policies and the risk management process;
iii. internal audit ("third-level controls"), which aims at assessing the completeness, functionality and suitability of the Internal Control and Risk Management system (including first- and second-level controls) as well as the compliance of corporate operations with this.

In the definition of the organisational structure of the control function, the Unipol Group has adopted, again for 2017, for all companies of the Group with registered office in Italy subject to supervision (jointly, "Operating Companies"), a "centralised" model, with the main objective of ensuring uniformity and consistency at the Group level in the adoption of risk governance policies, procedures and methodologies and controls; it was in fact decided to use the following approach:

- <u>set-up</u> of the Corporate Control Functions in the Parent Company, with the task of carrying out the activities within their area of competence for this company and direction and co-ordination activities for the Operating Companies;
- <u>set-up</u> of the Corporate Control Functions at UnipolSai;
- <u>outsourcing</u> of Corporate Control Functions to UnipolSai by the Operating Companies that belong to the Insurance Group, on the basis of specific outsourcing agreements in compliance with the minimal requirements specified by applicable supervisory regulations. The Audit, Risk Management and Compliance Functions of UnipolSai, which carry out the activities also for the other Operating Companies, develop and maintain a relation with the Corporate Bodies and the Top Management of the individual companies, achieving synergies of scale and purpose;
- <u>functional reporting</u> to the Parent Company of all Corporate Control Functions created at the Operating Companies; in this case, the Parent Company carries out activities of governance, direction and co-ordination for the latter, also on the basis of a management system based on a functional relation with the decentralised units, pursuing therefore the following objectives:
  - integrated management of risks and controls;
  - common governance, direction and co-ordination approach in line with the objectives of the respective functions of the Parent Company and the strategies specified;
  - unity of action of the different Operating Companies of the Unipol Group;
- <u>internal contact person for the Corporate Control Functions (Link Auditor)</u>: at the Operating Companies that have outsourced the Corporate Control Functions, a person is identified to be in charge of the relations with said Functions of the outsourcer company.

Within the Internal Control and Risk Management system, the task of assessing that the organisation and the internal procedures of the company are appropriate to prevent compliance risk - or the risk of incurring legal or administrative sanctions, economic losses and reputational damage, as a result of the breach of laws, regulations or measures of the supervisory authorities or internal - is assigned to the Compliance and Anti-money Laundering Function. The compliance operational process is articulated in the following stages:

- Analysis of legal and regulatory provisions;

- Evaluation of the risk;
- Identification of corrective actions;
- Monitoring;
- Reporting.

The intensity of each stage depends on the "project" or "control" approach adopted by the Compliance and Anti-money Laundering Function, according to whether the evaluation: (i) is related to the coming into force of new laws and regulations or to new projects/products/processes, or; (ii) concerns external or internal provisions in force.
The assessments of the first type (*ex ante* assessments) are mainly aimed at supporting the Top Management in the corrective actions resulting from new projects/products/processes/laws and regulations; those of the second type (*ex post* assessments) have the purpose of representing the level of compliance of the procedures, processes, policies and internal organisation of the companies of the Group with legal and regulatory provisions applicable to the company, as well as compliance risk.

Ex ante assessments
The *ex ante* assessments are carried out at the time: i) of external events, e.g. the issue of new laws and regulations applicable to the companies by European or Italian legislators, supervisory authorities, etc. or ii) of internal events, e.g. the proposal by the management of new projects/products/processes.
These assessments are usually scheduled within the annual plan of the Compliance and Anti-money Laundering Function and the scope is chosen according to a priority system that focuses, mainly, on the relevance and the impact (also reputational) of the newly-issued legal and regulatory provisions (or the innovations of process or product envisaged) with respect to the organisation and business model of the company. The *ex ante* assessments may also be started after a one-off request by the supervisory authorities, the corporate bodies or the management.

Ex post assessments
The *ex post* assessments may have as object corporate processes ("process assessment") or external regulations of supervision or of particular relevance (e.g. IVASS Regulations, CONSOB, Laws and Decrees, etc.), as well as internal regulations. These assessments are usually scheduled within the annual plan of the Function, according to a priority system that focuses on:

- the need to "cover" all corporate processes;
- the results of previous assessments, *ex ante* and *ex post*;
- the need to "cover" the supervisory regulations, taking also into account the relevance and the complexity of these;
- the evaluation of the risks in regard to laws and regulations that are object of special attention by regulators and supervisory authorities, or that are subject to especially hard sanctions;
- the time passed since the latest analysis carried out by the Compliance and Anti-money Laundering Function and the other Corporate Control Functions in regard to the relevance of legal and regulatory provisions in question;
- the data related to claims and sanctions received, if available.

The *ex post* assessments may also be started following a one-off request by the supervisory authorities, the corporate bodies or the management.

B.5 Internal audit function

The Audit Function assesses the completeness, functionality and suitability of the Internal Control and Risk Management system, in regard to the nature of the activity carried out and level of the risks taken, as well as the need for corrective measure, also through activities of support and consulting to the other corporate functions. The procedures of execution of the tasks assigned to the Audit Function are specified and formalised in the "Audit Function Regulations", enclosed with the SCI Directives.
The Manager of the Audit Function has specific expertise and professionalism for the execution of the activities and has the authority needed to ensure its independence. The Function has been provided with personnel and technology resources consistent, for quantity and quality, with the purpose of the controls. Personnel in charge of the activities is given - for the execution of the assessments - access to all units and documents related to the corporate area object of assessment, including all information useful for the assessment of the suitability of the controls carried out on outsourced corporate functions.

The activities of the Function include in particular:
- the assessment of management processes and organisational procedures, aimed at assessing the functionality of the total internal control system as a whole and at identifying anomalies, breaches of procedures and regulations;
- the assessment of the compliance of the different operational sectors with the limits set by the delegation mechanisms as well as of the full and correct use of the information available in the different activities;
- the assessments on the suitability of the IT systems and their reliability so that the quality of the information on which the top management bases its decisions is ensured;
- the assessments to ensure that the administrative-accounting processes meet criteria of fairness and regular keeping of the accounts;
- the assessments on the effectiveness and efficiency of the controls carried out on outsourced activities;
- the assessment of the regularity and functionality of the reporting activities between corporate sectors;
- the regular update of the validation process of the internal models for the calculation of the Solvency Capital Requirement;
- the support to all units in the preparation of new processes and activities, through specific control and regulatory tasks, so that the necessary levels of security and the points of verification are appropriately specified and constantly monitored;
- the reporting to the Board of Directors, the Director in charge of the internal control system, Top Management, managers of the operating units, the Control and Risk Committee, the Board of Statutory Auditors and the SB;
- the co-operation with the Control and Risk Committee, the independent audit company, the Board of Statutory Auditors and the SB.

The Audit Function operates in compliance with the regulations, measures and resolutions of the supervisory authorities, the international standard issued by the Institute of Internal Auditors (IIA) and the best industry practice.
For each audit, detailed worksheets are prepared and archived electronically. The report signed by the Manager of the Function and the members of the team is stored in the original at the legal office of the Company.
The Audit Reports are prepared on the basis of a standard model consisting of:
- a front page reporting: recipients of the report and date; company of reference of the audit, title and protocol number of the Audit Report, evaluation of the risk of the process audited, evaluation of the corresponding control system, list of the companies to which the audited activity was outsourced;
- an Executive Summary reporting the objective of the audit, the summary of the significant findings made and the corrective initiatives of the management;
- a body of the report that includes, in addition to the objective of the audit already reported in the Executive Summary, an introduction (possibly), the indication of any limits of the audit, the description of the activity carried out, the findings and the areas for improvement identified, the corrective actions proposed (each accompanied by a summary evaluation of the urgency of the situation in graph form), the associated risks, the response of the management, the managers and the deadlines, the period during which the audit was carried out and the personnel involved.

Each audit that identifies findings or areas for improvement is object of follow-up activities to verify that the corrective actions proposed by the management were implemented and are effective.
For inspections on the sales networks, the settlement networks and internal fraud, specific reports are prepared with details of the results with regard to compliance of said units with external and internal regulations and any irregularity found.
The Function regularly reports to the Corporate Bodies on the audit activities carried out, their results and the proposals made. In particular, it reports:
- at the end of each audit, promptly, to the Top Management and the managers of the functions audited, by sending the audit report described above, which, as already said, describes the issues or the improvement areas identified, the proposals made to address the issues and the comments of the management;
- every six months to the Board of Directors and the Board of Statutory Auditors of the Company, with a report summarising the audits carried out in the reference period;
- on request, to the Board of Statutory Auditors, in the meetings of which the Audit Function takes part when invited.

B.6 Actuarial function

With reference to Solvency II Technical Provisions, in compliance with Art. 30-sexies of the CAP and in line with what was decided at the time of set-up of the Actuarial Function, the Function carries out the following tasks:

- to coordinate the calculation of the Technical Provisions, as well as the evaluation and the validation of the data to be used in the procedure of evaluation of the adequacy of the provisions;
- to ensure the suitability of the methodologies and the models used, as well as of the assumptions on which the calculation of the Technical Provisions is based, also in terms of proportionality of the methodologies to the nature, magnitude and complexity of the risks underlying the commitments taken;
- to assess the adequacy and quality of the data used in the calculation of the Technical Provisions;
- to compare the best estimates with historical data;
- to inform the Board of Directors about the reliability and suitability of the Technical Provisions' calculation;
- to supervise the calculation of the Technical Provisions in the cases specified by legal and regulatory provisions;
- to express an opinion on the global underwriting policy;
- to express an opinion on the suitability of the re-insurance agreements;
- to contribute to apply the risk management system effectively, in particular with reference to the modelling of the risks underlying the calculation of capital requirements, and internal assessment of risk and solvency.

Moreover, with reference to the provisions in the financial statements, the Function carries out the control activities specified in ISVAP Regulation No. 22/2008, as modified and integrated by IVASS Measure No. 53/2016, as well as to draft and sign the corresponding technical reports.
Lastly, the contribution of the Actuarial Function may be required also in the definition of the strategic plan as well as for specific requirements of business.

B.7 Outsourcing

UnipolSai is the main service provider of the Unipol Group. It is independent in almost all corporate areas and has the personnel and the skills to carry out these activities also on behalf of other companies of the Group.

The Company has also acquired the expertise to carry out, by appointment of the insurance companies and some other companies of the Group, the Corporate Control Functions needed to ensure the appropriate control on its organisation structure.

The guidelines on outsourcing are specified in the Group Outsourcing Policy, adopted by the Board of Directors of UnipolSai and regularly updated, most recently on 21 December 2017, which regulates the decision-making processes, responsibilities, tasks and controls required on the outsourcing of activities and corporate functions within the Unipol Group, as well as to third parties, strengthening in this way the control of the risks deriving from outsourcing.
The Policy in particular specifies:

- the criteria to identify the activities to be outsourced;
- the criteria to qualify activities as essential or important and the important operational functions;
- the restrictions on outsourcing;
- the criteria to select the service providers;
- the decision-making process for the outsourcing of corporate functions or activities;
- the minimum content of the outsourcing contracts and the criteria to define the service levels of the outsourced activities required;
- the internal reporting activities to provide the bodies and Corporate Control Functions the full knowledge and governability of the risk factors related to the functions outsourced;
- the guidelines to be followed in case of incorrect execution of the outsourced functions by the service provider, including those related to emergency plans and exit strategies in the case of outsourcing of essential or important functions and activities;
- the reporting obligations towards the supervisory authorities.

In compliance with the provisions of ISVAP Regulation 20/2008, the Company deems essential or important those functions or activities that meet at least one of the following conditions:

i. anomalous execution or failure to execute may seriously jeopardise:
   a. the financial performance, the solidity of the Company or the continuity and the quality of the services provided; or,
   b. the ability to the Company to continue to meet the conditions for the authorisation to the exercise of the activities or the obligations specified by applicable supervisory regulations;
ii. concern operational processes of the Corporate Control Functions, or have a significant impact on risk management.

The classification of the activities or functions as essential or important may keep into account, as additional elements of the assessment, the economic relevance of the activity and its volumes, with respect to total volumes, as well as the degree of independence of the service provider in the execution of the activities specified by the outsourcing contract.

The Company may conclude outsourcing agreements, provided the nature and the quantity of the activities to be outsourced, as well as the outsourcing procedures, do not result in a transfer of the main activities of the Company. In particular, the Company cannot, by outsourcing:

- delegate its responsibilities, or the responsibilities of its Corporate Bodies. In line with this principle, the outsourcing of activities that are expressly included in the tasks of the latter is not allowed;
- jeopardise the quality of the internal controls and the system of governance of the Company;
- outsource the Corporate Control Functions outside the Unipol Group;
- change the relations and the obligations towards the customers;
- jeopardise its ability to meet the obligations specified by supervisory regulations or fail to maintain the reserves provided for by the law;
- hinder the supervision;
- outsource the assumption of risk.

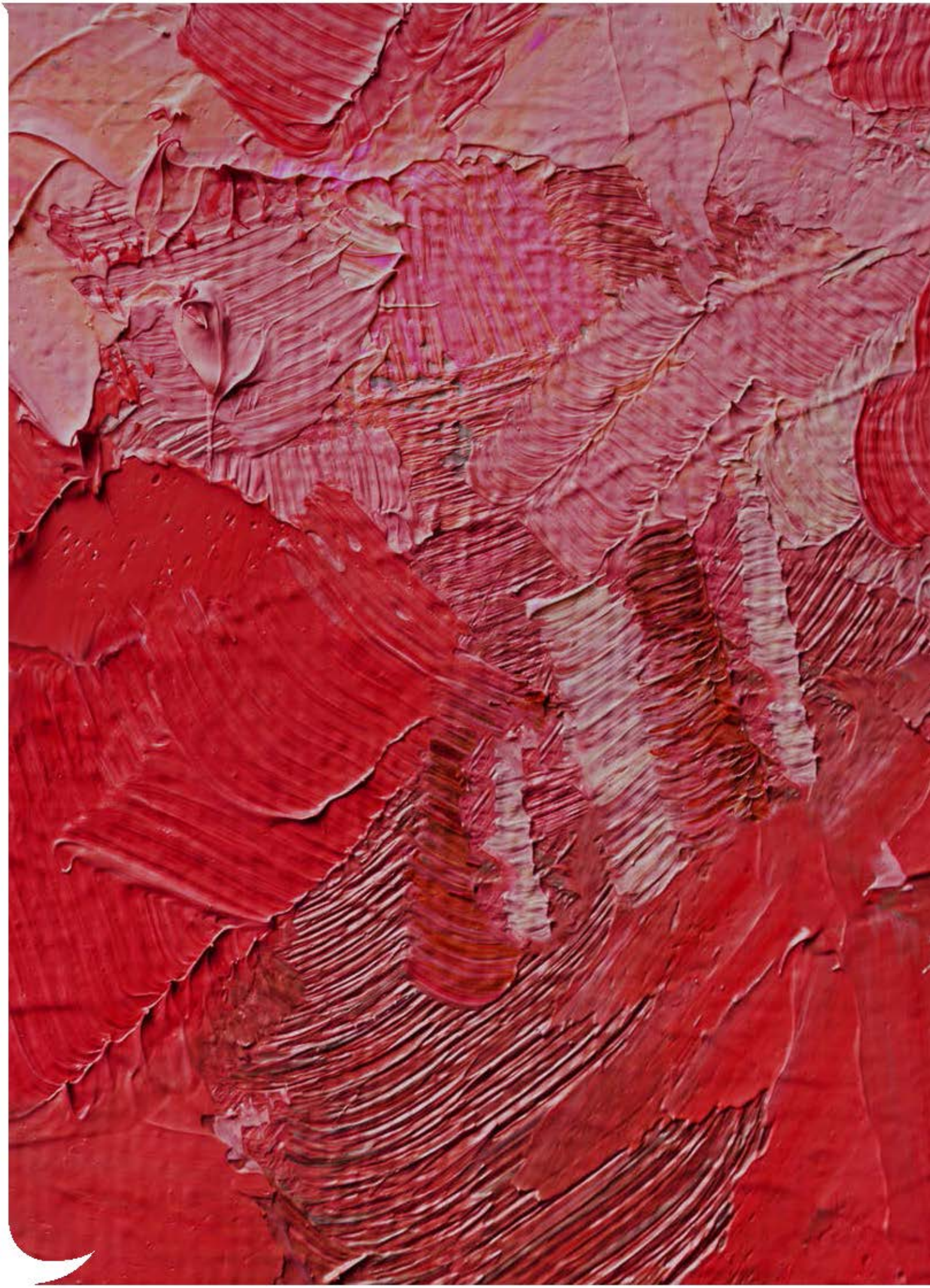
The Company has identified among its personnel a contact person to control the outsourced activities and has formalised the tasks and responsibilities of this. In the case of outsourcing of the Corporate Control Functions, legal and regulatory provisions require the service provider to meet the requirements of suitability for office, requirement set also by the relevant corporate policies.
The outsourcing of essential and important functions, identified according to the above criteria, is subject - as well as to the prior notification to the supervisory authorities, if required, - (i) to the approval procedure specified by the system of mandates and powers in force, if the service providers belong to the Unipol Group and (ii) to the approval of the General Manager, in line with the corresponding system of mandates and powers, if the service providers do not belong to the Unipol Group. In particular, the Corporate Control Functions, given the relevance taken within the more general Internal Control and Risk Management system, may be outsourced, if allowed by legal and regulatory provisions, and in any case in compliance with the restrictions set by competent supervisory authorities, only within the Unipol Group, after resolution of the Board.
The table below provides information on the essential or important[8] functions and activities outsourced and the jurisdiction in which the providers of these functions and activities are located.

[8] The classification as essential or important in this table is originated, for some contracts, by the analysis carried out at the time of the reporting required by the coming into force of the relevant Insurance Regulation or by later activations, in any case before the issue of the Group Outsourcing Policy, and may therefore sometimes depart from the criteria set by this.

Critical or important operational activities	Provider	Provider's registered office
Technical assistance in negotiating and signing contracts - management of Portfolio - Goods in Transit administr. Management	SIAT Società Italiana di Assicurazioni e Riassicurazioni p.A.	Via V Dicembre, 3 - Genova
Car repair	Auto Presto & Bene S.p.A.	Via Carlo Marenco, 25 - Torino
Digital storage of the insurance documentation (claims and acts)	Telepost S.p.A.	Via Poli, 4 - Zola Predosa (BO)
Document management	SIAV S.p.A.	Via Rossi, 5 - Rubano (PD)
Storage and archiving of FEA certified electronic signature	Telecom Italia S.p.A.	Via Gaetano Negri, 1 - Milano
Storage and archiving of the insurance registers	IN.TE.S.A. S.p.A.	Strada Pianezza, 289 Torino
Management of policies	DEMETRA S.r.l.	Via Val di Lanzo, 128 Roma
Claims management	UP Services	Via Madonna del Violo, 6 - Poggio a Caiano (PO)
Handling tort before ANIA	ONE os S.r.l.	Via Principe Tommaso, 36 Torino
Liquidation of the Legal Expenses portfolio ceded to Reinsurers	ARAG SE Rappresentanza Generale e Direzione per l'Italia	Viale del Commercio, 59 - Verona (VR)
Claims settlement relating to prior years	BL Consulenze	Via La Spezia, 1 Milano
Claims settlement relating to previous years	Inter Partner Assistance S.A. Member of AXA Assistance Group - Rappresentanza Generale per l'Italia	Via Carlo Pesenti, 121 - Roma
Claims Middle Office	Corvallis S.p.A.	Via Giovanni Savelli, 56 - Padova
Extrajudicial credit (premiums) recovery before legal proceedings	Mirò S.r.l.	Via del Perugino, 6/H – Bologna
Reinsurance Risk carrier and service provider	UnipolRe dac	The Watermarque Building, Ringsend Road - Dublino (IR)
Adimistr. SARC	Corvallis S.p.A.	Via Giovanni Savelli, 56 - Padova
Administr. Service Open Pension Funds	Previnet S.p.A.	Via Enrico Forlanini, 24 - Preganziol (TV)
Call center for medical assistance, addressing,reservations, claims management and settlement	UniSalute S.p.A.	Via Larga, 8 - Bologna

B.8 Any other information

The Board has reviewed the suitability of the organisation, administrative and accounting structure and, in particular, of the Internal Control and Risk Management system of the Company and its main subsidiaries, on the basis of regular reports of the Chief Executive Officer, the Control and Risk Committee and the Corporate Control Functions as well as the Actuarial Function.
There is no other significant information on the company's system of governance.



C. RISK PROFILE

C.1 Underwriting risk

Non-Life and Health Technical Insurance Risk

Non-Life and Health Underwriting Risk is represented, within the PIM, through the following risk sub-modules:

- Premium Risk: risk deriving from fluctuations concerning the timing, frequency and seriousness of insured events related to contracts in force at the date of evaluation or that will be underwritten in the year after the date of evaluation t ("next year"). Valued with the Standard Formula, which is based on the use of volatility parameters, specified by Regulators or company-specific, expressed as percentage of a measure of volume. The measure of volume for Premium Risk is represented by an estimate of the premiums that will accrue the year after the valuation date;
- Reserve Risk: risk deriving from fluctuations concerning the timing and amount of future payments for claims already made at the date of evaluation. Valued with the Standard Formula, based on the use of volatility parameters, specified by Regulators or company-specific, expressed as percentage of a measure of volume. The measure of volume for Reserve Risk is represented by the best estimate of claim provisions;
- Catastrophe Risk: risk of losses or unfavourable changes in the value of the insurance liabilities due to extreme or exceptional events. Valued with an internal model for Earthquake Risk and with the Standard Formula for the remaining risks;
- Lapse Risk: risk of early extinction – on the initiative of the policyholder – of multi-year contracts. Valued with the Standard Formula.

For the calculation of the capital requirement for the Premium and Reserve sub-modules using the Standard Formula, the specific parameters of the Company (Undertaking Specific Parameters, or USP) were used for the segments object of specific authorisation by the supervisory authorities; the Market Wide parameters were used in all other cases. The authorisation concerns the following segments of the insurance and re-insurance obligations as specified in Annex II to the Delegated Regulation EU 2015/35, 10 October 2014:

- **Segment 1**: Proportional insurance and reinsurance on TPL resulting from the circulation of vehicles (Motor Vehicle Liability Insurance - MVL);
- **Segment 4**: Proportional insurance and reinsurance against fire and other damage to property (Fire and other damage to property insurance - FDP);
- **Segment 5**: Proportional insurance and reinsurance on general TPL (General Liability Insurance - GLI).

With the exception of Earthquake Risk, Catastrophe Risks are assessed with the Scenario Based method of the Standard Formula, as specified by the Delegated Regulation of the Solvency II regulations. The Partial Internal Model for the evaluation of Earthquake Risk consists of three different calculation modules:

- "Hazard": assesses the uncertainty associated with the possibility of an earthquake occurring in a given area (frequency) and the uncertainty relating to its magnitude (intensity).
- "Vulnerability": assesses the seismic vulnerability of different types of insurable assets to a seismic event of a given intensity.
- "Financial": identifies the economic loss to the insurance company (in terms of deductibles, the sum insured, reinsurance cover, etc.).

Surrender risk is assessed using the method specified by the current legal and regulatory provisions, based on a scenario of loss of a part of the multi-year policy portfolio with positive expected profit.

The Partial Internal Model configuration for the Non-Life and Health risk modules of UnipolSai envisages the production of the probability distribution function (PDF) of the aggregated loss of the two modules based on the results produced by the Standard Formula (USP if applicable) for the Premium and Reserve, Lapse and Catastrophe sub-modules – all perils with the exception of Earthquake – and by the Internal Model for the Earthquake Catastrophe risk.

In the period subject to analysis, no substantial changes were made to the measures used to assess risks.

The following table provides volume measures for Non-Life and Health Premium and Reserve Risk. The data are reported for each LoB in which the Company operates.

Volume measure for Non-Life and Health premium and reserve risk

Amounts in €k	Volume measure and premium risk	% on total	Volume measure and reserve risk	% on total
Motor vehicle liability insurance	3,303,335	45.8%	5,269,105	54.5%
Fire and other damage to property insurance	1,297,507	18.0%	644,499	6.7%
General Liability Insurance	806,418	11.2%	2,914,597	30.2%
Total LOB USP	**5,407,260**	**74.9%**	**8,828,200**	**91.4%**
Other motor insurance	654,863	9.1%	112,400	1.2%
Marine, aviation and transport insurance	18,001	0.2%	49,751	0.5%
Credit and suretyship insurance	43,759	0.6%	192,290	2.0%
Legal expenses insurance	20,210	0.3%	44,572	0.5%
Assistance	28,231	0.4%	21,732	0.2%
Miscellaneous financial loss	63,139	0.9%	14,614	0.2%
Non-proportional property reinsurance accepted	486	0.0%	6,202	0.1%
Non-proportional casualty reinsurance accepted	1,019	0.0%	8,630	0.1%
Non-proportional marine, aviation and transport reinsurance		0.0%	451	0.0%
Income protection insurance	696,266	9.7%	285,410	3.0%
Medical expense insurance	281,364	3.9%	94,962	1.0%
Non-proportional health reinsurance accepted	244	0.0%	967	0.0%
Total	**7,214,843**	**100.0%**	**9,660,183**	**100.0%**

The SCR of the Non-Life and Health Underwriting risk module for UnipolSai calculated with the Partial Internal Model, using USP parameters at 31 December 2017, was equal to €2,011,159k. With respect to the solvency requirement at 31 December 2016, there was a change of -€185,131k primarily due to the decline in the capital requirement of the Non-Life Premium and Reserve sub-module; this change in the requirement is explained by the decrease in measures of volume with respect to 2016 and the update in USP parameters.

Non-Life and Health SCR with Partial Internal Model use

Amounts in €k

Risk sub-module	2017	2016	Change on 2016
Non-Life	**1,997,627**	**2,183,627**	**(186,000)**
Non-Life premium and reserve	*1,786,481*	*1,995,260*	*(208,779)*
Non-Life surrender	*1,220*	*1,027*	*194*
Non-Life CAT	*486,207*	*480,814*	*5,393*
Health	**287,923**	**291,157**	**(3,234)**
Non-Life and Health SCR	**2,011,159**	**2,196,290**	**(185,131)**

Concentration of risks
According to the provisions of Chapter III of IVASS Regulation No. 30, 26 October 2016, risk concentrations are assessed at the Group level. The risk concentration is measured in line with the provisions of the specific policy approved by the Board of Directors of the Parent Company UG S.p.A. This policy provides for the risk concentrations to be measured with respect to:

- insurance liabilities in financial statements:
  - values of provision for individual claim;
- potential liabilities outside the financial statements:
  - natural catastrophe exposures[9] grouped by risk factor and appropriate territorial cluster;
  - exposures by risk or policy on individual insured party or group of related parties;
  - exposures for the Bond class grouped by sector.

Risk mitigation techniques
The Company uses outwards reinsurance as risk mitigation technique.
With regard to the Premium and Reserve risks, the calculation of the capital requirement at 31 December 2017 was carried out by taking into account the outwards reinsurance agreements, both for their effect on the measures of volume and, if appropriate, for their impact on the USP estimates, as specified by legal and regulatory provisions.

For the calculation of the capital requirement at 31 December 2017 for the Catastrophe Risk sub-module using the Standard Formula, the outwards reinsurance agreements were applied in line with the provisions of IVASS Regulation No. 31, 9 November 2016. For the calculation of the capital requirement for Earthquake Risk using the Internal Model, the outwards reinsurance agreements were applied in line with legal and regulatory provisions and integrated with the other secondary risk sub-modules.

Pursuant to Art. 9 of IVASS Regulation No. 33, 6 December 2016, the Company has transferred, through a reinsurance agreement, a portion of its Earthquake Risk to the Special Purpose Vehicle Azzurro Re I Ltd., with legal office in Dublin, which has been authorised to exercise re-insurance activities by the Central Bank of Ireland on 2 June 2015 (authorisation number C139799). Azzurro Re I Ltd ensures the full and constant funding of the commitments deriving from the reinsurance agreement concluded with the Company and meets the requirements set by Delegated Regulation (EU) 2015/35, so that the risk mitigation technique may be taken into account in calculating the Solvency Capital Requirement.

Life Underwriting Risks

The underwriting risk for Life insurance represents the risk deriving from Life insurance commitments, keeping into account the perils covered and the procedures used in the exercise of the activity.

The Life portfolio of UnipolSai consists mostly of revaluable products, related to the financial returns of segregated funds (LoB1).
Table 1 shows the breakdown of the composition of the portfolio in terms of Best Estimate of Life liabilities.

[9] Considered significant on the basis of the analysis of the portfolio risks of the Group.

Life portfolio at 31 December 2017

Amounts in €k

Best Estimate of Liabilities (BEL)	2017
Insurance with profit participation	26,958,279
Index-linked and unit-linked insurance	4,140,683
Other life insurance	(111,767)
Indirect business	9,729
Total	**30,996,925**

The portfolio of UnipolSai is exposed to the following risk factors:

- **mortality risk**: associated with an unfavourable change in demographic bases resulting from experience (higher death rate) compared to those used in determining the tariff;
- **longevity risk**: associated with an unfavourable change in demographic bases resulting from experience (lower death rate) compared to those used in determining the tariff;
- **surrender risk**: associated with adverse changes in the level or volatility of the incidence of surrenders, withdrawals, early settlements and terminations in premium payments;
- **expense risk**: associated with adverse changes in the value of expense linked to policies compared to the values used to determine the tariff;
- **catastrophe risk**: deriving from an unforeseeable event, the consequence of which is to affect multiple individuals at the same time, generating a number of claims for amounts significantly higher than expected.

The Company UnipolSai was authorised, from 31 December 2016, to use the Internal Model for the evaluation of the following risk factors:

- mortality/longevity risk;
- surrender risk;
- expense risk.

Catastrophe risk and the Class D component of the Life portfolio (Index Linked, Unit Linked and Pension Funds) are instead assessed with the Standard Formula.

In the period subject to analysis, no substantial changes were made to the measures used to assess risks.

With reference to the years ended 31 December 2017 and 31 December 2016, we provide a breakdown for the individual SCR sub-modules of the Underwriting risk.

Life SRC partial internal model

Amounts in €k

Risk sub-module	2017	2016	Change on 2016
Mortality/Longevity	*51,453*	*68,249*	*(16,796)*
Disability			
Surrender	*106,339*	*136,405*	*(30,066)*
Life expenses	*67,275*	*52,111*	*15,164*
Revision			
Life catastrophe	*29,253*	*28,726*	*527*
SCR Vita Remaining part	172,794	195,224	(22,430)
SCR Ring Fenced Fund	21,205	17,375	3,830
Life SCR	193,999	212,599	(18,600)

The main source of risk is represented by surrenders, the SCR of which is equal to 42% of the non-diversified Life Underwriting risk.
With respect to the solvency requirement at 31 December 2016, there was a €22,430k reduction in the Life SCR Remaining part, primarily due to the decline in surrender risk and mortality/longevity risk. Surrender risk decreased due to the joint effect of the lower exposure of surrender frequencies and rising interest rates, as well as the natural evolution of the policy portfolio. Likewise, the decrease in mortality/longevity risk was caused by the reduction in longevity risk against rising interest rates.

Concentration of risks
According to the provisions of Chapter III of IVASS Regulation No. 30, 26 October 2016, risk concentrations are assessed at the Group level. The Company contributes to the significant risk concentrations observed at the Group level through its insurance liabilities.
With reference to risk concentrations, special attention is paid to surrender and mortality risks.

The Company aims at mitigating the concentration of surrender risk exposure by limiting the assumption of large contracts, in particular in the corporate segment.

With regard to mortality risk, re-insurance and other risk transfer techniques are the main tools used by the Company to mitigate the exposures or the concentration of exposures that could lead to a divergence of the current risk profile from the one desired.

We note that within the setting of Risk Appetite levels, Life Technical Insurance Risk is measured in terms of capital at risk. Notably, the capital at Life Technical Insurance Risk takes into account all risks and all exposures related to the Life portfolio, including those exposures classified as being at risk of concentration.

Risk mitigation techniques
With regard to Life Underwriting Risk, mitigation is carried out through "Management Actions", that is, corrective measures applied to the ordinary financial portfolio management strategy used by the Company.

The mitigation action is quantified in the "Adjustment for Loss Absorbing Capacity of Technical Provisions" (ALAC TP), calculated in compliance with the Regulation.

Additional mitigation actions may be taken through re-insurance, with the transfer of a portion of mortality risk.

C.2 Market risk

Market risk includes all those risks that result in the deterioration of financial or real estate investments because of the adverse evolution of important market variables.

With the Internal Model it is possible to calculate the value of the capital needed to absorb the maximum potential loss, maintaining the solvency of the Company. Pursuant to Solvency II guidelines, the amount of the potential loss is measured in terms of Value at Risk (VaR), understood as the maximum potential loss that the company may incur over a given time horizon, with a given confidence interval. The internal model takes as time horizon a period equal to one year and a confidence interval equal to 99.5%.

The Market Risk classes identified are the following:

- Interest rate risk: the risk of a potential adverse change in the net asset value due to a change in the term structure of interest rates;
- Interest rates volatility risk: the risk of a potential adverse change in the net asset value due to a change in the volatility of interest rates;
- Equity risk: the risk of a potential adverse change in the net asset value due to changes in stock market prices;
- Equity volatility risk: the risk of a potential adverse change in the net asset value due to changes in the volatility of equities;
- Exchange rate risk: the risk of a potential adverse change in the net asset value due to changes in the value or the volatility of exchange rates;
- Spread risk: the risk of a potential adverse change in the net asset value due to changes in the value of the credit spread with respect to the risk-free curve;
- Yield risk: the risk of a potential adverse change in the net asset value due to joint changes in the value of the credit spread and the risk-free rates;
- Property Risk: the risk of a potential adverse change in the net asset value due to changes in the value of the land, buildings and corresponding rights, direct and indirect participations in real estate companies, as well as instrumental property used for insurance activities and investment funds the components of which may be considered equivalent to the categories previously described;
- Concentration risk: the additional risk deriving from a limited diversification of the financial asset portfolio, or a high exposure to the default of a single issuer.

UnipolSai was authorised, from the year ended 31 December 2016, to use the Internal Model to calculate the capital requirement for the following risk factors:

- Interest rate risk;
- Interest rates volatility risk;
- Equity risk;
- Equity volatility risk;
- Exchange rate risk;
- Spread risk;
- Yield risk[10];
- Property Risk.

Concentration Risk and Market Risk for index linked and unit linked policy portfolios and pension funds are instead assessed with the Standard Formula.

[10] The Market internal model generates joint distributions for the returns on financial and industrial securities, the returns on government bonds and the risk free curve. The spread risk is obtained on the basis of a marginal distribution of the spread of financial and corporate securities not significant for the purposes of the calculation of the Market VaR.

These risk classes make possible an appropriate representation of the measurement of the maximum loss and the trend of the profits and losses on the investment portfolio according to the investment classes specified by the Group Investment Policy. The Group Investment Policy defines the investment activity on all the assets of the company included in the perimeter, according to the nature, magnitude and complexity of the risks characterising the corporate activities, in line with the principles of prudent management. It takes into account, on one hand, the risk appetite and the possibility to identify, measure, monitor and manage the risks related to each asset type without relying only on the fact that the risks are correctly considered in the capital requirements and, on the other, the characteristics and the nature of the liabilities, the cash flows matching requirements and the control of the investment margins.

The financial portfolio at 31 December 2017 consisted for 79.2% of bonds and, in particular, 53.3% of financial assets consisted of government bonds. Real Estate and Participations were respectively 6.0% and 7.5% of the portfolio.

Composition of the financial portfolio

Amounts in €k	Solvency II value 2017	Exposure % on total PTF
Property, plant & equipement held for own use	586,149	1.3%
Investments (other than assets held for index-linked and unit-linked contracts)	2,132,598	4.7%
Holdings in related undertakings, including participations	3,382,372	7.5%
Equities	878,271	1.9%
Equities - listed	*705,173*	*1.6%*
Equities - unlisted	*173,098*	*0.4%*
Bonds	35,917,052	79.2%
Government Bonds	*24,180,587*	*53.3%*
Corporate Bonds	*10,799,297*	*23.8%*
Structured notes	*908,258*	*2.0%*
Collateralised securities	*28,910*	*0.1%*
Collective Investments Undertakings	2,214,669	4.9%
Derivatives	141,558	0.3%
Deposits other than cash equivalents	83,731	0.2%
Total portfolio	**45,336,399**	**100.0%**

In the period subject to analysis, no substantial changes were made to the measures used to assess risks.

The value of the Class D portfolio, consisting of assets relating to Unit-linked and Index-linked policies, came to €3,335,459k at 31 December 2017.

All assets, in particular those set against the minimum capital requirement and the Solvency Capital Requirement, are invested in a way to ensure the safety, quality, liquidity and profitability of the portfolio as a whole.
The strategic investment policy, defined in the Group Investment Policy, identifies the investment activity on all the assets of the company included in the perimeter, according to the nature, magnitude and complexity of the risks characterising the corporate activities, in line with the principles of prudent management. It takes into account, on one hand, the risk appetite and the possibility to identify, measure, monitor and manage the risks related to each asset type without relying only on the fact that the risks are correctly considered in the capital requirements and, on the other, the characteristics and the nature of the liabilities, the cash flows matching requirements and the control of the investment margins. In light of what is laid out above, the strategic investment policy establishes, for each company and as a result for the Group as a whole, the strategic medium/long-term composition of the investment portfolios, defining limits on investments by individual company and specific limits at consolidated level for each source of significant risk for the Group, providing for an adequate diversification and spreading of assets so as to guarantee the continuous availability of sufficient assets to cover liabilities, as well as the security, quality, liquidity and profitability of the portfolio as a whole, taking into account, for investments concerning the Life business, the reasonable expected returns of policyholders, compatible with the types of policies taken out, with the minimum level of return and with the minimum level of security that the Companies intend to guarantee, as well as what is laid out in contractual regulations.
The strategic investment policy is also adopted taking into account the fact that the assets covering the technical provisions must be adequate in relation to the nature of the risks and obligations assumed and the duration of the liabilities, in the best interest of all policyholders, the insured, the beneficiaries and those entitled to insurance benefits, while observing the supervisory provisions on the coverage of technical provisions. The underlying principles of the strategic investment policy are:

- general principles of security, quality, liquidity, profitability and availability of the entire asset portfolio, taking into account the liabilities held;
- evaluation of risk appetite, risk tolerance levels and the possibility to identify, measure, monitor and manage risks connected to each asset type;
- Strategic Asset Allocation which ensures the achievement of the targets pursued by the integrated asset and liability management and the liquidity and concentration risk management policies as well as return objectives;
- definition of investment selection and management criteria in the best interest of the policyholders and beneficiaries, and those entitled to insurance benefits, including if there is a conflict of interests, taking into account the financial market environment.

Given the composition of the financial portfolio, we provide below the SCR figures calculated with the Internal Model for the year ended 31 December 2017 and a comparison with the capital requirement relating to 31 December 2016.

Starting from the assessments relating to 31 December 2017, following a specific request from the Supervisory Authority, a change was made to the model with respect to the type of reference time series, with a view to including the recent financial crises within the time horizon used for the assessments. To that end, the time series was changed from the "rolling window" type to "incremental", in order to take the 2007-2008 and 2011 financial crises into due consideration.

Market SCR internal model

Amounts in €k

Risk sub-module	Market SCR 2017	Market SCR 2016	Change on 2016
Interest Rate	718,221	506,916	211,305
Equity	1,167,712	736,814	430,898
Property	642,773	721,713	(78,940)
Spread	1,294,257	1,472,382	(178,125)
Exchange	66,624	90,817	(24,193)
Concentration	77,145		77,145
SCR Mercato Remaining part	**2,031,054**	**1,710,456**	**320,598**
SCR Ring Fenced Fund	**20,612**	**15,544**	**5,068**
Market SCR	**2,051,666**	**1,726,000**	**325,666**

With respect to the solvency requirement at 31 December 2016, there was a €320,598k increase in the Market SCR Remaining part, primarily due to the rise in the interest rate and equity module.
The interest rate rose primarily due to the increased duration mismatch between assets and liabilities following the introduction of new actuarial assumptions relating to whole life policies; such changes resulted in an extension in the duration of liabilities.
Equity risk rose due to the increase in exposures to securities/equity funds and alternative investments. There was also an increase in strategic equity investments following extraordinary corporate transactions; such transactions also resulted in concentration risk.

Market Risk mainly depends on Equity Risk and Spread Risk, which were the sub-modules with the greater incidence on total Market Risk. The Market internal model generates joint distributions for the returns on financial and industrial securities, the returns on government bonds and the risk free curve. The spread risk is obtained on the basis of a marginal distribution of the spread of financial and corporate securities not significant for the purposes of the calculation of the Market VaR. Other significant sub-modules are Equity and Property Risk, because of the investments in equities, investment funds and alternative funds, participations in the companies of the Group and real estate investments.

We note that Equity and Property Risk include, respectively, participations in non-real estate and real estate insurance subsidiaries, which within the Group contribute to the determination of the capital requirement through the line-by-line consolidation of the assets and liabilities of such entities.

Concentration of risks
According to the provisions of Chapter III of IVASS Regulation No. 30, 26 October 2016, risk concentrations are assessed at the Group level. The Company contributes to significant risk concentrations at the Group level, through the exposures deriving by its investment in securities included in the Macro Asset Class Equity and Corporate Bond and Participations specified in the Group Investment Policy.

The risk concentration policy of the Group specifies a "Limit of concentration on investments and loans", which includes, as well as loans and credits, also any exposure in equity or debt securities. The concentrations are recognised mainly at the level of counterparty or group of related counterparties, sector, geographic area and currency.

Risk mitigation techniques
To mitigate Market Risk, the Company has set up a series of controls to ensure that the risk mitigation techniques maintain their effectiveness. Specifically, monthly tests are carried out to assess the effectiveness of the derivative hedges taken out by the Company. In order to mitigate current or future risk not in line with the risk objectives specified, financial transactions to mitigate the risks may be carried out: these mitigation transactions are carried out on the derivative markets. The objectives of the use of derivatives are:

- to reduce the risk of the investment;
- to achieve an effective portfolio management by improving the level of quality, safety, liquidity or profitability of the portfolio without significant reduction for any of these characteristics.

These transactions do not have speculative purposes; short selling is not allowed.
Moreover, the Investment Policy specifies Market Risk limits and Sensitivity limits.
With regard to Market Risk limits, a warning threshold is specified for the companies, keeping into account the resolutions taken by the respective Administrative Bodies on Risk Appetite and in particular the economic capital component allocated by the Parent Company and by the individual companies to Market Risk.

This warning threshold is set equal to 95% of the Risk Appetite specified for Market Risk (total Value at Risk per individual Company, with 99.5% confidence interval and a holding period equal to 1 year).

With regard to Sensitivity limits, the following limits related to the sensitivity of the financial asset portfolios for different risk factors are specified:

a) for widening of the credit spreads of +100 bps;
b) for change in equity prices of -45%.

C.3 Credit risk

Credit risk (Counterparty Default Risk) identifies the risk that a borrower or an enforced guarantor may fail to meet, fully or in part, his monetary obligations towards the Group. Credit risk reflects, therefore, the likely loss generated by an unexpected default of the counterparties and the debtors of the insurance and re-insurance companies in the next 12 months.

From the year ended 31 December 2016, the Company has been authorised to use its Internal Model for the evaluation of the Credit risk: the methodology adopted to assess the risk of default is CreditRisk+. The model produces a closed analytical formula, which describes the entire loss distribution. This allows to identify the VaR measure at a confidence level and time horizon consistent with the calibration standards agreed for the Internal Model.

The types of exposures relevant to the quantification of Counterparty Default Risk with the internal model are the following:

- Exposures to Banks: this category includes short-term liquidity deposits and the exposures against OTC derivative hedges;
- Exposures to Re-insurers: this category includes receivables resulting from current account balances and the potential receivables represented by the provisions due by the Re-insurers (net of the deposits received);
- Exposures to Insurance Companies: this category includes receivables from insurance companies for co-insurance relations and other receivables from insurance companies;
- Exposures to Intermediaries: this category includes receivables from agencies and brokers and mainly consist of the *decadi* (payment of premiums collected) to be transferred to the company;
- Exposures to Policyholders: this category includes receivables for premiums not yet collected against contracts underwritten for settlement of premiums to be settled and for late premiums, as well as disputed receivables;
- Exposures to other counterparties duly identified, or exposures for which there is sufficient information to estimate the risk.

The following types of exposure are instead assessed using the Standard Formula:

- Loans: this category includes loans to employees, agencies and loans on Life policies;
- Deductibles: this category includes amounts to be recovered and deductibles from policyholders;
- Other Receivables: this category includes all receivables not already included in the previous categories.

Credit SCR - Exposure

Amounts in €k

Exposure type	Exposure 2017	Total PTF %
Internal Model (IM)	4,654,297	92.4%
Standard Formula (STDF)	384,503	7.6%
Total	**5,038,800**	**100.0%**

In the period subject to analysis, no substantial changes were made to the measures used to assess risks.

We provide below the value of the Solvency Capital Requirement for Credit Risk for the year ended 31 December 2017 and the comparison with the value for the year ended 31 December 2016, with a breakdown for the types of exposure covered by the Internal Model (IM) and those covered by the Standard Formula (STDF):

Credit SCR Partial Internal Model

Amounts in €k

Exposure type	SCR 2017	SCR 2016	Change on 2016
Internal Model (IM)	289,520	315,989	(26,468)
Standard Formula (STDF)	76,134	81,839	(5,705)
Credit SCR	**365,654**	**397,828**	**(32,174)**

The Internal Model assesses the exposures using risk parameters derived from market information, for listed counterparties, or calibrated on historical data of the Company (exposures to Intermediaries and Policyholders). The exposures valued with the Solvency II Standard Formula are instead calculated using the weights provided by the Delegated Regulation (EU) 2015/35. The total requirement of the company is calculated by adding the two SCR components calculated separately, making a prudential assumption of full correlation of the risks assessed through the two different procedures.

With respect to the solvency requirement at 31 December 2016, there was a €32,174k reduction primarily due to the decline in the historical risk recognised for exposures to the insured.

Concentration of risks

According to the provisions of Chapter III of IVASS Regulation No. 30, 26 October 2016, risk concentrations are assessed at the Group level. The Company contributes to the calculation of significant risk concentrations at the Group level through the exposures deriving from coinsurance and re-insurance transactions and transactions in derivatives contracts.

With regard to the management of Credit Risk, the Company has been applying limits based on both operational exposures (deposits and receivables from Insurance and Re-insurance companies), and financial exposures in securities or derivatives to counterparties or groups of counterparties (as well as traditional limits by individual name and risk category). These limits are monitored on an ongoing basis through a process that involve both operating committees and the administrative body.

Moreover, the Group Credit Policy, which specifies the Credit Risk assumption practices, sets limits to the assumption of risk towards counterparties with an inadequate credit rating: this credit rating is assessed and constantly monitored, using both external indicators (e.g. market rating or parameters), and indicators specified internally (parameters used also for Partial Internal Model purposes).

With regard to risk concentrations, the Company must comply with the principles of assumption of the risk, the limits and the procedures of management specified in the Group Credit Policy and in the Risk Concentration Policy. The two Policies define, among other things, a mechanism for the identification of the exposures that, due to their size, may represent a significant risk at the Group level. They define the mechanisms of risk management, internal control and an organic decision-making process, common to all Companies of the Group. This process is structured to ensure that the Parent Company is informed of the assumption of risk of a more significant amount. The Credit Policy also sets the roles and the responsibilities of the bodies involved in the process of control of the risks at the Group level.

To mitigate concentration risk, limits of functionality are specified, keeping into account the risk profile of the Company, in regard to the risk concentrations for:

- counterparties or groups of related parties;
- sector;
- type of exposure;
- type and/or size of counterparty.

The Risk Concentration Policy also sets a "Concentration limit on investments and receivables", which includes, for each counterparty or group of related parties, in addition to loans and receivables, any exposure to equity or debt securities.

The concentrations are recognised mainly at the level of counterparty or group of related counterparties, sector, geographic area and currency.

At 31 December 2017, the Company was mainly exposed to counterparties operating in the financial sector (banks and re-insurers) as well as to policyholders and insurance intermediaries (agencies and brokers).

Risk mitigation techniques

The risk mitigation techniques adopted to mitigate the exposures to Credit Risk are the following:

- *exposures towards re-insurers*: deposits with the Group for the risks ceded and retroceded that are generally moved (placed and repaid) annually or half-yearly. Their duration largely depends on the specific nature of the underlying insurance benefits and on the actual duration of the reinsurance agreements, which are renegotiated at the end of each year. For exposures to reinsurers, the Group also makes use of a limited number of guarantees consisting mainly of letters of credit and securities. The re-insurance agreements may also be subject to downgrade clauses, which specify the obligation to provide additional guarantees if the counterparty fails to meet the minimum credit rating requirements set in the Credit Policy.
- *exposures in derivatives*: derivative contracts are taken out with counterparties subject to ISDA contracts with corresponding Credit Support Annex, which specify the full collateralisation of the Marked to Market exposures.
- *exposures towards intermediaries*: portfolio indemnities are the main forma of mitigation for exposures towards agencies. These are in fact amounts due to the terminated agent in the case of termination of the relation with the Company (for the broker category, indemnities are specified exclusively at the level of CONSAP fund). The right of the Company to offset the indemnity due to the terminated agencies against any debit balance is recognised in Art. 34 of A.N.A. Moreover, Par. 4 deals with the case of withdrawal for just cause. The indemnity is therefore used as form of mitigation of the risk to reduce exposure.

C.4 Liquidity risk

Liquidity risk is the risk of not having the cash needed to meet the commitments taken, on and off-balance sheet, without incurring financial losses deriving from forced sale of assets in the case of adverse developments.

In order to assess the liquidity profile of the Company and its ability to meet commitments without incurring significant losses, also under stressed conditions, specific analyses are carried out; these analyses include the calculation of the liquidity gap between the cash outflows and the cash inflows on maturities up to 12 months, of the cumulated liquidity gap and the liquidity buffer, which includes any contingency instrument, both in normal condition and in scenarios of stress of the technical variables.

In the period subject to analysis, no substantial changes were made to the measures used to assess risks.

Expected profits in future premiums
The total amount of the expected profits in future premiums calculated pursuant to Art. 260, Par. 2 of the Delegated Regulation (EU) 2015/35 was equal to €610,951k, of which €585,709k relating to the life business and €25,242k relating to the non-life business.

C.5 Operational Risk

Operational Risk is the risk of losses deriving from the inadequacy or malfunctioning of processes, human resources and internal systems, or from external events. Operational Risk includes, from the point of view of the identification and the quantitative evaluation, legal risk, compliance risk (non-compliance with laws and regulations) and IT risk, while it does not include strategic and reputational risk.

As an integral part of the Internal Control and Risk Management System, the risk management system for Operational Risk contributes to the achievement of the following high-level targets:

- to preserve the assets of the Company, ensuring that the exposure to Operational Risk is consistent with the Risk Appetite specified;
- to improve the overall efficiency of the processes ensuring that Operational Risk is identified, measured, controlled and managed according to methodologies specified and consistent within the Group.

The Company calculates the capital requirement for Operational Risk by using the Standard Formula specified in the Delegated Regulation (EU) 2015/35.

In the period subject to analysis, no substantial changes were made to the measures used to assess risks.

We provide below the capital requirement for Operational Risk calculated by using the Standard Formula for 2017 and the comparison with the SCR relating to 31 December 2016.

Operational SCR standard formula

Amounts in €k

Risk module	Operational SCR 2017	Operational SCR 2016	Change on 2016
SCR Operativo Remaining part	493,863	524,118	(30,255)
SCR Ring Fenced Fund	53	61	(8)
Operational SCR	**493,916**	**524,179**	**(30,263)**

With respect to the solvency requirement at 31 December 2016, there was a €30,255k reduction in the Operational SCR Remaining part, primarily due to the decline in the value of best estimates.

The identification of Operational Risk is based on the collection of information on potential or historical events from all significant sources of information, consistently classified, to represent and feed on an ongoing basis a global Operational Risk database.

The activity of identification consists in the collection of the largest information set possible on the risk event and its possible cause and effects, to increase the knowledge of the specific exposure of the different corporate areas. This activity has also the objective to assess the suitability of the controls and identify the best management solutions to any issue identified.

The collection of business expert opinions, through the RSA (Risk Self Assessment), takes place through interviews of process managers carried out to identify and assess the potential Operational Risk events that may occur within a process, as well as to obtain an assessment of the suitability of the system of controls and identify the best management solutions to any issue identified.

The information gathered through the RSA includes an estimate of the financial impact of the risk event and an estimate of the expected frequency of the event expressed on an annual basis. This estimate also takes into account any historical Operational Risk event actually occurred, with the corresponding loss incurred.

The information gathered on the Operational Risk events is classified using the cause - event - effect framework, to provide a truthful description of the chain of events that have produced the financial impact from the risk event.

The stages in which the activities of identification of the Operational Risk may be divided may be summarised as follows:

- analysis of the processes, verification of applicable laws and regulations and collection of the information deriving from previous analyses or analysis carried out by the control functions;
- identification of the possible Operational Risk events, possible causes and controls in place;
- verification of the completeness of the analysis with respect to the Event Type mode[11];
- validation of the data gathered and control of the quality of the analysis carried out.

Within Operational Risk, a significant risk is continuity risk, or defined as the risk of a suspension of corporate processes, as a result of disaster.

To this purpose, the Group has acquired an Operating Continuity Policy, which sets guidelines on operating continuity, to reduce to a minimum the impact of disaster events on the significant services, whether resulting from events at the sector, corporate, local or global level (Business Continuity Management System).

C.6 Other material risks

With regard to the other risk categories, the Company identifies as material the following categories of risk:

- Reputational risk: risk of current or future decrease in profit or assets deriving from a negative opinion of the Group by its main Stakeholders. A corporate reputation management system was developed at the Group level, to build and safeguard the reputational capital and integrate this asset in the business planning processes.
- Strategic Risk: risk of current or future decrease in profit or assets deriving from external elements, such as changes in the operational context and/or limited reactivity to changes in the competitive context, or internal elements, such as incorrect corporate decisions and/or inadequate implementation of decisions. A Reputational & Emerging Risk Observatory was set up at the Group level, to provide a structured control on emerging and reputational risk factors with a strategic and proactive approach, anticipating the trends to prevent emerging risk and identifying future business opportunities.

[11] The Event Type model consists of a classification of risk events based on the banking perimeter model specified by Basel II.

- Risk of inclusion in a Group: the risk related to the inclusion in a Group, or "contagion" risk, understood as the risk that, because of the relations of the company with the other companies of the Group, difficulties for one of these companies may have negative effects on the solvency of the company itself; it also includes the risk of conflict of interest. This risk is controlled at the Group level through the policies and procedures that regulate the execution of the transactions with "related" parties, pursuant to the current regulations issued by the supervisory authorities of the sector.
- Compliance Risk: the risk of judicial or administrative sanctions, losses or reputational damages resulting from a failure to observe external laws and regulations or internal regulations such as by-Laws, codes of conduct or corporate governance codes; also risk of unfavourable developments in the legislative framework or case law decisions. The Compliance Function assesses the suitability of the organisation and the internal procedures for the prevention of this risk and sets its level.

In the period subject to analysis, no substantial changes were made to the measures used to assess the risks described above.

C.7 Any other information

C.7.1 Sensitivity analysis

To monitor the sensitivity to the risk factors and important events, the Company carried out some sensitivity analyses. Sensitivity analyses on the main economic-financial factors of interest are carried out at least once a year and allow the Company to assess the impact on its Solvency Ratio and Solvency Capital Requirement of changes in the main risk factors to which it is exposed.
We list below the sensitivity analyses carried out, with their description and the results of the analyses in question. The analyses take as Base Scenario the capital adequacy and solvency capital requirement calculated according to the regulatory model adopted by the undertaking.

Sensitivities

Description	Impact with respect to central scenario	Impact on Solvency II Ratio
Shift upward of the interest yield curve	interest rate: +50 bps	-13%
Shift downward of the interest yield curve	interest rate: -10 bps	-1%
Shock on yield	interest rate: +25 bps credit spread +50 bps	-1%
Shock on equity market	equity market value: -20%	+1%
Shock on property market	property market value: -15%	-7%

Interest rates curve sensitivity analysis
To analyse the impact of a (upward/downward) shock to the yield curve, two sensitivity analyses were carried out on the dynamics of the interest rates curve, more precisely, two single financial factor analyses assessing the impact of an upward and downward parallel shift of the entire yield curve (Euro, Serbia, and rest of the world), a shift respectively equal to +50 bps and -10 bps.

The +50 bps increase in interest rates resulted in a reduction of 13% in the Solvency II ratio. This change was caused by:

- an increase in own funds eligible to cover the SCR of 0.8%;
- an increase in the total capital requirement of 6.0%, primarily as a result of the change in the capital requirement relating to the Market Risks module.

The -10 bps decrease in interest rates resulted in a reduction of 1% in the Solvency II ratio. This change was caused by:

- a decrease in own funds eligible to cover the SCR of 0.3%;

- an increase in the total capital requirement of 0.1%, primarily as a result of the change in the capital requirement relating to the Life Insurance Technical Risks and Market Risks modules.

Bond yield sensitivity analysis

To analyse the impact of a shock to bond yields, a sensitivity analysis was carried out, assessing the joint impact of an increase in interest rates equal to +25 bps and an increase in all government, financial and corporate bond spreads, for all rating classes, all issuers in the portfolio, and all rankings (senior and sub), equal to +50 bps. For the purposes of the calculation of this sensitivity, we estimated the value of the Volatility Adjustment following the shock to the spreads on government and corporate bonds.

The +25 bps increase in interest rates and the +50 bps increase in credit spreads resulted in a reduction of 1% in the Solvency II ratio. This change was caused by:

- a decrease in own funds eligible to cover the SCR of 3.3%;
- a decrease in the total capital requirement of 2.9%, primarily as a result of the change in the capital requirement relating to the Market Risks module and, although to a lesser extent, the change in the capital requirement relating to the Non-Life and Health Underwriting Risk, Life Underwriting Risk and Operational Risks modules.

Equity market prices sensitivity analysis

To analyse the impact of a shock to equity market prices, a single financial factor sensitivity analysis was carried out, assessing the impact of a downward shock to share prices, equal to -20%.

The decline of -20% in the value of the equity market resulted in an increase of 1% in the Solvency II ratio. This change was caused by:

- a decrease in own funds eligible to cover the SCR of 2.5%;
- a decrease in the total capital requirement of 2.8%, primarily as a result of the change in the capital requirement relating to the Market Risks module.

Real estate market prices sensitivity analysis

To analyse the impact of a shock to real estate market valuations, a single financial factor sensitivity analysis was carried out, assessing the impact of a downward shock to the value of real estate and real estate funds, equal to -15%.

The decline of -15% in the value of the real estate market resulted in a reduction of 7% in the Solvency II ratio. This change was caused by:

- a decrease in own funds eligible to cover the SCR of 3.1%;
- a decrease in the total capital requirement of 0.3%, primarily as a result of the change in the capital requirement relating to the Market Risks module.

D. VALUATION
FOR SOLVENCY PURPOSES

Statement of financial position (MCBS) - current values

Assets

Amounts in €k	Solvency II value	Statutory accounts value
Goodwill		153,611
Deferred acquisition costs		74,995
Intangible assets		566,190
Deferred tax assets	143,551	867,754
Pension benefit surplus		
Property, plant & equipment held for own use	586,149	548,831
Investments (other than assets held for index-linked and unit-linked contracts)	44,750,250	41,687,351
Property (other than for own use)	2,132,598	1,933,722
Holdings in related undertakings, including participations	3,382,372	4,055,484
Equities	878,271	847,937
Equities - listed	705,173	674,884
Equities - unlisted	173,098	173,053
Bonds	35,917,052	32,483,471
Government Bonds	24,180,587	21,570,140
Corporate Bonds	10,799,297	9,954,015
Structured notes	908,258	934,046
Collateralised securities	28,910	25,269
Collective Investments Undertakings	2,214,669	2,179,940
Derivatives	141,558	103,065
Deposits other than cash equivalents	83,731	83,731
Other investments		
Assets held for index-linked and unit-linked contracts	4,169,329	4,169,410
Loans and mortgages	786,182	786,182
Loans on policies	28,404	28,404
Loans and mortgages to individuals	339,306	339,306
Other loans and mortgages	418,472	418,472
Reinsurance recoverables from:	475,025	592,449
Non-life and health similar to non-life	423,524	540,940
Non-life excluding health	414,539	
Health similar to non-life	8,985	
Life and health similar to life, excluding health, index-linked and unit-linked	51,501	51,509
Health similar to life		
Life, excluding health, index-linked and unit-linked	51,501	51,509
Life index-linked and unit-linked		
Deposits to cedants	15,100	15,100
Insurance and intermediaries receivables	1,259,037	1,259,037
Reinsurance receivables	65,177	65,177
Receivables (trade, not insurance)	110,646	110,646
Own shares (held directly)	13,640	79,292
Amounts due in respect of own fund items or initial fund called up but not yet paid in		
Cash and cash equivalents	922,340	922,340
Any other assets, not elsewhere shown	1,244,021	1,244,068
Total assets	**54,540,448**	**53,142,433**

Liabilities

Amounts in €k	Solvency II value	Statutory accounts value
Technical provisions – non-life	12,905,390	14,252,001
Technical provisions – non-life (excluding health)	12,297,697	14,252,001
Technical provisions calculated as a whole		
Best Estimate	11,820,910	
Risk margin	476,787	
Technical provisions - health (similar to non-life)	607,693	
Technical provisions calculated as a whole		
Best Estimate	574,711	
Risk margin	32,982	
Technical provisions - life (excluding index-linked and unit-linked insurance contracts)	27,023,230	24,681,783
Technical provisions - health (similar to life)		
Technical provisions calculated as a whole		
Best Estimate		
Risk margin		
Technical provisions – life (excluding health and index-linked and unit-linked insurance contracts)	27,023,230	24,681,783
Technical provisions calculated as a whole		
Best Estimate	26,856,241	
Risk margin	166,989	
Technical provisions – index-linked and unit-linked	4,165,302	4,187,150
Technical provisions calculated as a whole		
Best Estimate	4,140,683	
Risk margin	24,619	
Other technical provisions		
Contingent liabilities		
Provisions other than technical provisions	360,559	360,559
Pension benefit obligations	87,845	53,672
Deposits from reinsurers	168,962	168,962
Deferred tax liabilities	26,879	88,977
Derivatives	264,970	199,502
Debts owed to credit institutions	2,866	2,866
Financial liabilities other than debts owed to credit institutions		
Insurance and intermediaries payables	77,119	76,657
Reinsurance payables	56,505	56,505
Payables (trade, not insurance)	82,088	82,088
Subordinated liabilities	2,128,625	2,030,737
Subordinated liabilities not included in Basic Own Funds		
Subordinated liabilities included in Basic Own Funds	2,128,625	2,030,737
Any other liabilities, not elsewhere shown	1,108,956	1,068,852
Total liabilities	**48,459,296**	**47,310,312**
Excess of assets over liabilities	**6,081,152**	**5,832,122**

The solvency capital requirement envisaged in the Directive is determined as the economic capital that insurance and reinsurance companies must hold so as to guarantee that the "default" event does not occur more than once in every 200 cases or, alternatively, that the companies in question will still be able to honour their obligations, with a probability of at least 99.5%, to contracting parties and beneficiaries in the next twelve months. The capital is assessed on the basis of a financial prepared according to the "Market Consistent" criteria specifically identified in

the Regulation. These criteria generally follow the fair value measurement as defined in international accounting standards (IFRS 13), to be determined on the basis of the following hierarchy:

I. prices listed on active markets for the same assets and liabilities;
II. prices listed on active markets for similar assets and liabilities, suitably adjusted to take into account differences compared to the listed assets and liabilities;
III. values taken from internal "Mark to Model" valuation models. The data used in such models must as far as possible be taken from information implicit in the market assessments referred to in the previous points.

Consequently, the Company's Market Consistent Balance Sheet (MCBS) was prepared in steps as follows:

- restatement of individual assets and liabilities of the Company based on the classification criteria envisaged for completing the QRT S.02.01 (Balance Sheet);
- valuation of the individual assets and liabilities in application of the Regulation criteria, as far as possible consistent with the valuations expressed for the group consolidated financial statements prepared in compliance with IAS/IFRS standards.

The contents of the QRT SE.02.01.16 (MCBS), prepared in reference to 31 December 2017, was provided in the previous pages. The MCBS shows the valuation of the Company's assets and liabilities at Market Consistent values (Solvency II Value) compared with the valuation used by the Company to prepare its own financial statements (Statutory Account Value).

The following paragraphs illustrate the main differences in assessments for MCBS purposes and financial statements purposes.

D.1 Assets

D.1.1 Valuation criteria

This section illustrates the criteria, methods and models used by the Company to identify and measure assets in the MCBS. Please note that, when not specified otherwise, no changes were made to such criteria, methods and models during the current year.

Intangible assets

The valuation criteria defined in the Regulation generally envisage that intangible assets are attributed a zero value. Exceptions are intangible assets that can be sold separately from the rest of the Company's assets and for which a price is available on an active market for similar assets. The Company does not hold any assets of this type.

Financial assets and liabilities (excluding participations) and properties

Financial assets and liabilities are measured at fair value on the basis of the hierarchy defined in the Regulation. The fair value measurement criteria as adopted by the Company and by the Unipol Group in application of IFRS 13 are provided below.
The table below summarises the methods to calculate the fair value for the different macro categories of financial instruments, receivables and property. These methods are consistent with indications provided by the Parent Company Unipol Gruppo.

		Mark to Market	Mark to Model and other
Financial Instruments	**Bonds**	"CBBT" contributor - Bloomberg Other contributor - Bloomberg	Mark to Model Counterparty valuation
	Listed shares, ETFs	Reference market	
	Unlisted shares		DCF DDM Multiples
	Listed derivatives	Reference market	
	OTC derivatives		Mark to Model
	UCITS	Net Asset Value	
Receivables			Other receivables (Carrying amount)
Property			Appraisal value

In compliance with IFRS 13, the market price (Mark to Market) is used to determine the fair value of financial instruments, in the case of instruments traded in an active market.
"Active market" means:

- the regulated market in which the instrument subject to measurement is traded and regularly listed;
- the multilateral trading facility (MTF) in which the instrument subject to measurement is traded or regularly listed;
- listings and transactions performed on a regular basis, i.e. high-frequency transactions with a low bid/offer spread, by an authorised intermediary (hereinafter "contributor").

In the absence of available prices on an active market, valuation methods are used which maximise the use of observable parameters and minimise the use of non-observable parameters. These methods can be summarised in Mark to Model valuations, valuations by counterparty or valuations at the carrying amount in connection with some non-financial asset categories.

Mark to Market valuations

With reference to listed shares, ETFs and listed derivatives, the Mark to Market valuation corresponds to the official valuation price of the reference market.

In relation to bonds, the sources used for the Mark to Market valuation of financial assets and liabilities are as follows:

a) the primary source is the CBBT price provided by data provider Bloomberg;
b) where the price referred to in the previous point is unavailable, an internal scoring model is used, which makes it possible to select liquid and active contributors on the basis of pre-defined parameters.

For UCITS the Net Asset Value is the source used.

Mark to Model valuations

The Company uses valuation methods (Mark to Model) in line with the methods generally used by the market.

The objective of the models used to calculate the fair value is to obtain a value for the financial instrument consistent with the assumptions that market participants would use to quote a price, assumptions that also concern the risk inherent in a particular valuation technique and/or in the inputs used. To ensure the correct separate Mark to Model valuation of each category of instrument, adequate and consistent valuation models must be defined beforehand as well as reference market parameters.

The list of the main models used for Mark to Model pricing of financial instruments is provided below:

Securities and interest rate derivatives:

- Discounted cash flows;
- Black;
- Black-Derman-Toy;
- Hull & White 1.2 factors;
- Libor Market Model;
- Longstaff & Schwartz;
- Kirk.

Securities and inflation derivatives:

- Discounted cash flows;
- Jarrow-Yildirim.

Securities and share, index and exchange rate derivatives:

- Discounted cash flows;
- Black - Scholes.

Securities and credit derivatives:

- Discounted cash flows;
- Hazard rate models.

The main observable market parameters used to perform Mark to Model valuations are as follows:

- interest rate curves for each reference currency;
- interest rate volatility surface for each reference currency;
- CDS spread or Asset Swap spread curves of the issuer;
- inflation curves for each reference currency;
- reference exchange rates;
- exchange rate volatility surface;
- share or index volatility surface;
- share reference prices;
- reference inflation curves.

The main non-observable market parameters used to perform Mark to Model valuations are as follows:

- correlation matrices between exchange rates and risk factors;
- historical volatility;
- benchmark spread curves constructed to assess bonds of issuers for which the prices of the bonds issued or CDS curves are unavailable;
- credit risk parameters such as the recovery rate;
- delinquency or default rates and prepayment curves for ABS-type financial instruments.

Note that, with reference to bonds in those cases when, even on the basis of the results of the Scoring Model, it is not possible to measure an instrument using the Mark to Market method, the fair value is obtained on the basis of Mark to Model type valuations. The different valuation models referred to above are chosen according to the specific instrument characteristics.

For OTC derivative contracts, the models used are consistent with the risk factor underlying the contract. The fair value of OTC interest rate derivatives and OTC inflation-linked derivatives is calculated on the basis of Mark to Model type valuations, acknowledging the rules set in IFRS 13.

As regards OTC derivatives for which there is a collateralisation agreement (Credit Support Annex - CSA) between the Company and the authorised market counterparties, the EONIA (Euro OverNight Index Average) discount curve is used.

As regards uncollateralised derivatives, CVA (Credit Valuation Adjustment) and DVA (Debit Valuation Adjustment) adjustments are made. It should be noted that at year end almost all derivative positions represent collateralised contracts for which CSA agreements are in place with the counterparties involved in the trading.

With reference to unlisted shares for which a market price or an appraisal drafted by an independent expert is not available, valuations are performed mainly on the basis of:

- equity methods;
- methods based on the discounting of future profit or cash flows, i.e. Discounted Cash Flow (DCF) or Dividend Discount Model (DDM), the so-called "excess capital" version;
- if applicable, methods based on market multiples.

As regards unlisted UCITS, Private Equity Funds and Hedge Funds, the fair value is calculated as the Net Asset Value at the recognition date provided directly by the fund administrators.

With reference to properties, the fair value is measured on the basis of the appraisal value provided by independent experts, in compliance with current legal provisions.
For financial assets and liabilities which do not fall into the categories of instruments valued on a Mark to Market basis and for which there are no consistent and validated valuation models available for the purposes of measuring fair value, the valuations provided by the counterparties that could be contacted to liquidate the position are used.

<u>Fair value measurement for structured bonds and structured SPV bonds.</u>
The measurement of structured bonds makes use of models consistent with the breakdown into elementary components (host contract and embedded derivatives) and with the risk factor underlying said contract.

For structured bonds, the valuation of elementary components follows the criteria defined above for the calculation of fair value, which makes provision for use of Mark to Market valuation if available, or Mark to Model approach or counterparty price in the case in which the Mark to Market-type price is not available.
Bonds issued by a Special Purpose Vehicle secured by collateral and whose flows paid are generated by an interest rate swap contract in place between the vehicle and the swap counterparty (usually the arranger of the transaction) are considered structured SPV bonds. The measurement of SPV structured bonds requires separate valuation of the following elements:

- collateral issue of the vehicle;
- interest rate swap agreement between the vehicle and arranger;
- any other optional components or CDS agreements included in the vehicle.

For SPV structured bonds the valuation of collateral follows the criteria defined previously for the calculation of the fair value, which make provision for the use of the Mark to Market approach if available, or the Mark to Model approach or the counterparty price in the case in which the Mark to Market type price is not available.
The valuation of the interest rate swap agreement provides for the discounting of future cash flows on the basis of the different discount curves, based on the existence or not of a collateralisation agreement (Credit Support Annex) between the vehicle and swap counterparty. In particular, if the derivative contract is collateralised using available securities included in the SPV's assets, the future cash flows of the interest rate swap agreement are discounted using the EONIA discount curve; while if there is no collateralisation agreement, use is made of CVA (Credit Valuation Adjustment), DVA (Debit Valuation Adjustment) and FVA (Funding Valuation Adjustment), as appropriate.

As regards the valuation of other (non-technical) financial liabilities, the fair value is measured by taking into account the credit rating of the company "at inception", without considering any subsequent changes in the company's credit rating.

Participations

The recognition value of participations[12] in the MCBS is determined on the basis of the following hierarchy:

- prices listed on active markets for the same assets and liabilities;
- percentage interest in the investee's equity determined on the basis of MCBS valuation criteria;
- percentage interest in the investee's equity determined on the basis of international accounting standards, taking into account the measurement criteria for intangible assets;
- internal valuation models.

In particular, pursuant to Art. 13 of the Regulation:

- participations in subsidiaries are measured on the basis of the investor's percentage interest in the equity, determined according to the MCBS preparation criteria adopted by the subsidiary concerned;
- participations in associates and in financial and credit institutions are measured on the basis of the investor's percentage interest in the equity, determined according to IFRS (less any intangible assets of the investee);
- there are no participations in listed companies.

These criteria differ from the valuation method for participations in the Company's financial statements. Based on Italian accounting standards, participations held as long-term must be measured at cost, net of any impairment losses.

Deferred tax assets and liabilities

The deferred tax calculation recognised in the MCBS was performed by applying the criteria identified in international accounting standards (IAS 12), suitably supplemented with the provisions of Articles 20-22 of IVASS Regulation no. 34 of 7 February 2017.

Other assets

For all other assets not included in the categories of previous paragraphs, taking into account the related characteristics, the recognition value in the MCBS is consistent with their value determined for the consolidated financial statements and consequently applying IAS/IFRS and any relative updates in such standards to be applied in the current year.

[12] The participations are identified by the Regulation and the Directive as investments in associates or subsidiaries or for which the Company holds at least 20% of the voting rights or capital.

D.1.2 Quantitative information on asset valuation

Intangible assets

In line with the regulatory provisions of the Directive, for solvency purposes the Company does not assign a value to goodwill, or to other intangible assets, as a listing of similar assets on an active market is not available.

Amounts in €k	Solvency II value	Statutory accounts value	Difference
Goodwill		153,611	(153,611)
Deferred acquisition costs		74,995	(74,995)
Intangible assets		566,190	(566,190)
Total		**794,796**	**(794,796)**

Following the necessary adjustments to the three items indicated above in the MCBS, the Company recorded a decrease in shareholders' equity in the financial statements for €794,796k, gross of related tax effects.

Land, buildings and other tangible fixed assets

Land and buildings were recognised in the MCBS at fair value, determined on the basis of expert independent appraisal reports. The value recognised in the Company's financial statements corresponds to the purchase cost, adjusted if necessary for any legally required revaluations, any merger surplus or deficit and any impairment losses, net of depreciation.

Tangible assets

Amounts in €k	Solvency II value	Statutory accounts value	Difference
Property, plant & equipment held for own use	586,149	548,831	37,318
Property (other than for own use)	2,132,598	1,933,722	198,876
Total	**2,718,747**	**2,482,553**	**236,194**

Note that in reference to other tangible assets (e.g. equipment, plant, machinery and vehicles), the recognition value in the MCBS is consistent with the recognition value in the financial statements which, given the nature and significance of such assets, was considered an adequate representation of the fair value.

The fair value measurement leads to an increase in the value of tangible assets by €236,194k compared to the financial statements, gross of tax effects.

Financial assets for which investment risk is borne by policyholders

The MCBS item "*Assets held for index-linked and unit-linked contracts*" includes all the financial assets in class D of the statement of financial position of the financial statements, which correspond to the financial assets for which investment risk is borne by the policyholders (unit-linked, index-linked and pension funds).

Financial assets when the investment risk is borne by policyholders

Amounts in €k	Solvency II value	Statutory accounts value	Difference
Assets held for index-linked and unit-linked contracts	4,169,329	4,169,410	(80)

These assets were also measured at fair value in the financial statements. The difference recognised is due to the fact that, in the financial statements, the fair value measurement method used for financial instruments classed as unit-linked was consistent with the valuation of liabilities payable to the policyholders and the NAV for unit-linked products. This fair value measurement method for financial assets differs slightly to that used for the purpose of MCBS preparation. Also considering that for preparation of the MCBS the valuation of financial assets classed as unit-linked is in any event fully consistent with the measurement criteria for the corresponding liabilities to the policyholders, the slight differences in fair value measurement methods have no appreciable impact on the total difference between assets and liabilities in the MCBS and in the financial statements.

Other investments (excluding participations)

As a general principle, all investments are measured at fair value as required by the Directive, unlike in the Company's financial statements in which the values are determined as follows:

- for investments classed as long-term, at purchase cost net of any impairment losses;
- for other investments, at the lower between the purchase cost and the present value determined on the basis of market trends.

With reference to investments formed by deposits with financial institutions ("*Deposits other than cash and cash equivalents*") and by "*Loans and mortgages*", the recognition value in the MCBS is consistent with the recognition value in the financial statements which, given the nature and significance of such assets, was considered an adequate representation of the fair value.

Other financial investments

Amounts in €k	Solvency II value	Statutory accounts value	Difference
Equities	878,271	847,937	30,334
Equities - listed	*705,173*	*674,884*	*30,289*
Equities - unlisted	*173,098*	*173,053*	*46*
Bonds	35,917,052	32,483,471	3,433,580
Government Bonds	*24,180,587*	*21,570,140*	*2,610,447*
Corporate Bonds	*10,799,297*	*9,954,015*	*845,281*
Structured notes	*908,258*	*934,046*	*(25,789)*
Collateralised securities	*28,910*	*25,269*	*3,641*
Collective Investments Undertakings	2,214,669	2,179,940	34,729
Derivatives	141,558	103,065	38,493
Deposits other than cash equivalents	83,731	83,731	
Other investments			
Loans and mortgages	786,182	786,182	
Loans on policies	28,404	28,404	
Loans and mortgages to individuals	339,306	339,306	
Other loans and mortgages	418,472	418,472	
Total	**40,021,463**	**36,484,327**	**3,537,136**

Taking into consideration that the statutory criteria (applied to the financial statements) are typically more prudent, the Company recorded an increase in assets by €3,537,136k in the MCBS compared to the financial statements, gross of the related tax effect.

Participations

Amounts in €k	Solvency II value	Statutory accounts value	Difference
Holdings in related undertakings, including participations	**3,382,372**	**4,055,484**	**(673,113)**

The different methods for calculating the value of participations led to a decrease in assets by €673,113k in the MCBS compared to the financial statements, gross of the related tax effect.

Deferred tax assets and liabilities

Deferred tax assets and liabilities are calculated on the temporary differences between the carrying amount of assets and liabilities in the MCBS and their value recognised for tax purposes.

Deferred tax assets and liabilities

Amounts in €k	Solvency II value	Statutory accounts value	Difference
Deferred tax assets	143,551	867,754	(724,202)
Deferred tax liabilities	(26,879)	(88,977)	62,098
Net total	**116,673**	**778,777**	**(662,104)**

The differences compared to the financial statements are associated with the deferred tax effect of temporary differences deriving from adjustments to the asset and liability valuations commented in paragraphs D.1, D.2 and D.3.
The following summary table provides a breakdown of deferred tax assets and liabilities recognised in the MCBS by nature of the temporary difference leading to their recognition and an indication of the time horizon forecast for reversal of the temporary differences.
At the reporting date there are no tax losses eligible to be carried forward or unused tax credits and consequently the corresponding deferred tax assets have not been recognised.

Nature of temporary differences and reversal expectations

Amounts in €k

Breakdown deferred tax assets/(liabilities) recognised in the MCBS for nature of the temporary differences	IRES	IRAP	Time horizons expected for the reversal of the temporary differences
Intangible assets (released goodwill)	256,054	78,068	The item consists mainly of the benefit deriving from the release of the goodwill implied in the carrying amount of the equity investment, the reversal of which is expected in 10 years from 2018.
Intangible assets (other intangible assets)	54,835	3,573	The item consists of intangible assets that are not included in the MCBS. The reversal of the temporary difference, excluding early disposal, is related to the amortisation of intangible assets, the amortisation of which is expected on average in 3-5 years.
Real estate and tangible assets held for own use and for investment	36,638	17,179	The temporary differences will be reversed through the annual amortisation or on the disposal of the asset. This item includes of the realised capital gains, spread out pursuant to Art. 85, Par. 4 of Consolidated Income Tax Law (TUIR), for an amount equal to €45,284k.
Other financial investments (debt instruments)	(868,022)	(236,900)	The temporary differences relative to the bonds will be reversed gradually as the maturity approaches or to the disposal of the securities. This item includes realised capital gains, spread out pursuant to Art. 85, Par. 4 of TUIR, for an amount equal to €24,904k. The average duration of the bond portfolio of the Company is 3.01 years for Non-Life Business and 6.69 years for Life Business.
Other financial investments (equity instruments and UCITS)	35,875	32,191	The temporary differences relative to the equity instruments and UCITS will be reversed with the disposal of the securities.
Non-Life net technical provisions (claims provision changes)	152,804		The temporary differences deriving from the upward adjustments for increases of the provisions will be reversed in compliance with the provisions of Art. 111 Par. 3 of TUIR (18 years for the years up to 2014 and 5 years from 2014).
Non-Life net technical provisions (IFRS and SII adjustments)	(301,600)	(83,726)	The temporary differences deriving from the adjustments between financial statements and MCBS will presumably be reversed gradually with the release of the corresponding technical provisions. The average duration of Non-Life technical provisions is of approximately 2.9 years.
Life net technical provisions (provision changes)	15,485		The temporary differences deriving from the upward adjustments for increases of the provisions will be reversed in compliance with the provisions of Art. 111 Par. 1-bis of TUIR.
Life net technical provisions (IFRS and SII adjustments)	561,309	151,588	The temporary differences deriving from the adjustments between financial statements and MCBS will be reversed presumably gradually with the release of the corresponding technical provisions. The average duration of the Life technical provisions is of approximately 8.1 years.
Financial liabilities	(20,311)	(4,879)	The reversal of the modest differences will take place in compliance to the residual life of the loans (excluding early repayment if the financial and regulatory conditions were met). The average duration of the loans is expected to be 1.86 years.
Provisions for risks and charges	107,692		The reversal of the differences is related to the actual incurring of the expected charge, which is difficult to forecast since its timing cannot be influenced by the Company.
Receivables	108,695	9,707	The reversal of the temporary differences derives from the application of Art. 106 Par. 3 (time horizon 10 years according to the percentages set by this article).
Other assets and liabilities	4,097	6,321	Residual item for which it is reasonable to assume a reversal period of 2 years maximum.
Tax loss			Pursuant to Art. 84 of TUIR, the tax loss can be deducted from taxable income without time limit and up to a maximum of 80% of the taxable profit of each year.
Total	**143,551**	**(26,879)**	

Other assets

The differences recognised between other assets in the MCBS and their corresponding valuations in the financial statements are provided below.

Amounts in €k	Solvency II value	Statutory accounts value	Difference
Pension benefit surplus			
Deposits to cedants	15,100	15,100	
Insurance and intermediaries receivables	1,259,037	1,259,037	
Reinsurance receivables	65,177	65,177	
Receivables (trade, not insurance)	110,646	110,646	
Own shares (held directly)	13,640	79,292	(65,652)
Amounts due in respect of own fund items or initial fund called up but not yet paid in			
Cash and cash equivalents	922,340	922,340	
Any other assets, not elsewhere shown	1,244,021	1,244,068	(47)
Total	**3,629,961**	**3,695,660**	**(65,699)**

The difference in the value of own shares is attributable to the valuation of the Company's shares at listed price in the MCBS compared to that established for the financial statements, in which they have to be represented at purchase cost and deducted from shareholders' equity.
In reference to the other assets in the above table (i.e. Any other assets, not elsewhere shown), the recognition value in the MCBS is consistent with the recognition value in the financial statements which, given the nature and significance of such assets, was considered an adequate representation of the fair value.

Leasing and rental agreements - assets

There are no assets leased to third parties under finance leases.
The operating leases refer exclusively to properties leased under arm's length contracts and on the basis of current regulations.
The property lease payments receivable recorded in 2017 amounted to €58,059k.

D.2 Technical provisions

D.2.1 Valuation criteria

First of all, please note that when not specified otherwise, no changes were made to the valuation criteria, methods and models during the current year.

In accordance with the Directive, the Solvency II technical provisions (Life and Non-Life) are calculated as the sum of the Best Estimate of Liabilities (BEL) and a Risk Margin.

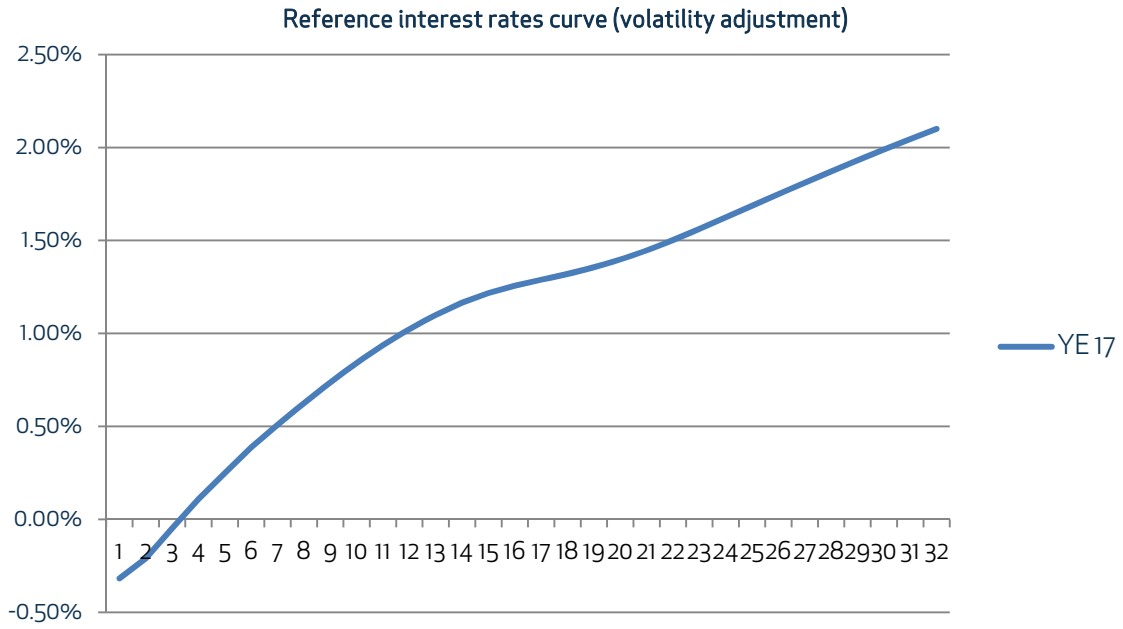
The main difference compared to the current applicable regulations for the preparation of the financial statements (see ISVAP Regulation no. 22 of 4 April 2008, amended and supplemented by IVASS Measure 53/2016), which establishes that the valuation must comply with the criteria of prudence, is represented by the adoption of a "market" value. The value of the technical provisions, in fact, must correspond with "*the amount that an insurance or reinsurance company would have to pay if its contractual rights and obligations were immediately transferred to another company*".

In this sense, the risk margin assumes the meaning of risk premium or, in actuarial terms, safety loading, whereas the prudence is included in the retention of an adequate level of capital.

These principles are satisfied in the adoption of a Discounted Cash Flow (DCF) method for the BEL valuation, eliminating all forms of prudence (e.g. final cost valuation for claims provisions, inclusion of provisions for unexpired risks and supplementary provisions for the premium provision) and including - in the valuation - all variables that could affect the amount of future cash flows.

The BEL corresponds to the present estimated value of future cash flows calculated on the basis of the relevant due dates structure of risk-free interest rates, taking into account the volatility adjustment referred to in Art. 77-quinquies of the Directive.

The due dates structure of reference rates used in the valuations is illustrated below:



The curve was formed on the basis of the following market benchmarks published by EIOPA:

- Last liquidity point: 20 years
- Ultimate long-term forward rate: 4.20%
- Convergence period: 40 years
- Method: Smith-Wilson
- Volatility adjustment: 4 bps
- Credit Risk adjustment: 10 bps

Best Estimate Liability Non-Life

The Best Estimate Liability, equal to the sum of the claims BEL and premiums BEL, was calculated in accordance with the principles stated in the regulation, by applying suitable statistical/actuarial models and net of amounts recovered from the policyholders and from third parties for the portion not already recognised as assets in the statement of financial position.

The calculation of the claims BEL is structured on a comparison between the final cost results deriving from the application of a Chain Ladder Paid model to the amounts gross of all deductions or discounts (Mack method with the option of expert judgement in the choice of certain growth factors) and the values of provisions in the Financial Statements. In particular, a confidence range is determined by assuming a log normal distribution benchmarked, respectively, to the final cost obtained from the model and the coefficient of variation obtained from application of the Mack closed formula. If the Local GAAP claims provision falls within this range, the two values are aligned. If not, the final cost obtained from the model is confirmed. Subsequently, the deduction component (recoveries) and discounted cash flow component are added to the model.

For the "Credit and Suretyship" and "Marine Aviation and Transport" businesses, the statistical/actuarial models were applied, but in view of the business type the documented analysis was considered more reliable (inventory reserve). Consequently, for these lines the calculation of the claims BEL was founded on provisions recorded in the financial statements, suitably discounted on the basis of the estimated growth in future payments over time. A similar approach was also adopted for the "Assistance" business, in light of the very high speed of settlements in this LoB and the stability of the phenomenon of claims incurred but not reported. Also for the non-proportional reinsurance LoBs, characterised by minimal volumes marginal to proportional direct and indirect business, so much so as to not allow sufficient qualitative data to be collected for the application of actuarial or statistical methods, the same simplified approach was used, also assuming that payments are all made in the year subsequent to the valuation date.

The premiums BEL was calculated on the cash flows obtained from the projection of the company's historic ratios (loss ratio and expense ratio, estimated by considering an average for the last three years, or in certain cases the growth trend), applied to the existing portfolio values at the time of valuation, separately for each business line. The cash flows take into account all the items, incoming and outgoing, generated by the combination of future premiums, claims not yet received, allocated and unallocated settlement expenses, commissions and administrative expenses deriving from existing contracts. The total liabilities recognised in the financial statements against the provisions for profit-sharing and ageing were considered a reasonable estimate of the corresponding liabilities for recognition in the Market Consistent Balance Sheet (MCBS). These provisions were also recorded in the premiums BEL.
For non-proportional reinsurance-related LoBs, the premiums BEL was calculated on the assumption that all payments were concentrated on the first due date after the valuation date (a conservative assumption in that it minimises the impact of cash flow discounting) and the estimated combined ratio was 1 ("neutral" assumption compared to the valuation of estimated profits generated by the premium provision).

The comparison between Non-Life technical provisions measured for the Market Consistent Balance Sheet and those calculated for the financial statements shows different approaches relating to the assumptions adopted for the calculation and the underlying risks. The main differences between the two regulatory regimes are summarised below:

	Solvency II	Local GAAP
Valuation approach	Matching adjustment concept + explicit Risk Margin	Prudent assumption concept
Time value of money	Discounted cost	Final cost
Handling of recoveries	Net recoveries	Gross recoveries

As the Best Estimate Liability is a present value of estimated future cash flows, it is by definition an estimate subject to uncertainty in the final cost projection and in the assumed due dates structure for interest rates. In order to assess the main sources of uncertainty in the BEL calculation, a number of sensitivity analyses were carried out. The following, for example, shows the change in BEL as the interest rate structure changes.

BEL (Net of reins.) - Discount curve sensitivity analysis

Amounts in €k	Claims BEL	Premiums BEL	Total
Curve - 2016 - without VA	0.61%	0.49%	0.59%
Curve - 2016 - basic	0.23%	0.14%	0.21%
Curve - 2017 - without VA	0.12%	0.10%	0.11%
Curve - 2017 - basic	9,660,183	2,311,914	11,972,097
Curve - 2017 - basic +1%	(2.82)%	(2.50)%	(2.76)%

Compared to the curve used, a volatility adjustment of zero would lead to an upward change in BEL by around 0.11%. A 1% increase in the curve would result in a reduction of approximately 2.76%. Lastly, if the curve remained unchanged compared to 31 December 2016, the BEL would be higher by around 0.21%.

Best Estimate Liability Life

The Life BEL valuation method uses an ALM-type stochastic approach which allows an integrated "fair value" measurement of assets and liabilities.

As regards revaluable products, associated with returns of segregated funds, the typical quantities are projected at "point" level deriving from the non-destructive aggregation of information on individual policies that have the same characteristics, including the Company's technical and actuarial assumptions and also making use of standard stochastic simulation approaches for the financial variables.

ALM logic simulates the actions performed by the Company based on the future growth of amounts representing the policies portfolio (liabilities) and the underlying portfolio of financial securities (assets). In the specific case of products with performances that can be revalued in terms of returns of segregated funds, ALM logic envisages a circuitry that can be summarised in the following logical steps, repeated for every instant on the reference time horizon (monthly or annual):

- calculation of the returns for every segregated fund, according to the rules envisaged in the segregated funds regulations;
- revaluation of the benefits provided to the policyholders based on the returns calculated in the previous step;
- calculation of the net balance of liability items: tariff premiums collected - benefits - operating expenses for the period on the securities portfolio.

If the balance is negative, the model draws upon the liquidity in the assets portfolio, and if this is still not sufficient to cover commitments to the policyholders, the sale of financial securities in the portfolio is arranged, with subsequent gains/losses realised with an impact on returns of segregated funds for the next instant and therefore on subsequent indexed benefits.

In the projection, the model also makes use of information related to "management actions", which translates into suitable conditioning factors for the simulation process, the strategic guidelines for financial portfolio management used by the Company. Taking into account the structure of the policies portfolio and the underlying assets portfolio, forecasts of financial market performance, but above all coherence with the Company's strategic guidelines, the management actions are defined by the Board of Directors based on the proposal from the Finance Department in concert with the Risk Management Department. It should be emphasised that the management actions are implemented in terms of asset allocation target and returns target. If in the values projection (for every instant on the reference time horizon) the asset allocation and returns targets assume values different from those defined, financial security purchase and sale mechanisms are triggered to bring the returns and/or asset allocation back to the defined levels. This obviously involves realising gains/losses that have an impact on the returns recognised to the policyholders. In addition, at the end of each year the "financial statement restriction control" is carried out, or the realignment, for each financial portfolio, of the carrying amount of the securities with the amount of the mathematical provision increased by a predefined percentage for each account and representative of "over-coverage" (or the excess of assets with respect to liabilities which usually occurs in operations) through: (i) the realisation, at current market values, of the excess share of assets, if the carrying amount of the assets is higher than the mathematical provision plus the target over-coverage percentage or (ii) the injection of liquidity if, vice versa, the mathematical provision, plus the target over-coverage percentage, exceeds the carrying amount of the assets and it is necessary to restore the minimum level of coverage as per regulations in force.

The comparison between Life technical provisions measured for the Market Consistent Balance Sheet and those calculated for the financial statements shows different approaches relating to the assumptions adopted for the calculation and the underlying risks. Deviation between the two quantities is particularly significant for tariffs envisaging benefits linked to the performance of segregated funds (i.e. revaluable).

In the financial statements, the provisions for such tariffs are calculated using methods consistent with ISVAP Regulation no. 22 of 4 April 2008, as amended and supplemented by IVASS Measure no. 53 of 6 December 2016, which envisages that if the companies assess the assets representing provisions using the purchase cost method, a valuation of technical provisions using the discounted cash flow method is sufficiently prudent as, in considering future commitments, this uses the same technical bases adopted for calculating the premium. The provisions calculated in this manner are supplemented with "integrative" or "additional" provisions calculated on the basis of consolidated methods according to best practices or recommended by the Supervisory Authority, if the primary technical bases - financial and non-financial - prove unsuitable to meet the Company's future obligations. Overall, the financial statements approach to calculation of the Life technical provisions does not allow full expression of the cost of financial guarantees granted to the policyholders, or a possible unfavourable development in the options granted to the policyholders.

The Life BEL is instead determined in reference to a balance sheet in which all assets are measured at fair value, i.e. are directly associated with financial market performance. As previously mentioned, the BEL is calculated by discounting estimated cash flows at the valuation date using the most recent technical and financial assumptions. The distribution of the probability of estimated cash flows is obtained in a risk-neutral environment (thereby removing any subjective prudence) and, in addition to the event of death, takes into consideration the policyholders' behaviour by adopting the probability of surrender and the exercise of any options granted to the policyholders. Based on specific requirements of the regulations, the valuation also takes into consideration the financial guarantees of returns granted to the policyholders.

The projected insured capital is revalued on the expected returns of the portfolios, obtained through Montecarlo simulation models, i.e. simulating the returns of funds underlying the insurance contract. For this purpose an Economic Scenario Generator (ESG) is used, which makes use of specific projection models for sources of market risk and which is also adopted to measure the Life Technical Insurance risks. This approach allows the inclusion in technical provisions of a valuation of the cost of financial guarantees and options, if any.

A partial exception to that described above relates to index-linked products, for which the value of the Company's commitments to the policyholders is linked to the market value of the underlying financial structures. In such cases the characteristic amounts are projected for each policy based on the development of a benchmark representing the individual financial structure.

For the valuation of all products in the portfolio, standard approaches were used for the stochastic simulation of the financial variables.

In addition to the economic assumptions described previously, the calculations of Solvency II technical provisions are also based on a series of operating assumptions relating mainly to:

- Development of biometric risk factors (mortality, longevity);
- Operating expenses;
- Exercise frequency of options granted to the customer (surrender, withdrawal, conversion to annuity, maturity deferral, additional payments, reduction, interruption of payment of recurring single premiums).

These assumptions are determined as the best possible estimate at the valuation date on the basis of the Company's historic experience, if available, or of appropriate market benchmarks.

For many reasons, normally associated with the unavailability of all the necessary detailed and/or series of information which proves inefficient for tariffs with immaterial portfolio volumes, a part of the Company's portfolio is not accurately modelled in the actuarial platform adopted for the projection of cash flows. However, it is included in the overall estimation of the Company's BEL, albeit approximately, through assimilation with products in the same sub-portfolio of reference, accurately assessed by the actuarial platform. The percentage of the portfolio not accurately modelled, subject to simplified valuation, is less than 5%.

The description provided above is the main simplification adopted in the Life BEL calculation.

In order to assess the main sources of uncertainty in the BEL calculation, a number of sensitivity analyses were carried out on the main scenarios affecting the financial and non-financial value. Each valuation was performed by keeping all other scenarios unchanged, including the management actions.

It should be emphasised that the scenarios subject to sensitivity analysis are often correlated, and therefore it is unlikely that the impact of two events occurring simultaneously would be the sum of the impacts of the two respective sensitivities.

The following table illustrates the sensitivity analyses of the Life BEL, recorded in the MCBS at 31 December 2017 as €30,996,925k, with related descriptions expressed as the percentage change in the total.

Sensitivity	Sensitivity description	
IR -20bps	Downward shift of 20 basis points of the risk-free curve	1.54%
IR +20bps	Upward shift of 20 basis points of the risk-free curve	(1.49)%
EQ -20%	20% decrease of equity market value	(0.52)%
EQ +20%	20% increase of equity market value	0.54%
Spread +50bp	Increase of 50 basis points of the spread	(0.93)%
Spread -50bp	Decrease of 50 basis points of the spread	1.38%
Surrenders -50%	50% decrease of redemption rates (multiplier factor, ie 50% of the best estimate redemption assumption)	(0.04)%
Surrenders +50%	50% increase of redemption rates (multiplier factor, ie 150% of the best estimate redemption assumption)	(0.34)%
Mortality +15%	15% increase in mortality (multiplication factor, i.e 115% of death probabilities is considered)	(0.11)%
Mortality -20%	20% drecrease of mortality (multiplier factor, i.e. 80% of death probabilities is considered)	0.19%
Expenses +10%	10% increase of management costs and 1% increase of the expected inflation rate	0.28%
No volatility adjustment	Reduction of the reference rate curve equal to the amount of volatility adjustment	0.22%
No Over-coverage	Cancellation of the over-coverage constraint in the application of the budget constraint (see next point)	0.02%
No FS restrictions	Cancellation of the budget constraint	0.06%
No yeld target	The management rule for targeting a performance for each projection year is deactivated	0.07%

The sensitivity with the greatest impact on the BEL is that relating to a 20 bps change in the reference rate curve. The impact of the sensitivity analysis to a 20 bps decrease in the reference curve leads generally to an increase in the BEL.

The sensitivity analysis of the technical variables instead has more limited changes. In particular, the overall BEL was down against growth and a decline in surrenders; this depends on the breakdown of the portfolio and the different effect had in the various LoBs.

The cancellation of financial statement restrictions and likewise cancellation of the operating rule concerning target returns in this economic scenario has a rather limited impact on the BEL total.

Technical Provisions - Reinsurers' share

NON-LIFE
Calculation of the reinsurers' share of provisions for the Non-Life and Health businesses was performed by applying - on direct and indirect business volumes ceded - the results obtained for the gross direct business, and then estimating losses due to reinsurance counterparty default calculated on the basis of the volumes of provisions divided into reinsurer rating classes using the probability of default (PD) and loss given default (LGD) estimated by the Company.

In particular:

- the claims BEL for premiums ceded was calculated by applying to the corresponding financial statements aggregate the ratios between the BEL and financial statements provisions and the breakdown of provisions patterns estimated - for each business segment - on the gross premiums figures;
- the premiums BEL for premiums ceded was calculated using the loss ratios (net of indirect settlement expenses), withdrawal rates and the time allocation percentages estimated on gross premiums figures.

LIFE
As regards the calculation of the reinsurers' share of provisions for the Life business, note that in view of the reduced ceding of Life business through the reinsurance channel it was not necessary to develop a specific BEL valuation of the reinsurers' share, which was therefore approximated with the reinsurers' share of provisions indicated in the Company's financial statements, to which an adjustment was made to take into account the probability of default of the reinsurer. Again in consideration of the very limited volumes, the same approach is applied to the BEL for indirect business.

Methodology of valuation of the Risk Margin

The Risk Margin represents the cost of holding an amount of eligible own funds equal to the Solvency Capital Requirement (SCR) needed to support insurance and reinsurance obligations assumed throughout their contractual life.

The method adopted involves calculating the Risk Margin, separate and diversified for Non-Life and Life business, so as to take into account the specific features of the two businesses, and calculating the total Risk Margin as the sum of the figures indicated previously.

The Risk Margin is calculated on the basis of the following input data:

- SCR related to operational risk;
- SCR related to credit risk;
- SCR related to Non-Life and Health underwriting risks (including CAT risk) or Life underwriting risks quantified according to the different risk assessment methods;
- SCR related to Ring Fenced Funds;
- settlement speed estimate for the best estimate component of technical liabilities;
- risk-free rate curve.

To estimate the Solvency Capital Requirement for future instants, the simplified method number 2 described in the EIOPA document "Guidelines on technical provisions valuation" (no. 62), which envisages the option of approximating the SCR for all future years based on the ratio between the BEL for each future year and the BEL at the valuation date.

D.2.2 Quantitative information on the valuation of the technical provisions

Non-Life technical provisions

The MCBS recognition value of Non-Life technical provisions corresponds to their fair value determined using the methods described above in paragraph D.2.1.

The values of Non-Life technical provisions broken down by line of business (LoB) are illustrated below.

Segmentation of Non-Life technical provisions by Line of Business

	Amounts in €k	Best estimate (gross)	Risk Margin	Recoverable amounts from reinsurance	Total
	Line of business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)	**12,379,370**	**509,208**	**(423,524)**	**12,465,055**
1	Medical expense insurance	161,762	5,324	(818)	166,269
2	Income protection insurance	411,981	27,625	(8,167)	431,439
3	Workers' compensation insurance				
4	Motor vehicle liability insurance	6,411,133	214,276	(52,797)	6,572,613
5	Other motor insurance	313,921	15,536	(1,228)	328,229
6	Marine, aviation and transport insurance	84,551	3,426	(25,909)	62,068
7	Fire and other damage to property insurance	1,186,842	60,622	(88,299)	1,159,165
8	General liability insurance	3,227,954	142,290	(49,550)	3,320,694
9	Credit and suretyship insurance	409,133	29,693	(162,824)	276,002
10	Legal expenses insurance	85,633	5,018	(33,006)	57,645
11	Assistance	55,872	1,477	(211)	57,138
12	Miscellaneous financial loss	30,588	3,922	(716)	33,794
	Line of business for: accepted non-proportional reinsurance	16,251	560		16,811
13	Non-proportional health reinsurance	967	33		1,001
14	Non-proportional casualty reinsurance	8,630	301		8,931
15	Non-proportional marine, aviation and transport reinsurance	451	15		466
16	Non-proportional property reinsurance	6,202	212		6,414
	Total	**12,395,621**	**509,769**	**(423,524)**	**12,481,866**

At 31 December 2017 there were no amounts recoverable from SPVs.

The following table summarises the differences in value found between the valuation for Solvency purposes and the valuation for the Company's financial statements in Non-Life technical provisions (direct and indirect business), net of amounts ceded to reinsurers.

Non-Life technical provisions

Amounts in €k	Solvency II value	Statutory accounts value	Difference
Technical provisions - Non-life	12,905,390	14,252,001	(1,346,611)
Other technical provisions		-	-
Reinsurance recoverables from: Non-life and health similar to Non-life	(423,524)	(540,940)	117,417
Total	**12,481,866**	**13,711,061**	**(1,229,195)**

For further information on the existing differences between the technical provisions calculation methods for the non-life segment for the Solvency Capital Requirement and that recorded in the financial statements, reference should be made to the comments in paragraph D.2.1 above.

The overall difference between the Technical Provisions in the financial statements and the Solvency II value, net of reinsurance, amounts to €1,229m. Note that the SII technical provisions value does not include equalisation provisions (€73m) and supplementary provisions (€172m) as these are considered to be of a precautionary/equalising nature.

Net of amounts reversed in relation to these provisions, the difference totals €120m on the Premiums BE and €1,374m on the Claims BE. These effects are partly offset by the addition of the Risk Margin (€510m).

Life technical provisions

The MCBS recognition value of Life technical provisions corresponds to their fair value determined using the methods described above.
The values of Life technical provisions broken down by LoB (line of business) are illustrated below.

Segmentation of Life technical provisions by Line of Business

	Amounts in €k	Best estimate (gross)	Risk Margin	Recoverable amounts from reinsurance	Total
	Direct business	**30,987,195**	**191,573**	**(45,884)**	**31,132,885**
1	Health insurance				
2	Insurance with profit participation	26,958,279	144,626	(41,966)	27,060,939
3	Index-linked and unit-linked insurance	4,140,683	24,619	-	4,165,302
4	Other life insurance	(111,767)	22,328	(3,918)	(93,356)
5	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	-		-	
6	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations				
	Indirect business	**9,729**	**34**	**(5,617)**	**4,146**
	Total	**30,996,925**	**191,607**	**(51,501)**	**31,137,031**

The following table summarises the differences in value found between the valuation for Solvency II purposes and the valuation for the Company's financial statements in Life technical provisions (direct and indirect business, net of reinsurance).

Life technical provisions

Amounts in €k	Solvency II Value	Statutory Accounts Value	Difference
Technical provisions - Life (excluding Index-linked and unit-linked)	27,023,230	24,681,783	2,341,447
Technical provisions - Index-linked and unit-linked	4,165,302	4,187,150	(21,848)
Recoverables from reinsurance: Life and health similar to Life, excluding Health, Index-linked and unit-linked	(51,501)	(51,509)	8
Recoverables from reinsurance: Life Index-linked and unit-linked			
Total	**31,137,031**	**28,817,424**	**2,319,607**

For further details on the existing differences between the technical provisions calculation methods for the non-life segment for the Solvency Capital Requirement and that recorded in the financial statements, reference should be made to the comments in paragraph D.2.1 above.

For the traditional *Life* policies segment *(excluding index-linked or unit-linked insurance policies)*, the main source of the difference is the financial impact (summarised in: the level of reference rates vs. guaranteed rates, market volatility and the impact of estimated revaluation of benefits in excess of the guarantee). The remaining differences are largely attributable to:

- the adoption of best estimates relating to estimated mortality levels (against prudent assumptions adopted in the calculation of provisions for the financial statements);
- the modelling of policyholder behaviour expected in the year for the various contractual options offered (surrender, reduction, withdrawal, additional payments, etc.), which are not specifically considered in the calculation of provisions for the financial statements;
- the adoption of operating expense assumptions based on the Company's actual experience (against assumptions adopted in the calculation of provisions for the financial statements, based on "first level" assumptions, i.e. those defined at the tariff pricing stage prior to verification of their sustainability);
- the explicit inclusion of the Risk Margin in the calculation of Solvency II technical provisions not envisaged in financial statements provisions.

The linked policies segment (index-linked or unit-linked), for which provisions are consistent with covering assets are measured at market value in the financial statements, and express instead a figure for Solvency II technical provisions in line with the financial statements provisions.

The Solvency II technical provisions for the *Reinsurance recoverables* segment, given the low degree of materiality of the total volume, as previously mentioned, were derived on the basis of the value determined for the financial statements, adjusted to take into account expected losses deriving from reinsurer default.

D.2.3 Information on the effects of the application of volatility adjustment

For the fair value measurement of Non-Life and Life technical provisions, the Company has applied the option envisaged in Art. 77-quinquies of the Directive, defined as the volatility adjustment (VA).

The table below summarises the effect that non-application of the VA would have on technical provisions (gross of the effect of reinsurance) on the Solvency Capital Requirement, minimum capital requirement, basic own funds and eligible own funds to cover the minimum capital requirement and Solvency Capital Requirement.

Volatility Adjustment

Amounts in €k	With VA (a)	Without VA (b)	Difference (b)-(a)
Technical provisions	44,093,922	44,174,990	81,068
Basic own funds	7,693,447	7,637,771	(55,676)
SCR	2,925,918	2,932,259	6,340
MCR	1,316,663	1,319,516	2,853
Eligible amount of own funds to meet SCR	7,693,447	7,637,771	(55,676)
Eligible amount of own funds to meet MCR	7,060,986	7,005,880	(55,106)
SCR coverage ratio	2.63	2.60	(0.02)
MCR coverage ratio	5.36	5.31	(0.05)

The overall difference in technical liabilities, net of the related tax effect, results in a reduction of basic own funds of €55,676k.
The difference calculated on eligible own funds to cover the MCR is equal to €55,106k.

D.3 Other liabilities

D.3.1 Valuation criteria

First of all, please note that when not specified otherwise, no changes were made to the valuation criteria, methods and models during the current year.

Financial liabilities

The fair value of other (non-technical) financial liabilities is measured by taking into account the credit rating of the company "at inception", without considering any subsequent changes in that credit rating.

Other liabilities

For all other liabilities not included in the categories of previous paragraphs, taking into account the related characteristics, the recognition value in the MCBS is consistent with their value determined for the consolidated financial statements drafted by the holding company and consequently applying the reference IAS/IFRS.

D.3.2 Quantitative information on the valuation of other liabilities

The differences recognised between other liabilities in the MCBS and their corresponding valuations in the financial statements are provided below.

Other liabilities

Amounts in €k	Solvency II value	Statutory accounts value	Difference
Contigent liabilities	-	-	-
Provisions other than technical provisions	360,559	360,559	
Pension benefit obligations	87,845	53,672	34,174
Deposits received from reinsurers	168,962	168,962	
Derivatives	264,970	199,502	65,468
Debts owed to credit institutions	2,866	2,866	
Financial liabilities other than debts owed to credit institutions		0	
Insurance and intermediaries payables	77,119	76,657	462
Reinsurance payables	56,505	56,505	
Payables (trade, not insurance)	82,088	82,088	
Subordinated liabilities	2,128,625	2,030,737	97,888
Any other liabilities, not elsewhere shown	1,108,956	1,068,852	40,104
Total	**4,338,496**	**4,100,400**	**238,095**

The differences recorded in the following items:

- liabilities accrued to employees as post-employment benefits (pension benefit obligations);
- subordinated liabilities;
- other liabilities, "Any other liabilities, not elsewhere shown";
- liabilities to insurance companies and intermediaries (Insurance and intermediaries payables);
- derivatives,

derive from the different methods used to quantify these liabilities between Italian GAAP and international accounting standards in application of IAS 19, IAS 37, IFRS 2 and IFRS 4, which represent criteria consistent with those envisaged for preparation of the MCBS. The majority of these refer to liabilities associated with employee relations (post-employment benefits, seniority bonuses, share-based incentives for employees) and liabilities deriving from derivative contracts.

The total liabilities for defined benefit plans due to employees after termination is €87,845k, of which €55,775k relating to post-employment benefits, €31,960k as obligations deriving from the post-retirement policy for managers and €110k as obligations deriving from the agents' welfare fund. There are no assets serving such defined benefit plans.

Post-employment benefits accrued by 31 December 2006 that were not transferred to external bodies in accordance with the provisions of Legislative Decree 252/05 on supplementary pension schemes come under the category of employee benefits classified as a defined benefits plan. The amount due to employees is therefore calculated using actuarial techniques and discounted at the reporting date, using the "Projected unit credit method" (a method based on benefits accrued in proportion to length of employment).
The same method is used to establish the effects of other defined benefits for employees for the post-employment period.

Future cash flows are discounted on the basis of the market yield curve, recorded at the end of the year, for corporate bonds issued by issuers with high credit standing.

Net interest is calculated by applying to the net value of liabilities for defined benefits existing at the start of the year the one-year interest rate taken from the yield curve used to discount the liability at the end of the previous year.
The different valuation of financial liabilities other than debts owed to credit institutions derives from the application, for MCBS preparation purposes, of IAS 17 for the recognition of financial liabilities associated with finance leases signed.

The increase in liabilities (€65,468k) referring to derivative instruments recognised in the MCBS with respect to the financial statements was due to the different valuation criteria applicable to such accounting documents. In particular, in the MCBS all derivatives are measured at fair value in line with IAS/IFRS, while within the financial statements such instruments are subject to more detailed valuation criteria which also take into consideration any capital gains or losses on financial assets or liabilities connected to each derivative instrument.

As regards subordinated liabilities, as indicated previously, these were measured at fair value (without considering the post-issue change in credit rating) for MCBS purposes. Such liabilities were instead measured at nominal value, adjusted for the effects of issue expenses and discounts for preparation of the financial statements.

With regard to other liabilities referred to as "Any other liabilities not elsewhere shown" in the above table, the difference is mainly due to the different valuation of the seniority bonus envisaged in the insurance policy for €41,121k in the Solvency II valuation and €12,450k in the financial statements, as well as to liabilities for long-term incentives relating to the share-based incentive plans for managers which have a recognition value of €25,085k in the MCBS and €23,457k in the financial statements.

Leasing and rental agreements - liabilities

At 31 December 2017 the Company is not a leaseholder of finance leases: indeed, in the course of the year, the contracts in place at the end of the previous year were closed.

The Company has also signed payable operating lease agreements and property leases (which do not involve the transfer to the leaseholder of the majority of risks and benefits associated with the assets concerned), mainly in relation to vehicles and properties used for operations. The lease payments made in 2017 totalled €48,475k.

D.4 Alternative methods for valuation

Provided below is the breakdown by valuation method for assets and liabilities recognised in the MCBS, adopted to identify the portions of assets and liabilities for which alternative valuation methods were used, based on the premises stated in Art. 10 of the Regulation (absence of listed prices on active markets of assets and liabilities identical or similar to those under valuation, or other valuation methods defined in Articles 11 (contingent liabilities), 12 (intangible assets), 13 (participations), 14 (financial liabilities) and 15 (deferred taxes) and in CHAPTER III (technical provisions) of the Regulation.

Amounts in €k	Total	Of which valued upon active markets quotations for the same assets and liabilities or for similar ones	Of which valued upon other valuation methods as set out in the Regulation	Of which valued upon alternative methods for valuation
Assets				
Goodwill				
Deferred acquisition costs				
Intangible assets				
Deferred tax assets	143,551		143,551	
Pension benefit surplus				
Property, plant & equipment held for own use	586,149			586,149
Investments (other than assets held for index-linked and unit-linked contracts)	44,750,250	37,611,106	3,382,372	3,756,773
Property (other than for own use)	2,132,598			2,132,598
Holdings in related undertakings, including participations	3,382,372		3,382,372	
Equities	878,271	705,173		173,098
Equities - listed	705,173	705,173		
Equities - unlisted	173,098			173,098
Bonds	35,917,052	35,236,861		680,190
Government Bonds	24,180,587	23,915,828		264,759
Corporate Bonds	10,799,297	10,635,299		163,998
Structured notes	908,258	656,824		251,434
Collateralised securities	28,910	28,910		
Collective Investments Undertakings	2,214,669	1,557,134		657,535
Derivatives	141,558	111,938		29,620
Deposits other than cash equivalents	83,731			83,731
Other investments				
Assets held for index-linked and unit-linked contracts	4,169,329	4,181,872		(12,543)
Loans and mortgages	786,182			786,182
Loans on policies	28,404			28,404
Loans and mortgages to individuals	339,306			339,306
Other loans and mortgages	418,472			418,472
Reinsurance recoverables from:	475,025		475,025	
Non-life and health similar to non-life	423,524		423,524	
Non-life excluding health	414,539		414,539	
Health similar to non-life	8,985		8,985	
Life and health similar to life, excluding health, index-linked and unit-linked	51,501		51,501	
Health similar to life				
Life, excluding health, index-linked and unit-linked	51,501		51,501	
Life index-linked and unit-linked				
Deposits to cedants	15,100			15,100
Insurance and intermediaries receivables	1,259,037			1,259,037
Reinsurance receivables	65,177			65,177
Receivables (trade, not insurance)	110,646			110,646
Own shares (held directly)	13,640	13,640		
Amounts due in respect of own fund items or initial fund called up but not yet paid in				
Cash and cash equivalents	922,340	922,340		
Any other assets, not elsewhere shown	1,244,021			1,244,021
Total	**54,540,448**	**42,728,958**	**4,000,948**	**7,810,542**

Amounts in €k	Total	Of which valued upon active markets quotations for the same assets and liabilities or for similar ones	Of which valued upon other valuation methods as set out in the Regulation	Of which valued upon alternative methods for valuation
Liabilities				
Technical provisions – non-life	12,905,390		12,905,390	
Technical provisions – non-life (excluding health)	12,297,697		12,297,697	
Technical provisions calculated as a whole				
Best Estimate	11,820,910		11,820,910	
Risk margin	476,787		476,787	
Technical provisions - health (similar to non-life)	607,693		607,693	
Technical provisions calculated as a whole				
Best Estimate	574,711		574,711	
Risk margin	32,982		32,982	
Technical provisions - life (excluding index-linked and unit-linked insurance contracts)	27,023,230		27,023,230	
Technical provisions - health (similar to life)				
Technical provisions calculated as a whole				
Best Estimate				
Risk margin				
Technical provisions – life (excluding health and index-linked and unit-linked insurance contracts)	27,023,230		27,023,230	
Technical provisions calculated as a whole				
Best Estimate	26,856,241		26,856,241	
Risk margin	166,989		166,989	
Technical provisions – index-linked and unit-linked	4,165,302		4,165,302	
Technical provisions calculated as a whole				
Best Estimate	4,140,683		4,140,683	
Risk margin	24,619		24,619	
Other technical provisions				
Contingent liabilities				
Provisions other than technical provisions	360,559			360,559
Pension benefit obligations	87,845			87,845
Deposits from reinsurers	168,962		168,962	
Deferred tax liabilities	26,879		26,879	
Derivatives	264,970	258,261		6,709
Debts owed to credit institutions	2,866		2,866	
Financial liabilities other than debts owed to credit institutions				
Insurance and intermediaries payables	77,119		77,119	
Reinsurance payables	56,505		56,505	
Payables (trade, not insurance)	82,088		82,088	
Subordinated liabilities	2,128,625		2,128,625	
Subordinated liabilities not included in Basic Own Funds				
Subordinated liabilities included in Basic Own Funds	2,128,625		2,128,625	
Any other liabilities, not elsewhere shown	1,108,956			1,108,956
Total	**48,459,296**	**258,261**	**46,636,966**	**1,564,070**

The description of the methods used and the valuation uncertainties is given in the comments on valuation criteria in paragraphs D.1.1 and D.3.1.

Based on past experience, no significant deviations emerged between the estimated valuation based on alternative valuation methods and the corresponding values deduced, for example, from subsequent market transactions involving these assets and liabilities.

D.5 Any other information

Note that there is no significant information to report in addition to that already illustrated in previous paragraphs.

E. CAPITAL MANAGEMENT

E Capital management

E.1 Own funds

E.1.1 Introduction

Own funds (hereinafter also "OF") represent the financial resources steadily acquired by the company and available to absorb losses and to overcome risks generated by business activities on a going concern basis.

The calculation process for own funds eligible to cover capital requirements (SCR and MCR) envisages, firstly, the determination of available own funds. The latter are then restated in accordance with the eligibility criteria envisaged in the Regulation in order to establish the eligible own funds.

The Directive divides available Own Funds into basic OF and ancillary OF.

The basic OF are formed from the surplus of assets over liabilities, both measured at fair value pursuant to Art. 75 of the Directive, and subordinated liabilities. The elements are classified in 3 tiers (Tier 1, Tier 2 and Tier 3) based on the technical characteristics and the objectives of stability and loss absorption.

Note that, among the Tier 1 elements, the reconciliation reserve is equal to the amount representing the total excess of assets over liabilities, less the value of:

- own shares of the Company;
- expected dividends;
- Tier 2 and Tier 3 own funds;
- Tier 1 elements other than the reconciliation reserve;
- the excess of own funds over and above the notional SCR of Ring Fenced Funds or any assets not considered eligible for SCR cover based on specific Supervisory Authority instructions.

The ancillary OF, of which the Company had none at 31 December 2017, are the elements other than basic that can be used to absorb losses.
The above category can include:

- share capital or initial funding not paid and not called;
- letters of credit and guarantees;
- any other legally binding commitment received by the Company.

These elements, whose inclusion among ancillary OF is subject to Supervisory Authority approval, cannot be calculated in Tier 1 and are not eligible for MCR cover.

The eligibility limits used are those established in Art. 82 of the Regulation, which envisages the following criteria to meet the Solvency Capital Requirement (SCR):

- the Tier 1 percentage must be at least 50% of the SCR;
- the total of Tier 3 elements must be less than 15% of the SCR;
- the sum of Tier 2 and Tier 3 elements cannot be higher than 50% of the SCR.

Within the above limits, Tier 1 subordinated liabilities (defined as "Tier 1 restricted") cannot exceed 20% of the total Tier 1 elements. The elements that should be included in the upper Tiers, but are in excess of the above limits, can be reclassified to the lower Tiers until those lower Tiers are completely saturated.

As regards compliance with the Minimum Capital Requirement (MCR), the eligibility limits used are the most stringent established in the Regulation:

- the Tier 1 percentage must be at least 80% of the MCR;
- the total of Tier 2 elements, therefore, cannot be higher than 20% of the MCR;

Own funds classifiable as Tier 3 are not eligible as MCR cover.

E.1.2 Capital management policy

The Company's capital management strategies and objectives are set out in the "Capital Management and Dividend Distribution Policy", which describes the reference framework and process for capital management and dividend distribution also in terms of the roles and responsibilities of the players involved. The document also identifies the principles for capital management and dividend distribution or other elements of own funds, consistent with the objectives of return on capital and with the risk appetite defined by the Board of Directors.

The general aims pursued by the "Capital Management and Dividend Distribution Policy" are:

- define in advance the allocated return on capital objectives, consistent with profitability objectives and in line with the risk appetite;
- maintain a solid and efficient capital structure, considering the growth targets and risk appetite;
- outline the capital management process for the definition of procedures to guarantee that:
    - the elements of own funds, at the time of issue and subsequently, satisfy the applicable capital regime and are correctly classified;
    - the terms and conditions for each element of own funds are clear and undeniable;
- define in advance a sustainable flow of dividends, in line with the profit generated, available cash and the risk appetite, identifying and documenting any situations where postponement or cancellation of distributions due to an element of own funds is expected;
- outline the dividend distribution process for the definition of procedures to guarantee a solid and efficient capital structure, considering that growth targets and profitability objectives are in line with the risk appetite;
- define the roles, responsibilities and reporting on capital management, distribution of dividends and other elements of own funds.

The capital management and dividend distribution process is divided into five steps, closely associated with other corporate processes:

- final measurement of available capital and capital requirement;
- formulation of the medium-term capital management plan;
- monitoring and reporting;
- management actions on capital, including any contingency measures;
- distribution of dividends and other elements of own funds.

E.1.3 Information on available and eligible own funds

The table below illustrates the position at 31 December 2017 for the Company's available and eligible own funds, divided into the Tiers, with a demonstration of the changes occurring between 31 December 2016 and 31 December 2017.

Amounts in €k	31/12/2016	Issued	Redeemed	Movements in valuation	Regulatory action	31/12/2017
Total available own funds to meet the SCR	**7,285,622**		**(402,298)**	**810,123**		**7,693,447**
of which tier 1 unrestricted	*5,002,619*		*(402,298)*	*964,501*		*5,564,822*
of which tier 1 restricted	*1,246,570*			*(13,739)*		*1,232,831*
of which tier 2	*899,764*			*(3,970)*		*895,794*
of which tier 3	*136,669*			*(136,669)*		
Adjustments for eligibility restrictions						
of which tier 1 unrestricted						
of which tier 1 restricted						
of which tier 2						
of which tier 3						
Total eligible own funds to meet the SCR	**7,285,622**		**(402,298)**	**810,123**		**7,693,447**
of which tier 1 unrestricted	*5,002,619*		*(402,298)*	*964,501*		*5,564,822*
of which tier 1 restricted	*1,246,570*			*(13,739)*		*1,232,831*
of which tier 2	*899,764*			*(3,970)*		*895,794*
of which tier 3	*136,669*			*(136,669)*		

Taking into account that the Company has no ancillary OF, the own funds available as SCR cover coincide with the basic own funds.

Details are provided below of the annual changes in elements of the basic own funds, broken down by Tier:

Annual movements on basic own funds

Amounts in €k	31/12/2016	Issued	Redeemed	Movements in valuation	Regulatory action	31/12/2017
Paid-in ordinary share capital	2,031,456					2,031,456
Share premium account related to ordinary share capital	407,256					407,256
Reconciliation reserve	2,563,907		(402,298)	964,501		3,126,110
Other own fund items approved by the supervisory authority as basic own funds						
Total "Tier 1 unrestricted"	**5,002,619**		**(402,298)**	**964,501**		**5,564,822**
Called up but unpaid ordinary share capital						
Subordinated liabilities	1,246,570			(13,739)		1,232,831
Total "Tier 1 restricted"	**1,246,570**			**(13,739)**		**1,232,831**
Subordinated liabilities	899,764			(3,970)		895,794
Total "Tier 2"	**899,764**			**(3,970)**		**895,794**
Subordinated liabilities						
Net deferred tax assets	136,669			(136,669)		
Total "Tier 3"	**136,669**			**(136,669)**		
Total basic own funds	**7,285,622**		**(402,298)**	**810,123**		**7,693,447**

Overall, there was an increase in basic own funds of €407,825k primarily due to the increase in the reconciliation reserve which rose from €2,563,907k to €3,126,110k. The net increase of €562,203k in the reconciliation reserve was due to the positive change (€964,501k) in components of the reconciliation reserve itself other than expected dividends drawn from capital at 31 December 2017 (reported in aggregated form in the column "Movements in valuation"), which were only partially offset by the deduction of expected dividends for €402,298k (reported in the "Redeemed" column). For a description of the breakdown and changes in the main items making up the reconciliation reserve, please refer to the subsequent paragraph.
The change in the item relating to subordinated liabilities in "Tier 1 restricted" and "Tier 2" was due to the change in fair value with respect to the previous year.
Lastly, the amount of net deferred tax assets in "Tier 3" was equal to zero at 31 December 2017 with respect to a value of €136,669k in the previous year. This difference was due to an increase in deferred tax liabilities with respect to deferred tax assets.

Composition and characteristics of the Company's own funds

The ordinary share capital and share premium reserve correspond to the amount paid in by the Company's shareholders. Based on their level of stability and their loss-absorbing capacity, they qualify as "Tier 1 unrestricted" own funds.

The reconciliation reserve, based on Art. 69 of the Regulation, represents the residual amount of the Company's own funds eligible as an element of Tier 1 unrestricted own funds, determined by making suitable adjustments to the total obtained as the difference between assets and liabilities recorded in the MCBS. Details of the calculation of the reconciliation reserve are provided below.

Reconciliation reserve

Amounts in €k	Tier 1 unrestricted
Excess of assets over liabilities from MCBS (A)	6,081,152
Own shares (held directly and indirectly) (B)	107,667
Foreseeable dividends, distributions and charges (C)	402,298
Other basic own fund items (D)	2,438,712
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds (E)	6,364
Reconciliation reserve (A-B-C-D-E)	**3,126,110**

To determine the reconciliation reserve, the following adjusting items were deducted from the amount obtained as the difference between assets and liabilities set forth in the MCBS:

- the item "Other basic own fund items" (€2,438,712k, compared to €2,575,382k at 31/12/2016), which includes the total of the share capital paid in and the share premium reserve, autonomously classified as Tier 1 unrestricted (unchanged with respect to the previous year) and the total Tier 3 own funds (not present at 31/12/2017 compared to €136,669k at 31/12/2016), corresponding to the value of net deferred tax assets, the recoverability of which depends on future profitability;
- the total of own shares held directly and indirectly by the Company (€107,667k, compared to €112,257k at 31/12/2016);
- the total of foreseeable dividends, distributions and charges (€402,298k, compared to €346,802k at 31/12/2016);
- the total of own funds not available because they refer to segregated funds ("Ring fenced funds") for €6,364k (€19,418k at 31/12/2016). This item includes:
  - any positive excess resulting from the difference between net assets and liabilities referring to ring-fenced funds and the corresponding Solvency Capital Requirement of each ring-fenced fund. This excess was zero at 31 December 2017 and at 31 December 2016;
  - the excess of financial assets pledged compared to the corresponding positions in derivative liabilities in application of Art. 23 of IVASS Regulation no. 24 of 6 June 2016 amounting to €6,364k (€19,418k at 31/12/2016).

The reconciliation reserve is calculated by including within it the deferred tax assets the recoverability of which does not depend on future profitability, as they are transformable into tax credits (€355,047k, compared to €364,198k at 31/12/2016).

At 31 December 2017, no further deductions are applicable, other than those indicated in the reconciliation reserve calculation, to be applied to basic own funds against significant restrictions affecting the availability and transferability of own funds within the Company.

Included in the available Tier 1 restricted own funds are the subordinated liabilities indicated below, totalling €1,232,831k. All the subordinated liabilities in question were classified as elements of Tier 1 restricted own funds following application of the transitional provisions of Art. 308-ter of the Directive.

Subordinated liabilities - Tier 1

Amounts in €k	Issue date	Maturity date	First call date	Further call dates	Nominal	SII Market value (clean price) A	Accrued interests B	SII Value (accrued interests included) C = A+B
Hybrid 2014 750M	18/06/2014	undated	18/06/2024	Every 3 months	750,000	795,693	23,158	818,850
Subordinated 2003 400M*	24/07/2003	24/07/2023	24/07/2013	Every 6 months	400,000	411,200	2,781	413,981
Total					**1,150,000**	**1,206,893**	**25,938**	**1,232,831**

* The contract makes provision for early repayment, in 5 constant instalments, starting from the 16th year from issue, following IVASS authorisation.

With reference to the Company's available Tier 2 own funds, indicated in the following table, note that all the subordinated liabilities can be recorded in this tier on the basis of the transitional provisions of Art. 308-ter of the Directive and are included among the Company's eligible basic own funds for a total of €895,794k.

Subordinated liabilities - Tier 2

Amounts in €k	Issue date	Maturity date	First call date	Further call dates	Nominal	SII Market value (clean price) A	Accrued interests B	SII Value (accrued interests included) C = A+B
Subordinated 2001 300M	15/06/2001	15/06/2021	15/06/2011	Every 3 months	300,000	309,583	288	309,871
Subordinated 2003 300M	28/07/2003	28/07/2023	28/07/2013	Every 3 months	256.689*	269,541	990	270,531
Subordinated 2005 100M**	30/12/2005	30/12/2025	30/12/2015	Every 6 months	100,000	104,420	13	104,433
Subordinated 2006 150M**	14/07/2006	14/07/2026	14/07/2016	Every 6 months	150,000	157,125	1,094	158,219
Subordinated 2006 50M**	14/07/2006	14/07/2026	14/07/2016	Every 6 months	50,000	52,375	365	52,740
Total					**856,689**	**893,044**	**2,750**	**895,794**

* Total nominal value issued: €300,000k.
** The contract makes provision for early repayment, in 5 constant instalments, starting from the 16th year from issue, following IVASS authorisation.

Please note that on 1 March 2018, the Company issued a subordinated bond loan for a nominal value of €500m, maturing in March 2028 and with a coupon equal to 3.875% eligible for calculation as an element of tier 2 own funds. The liquidity obtained from the placement will be used in part, on the basis of a specific authorisation measure received from the Supervisory Authority on 17 April 2018, for the early repayment of subordinated bond loans, also eligible for calculation as tier 2 own funds, for a total nominal value of €300m. Please note that both subordinated loan issue and repayment transactions, completed or to be completed in 2018, had no impacts on the determination of the own funds of the Company at 31 December 2017.

Eligible own funds

As stated in the introduction, in order to identify the total eligible own funds to cover the Solvency Capital Requirement (SCR) and Minimum Capital Requirement (MCR), it is necessary to apply the rules of Art. 82 of the Regulation to the available own funds.

The following table illustrates the structure and amount of OF to meet SCR and MCR, determined for 2017, in comparison with the same data for the year ended at 31 December 2016.

Available and eligible own funds to meet the SCR

Amounts in €k	Available own funds	Adjustments for eligibility	Eligible own funds 2017	Eligible own funds 2016
Tier 1 unrestricted	5,564,822		5,564,822	5,002,619
Tier 1 restricted	1,232,831		1,232,831	1,246,570
Tier 2	895,794		895,794	899,764
Tier 3				136,669
Total OF	**7,693,447**		**7,693,447**	**7,285,622**
Total SCR			**2,925,918**	**2,992,577**
Surplus/(shortage)			**4,767,529**	**4,293,045**

Available and eligible own funds to meet the MCR

Amounts in €k	Available own funds	Adjustments for eligibility	Eligible own funds 2017	Eligible own funds 2016
Tier 1 unrestricted	5,564,822		5,564,822	5,002,619
Tier 1 restricted	1,232,831		1,232,831	1,246,570
Tier 2	895,794	(632,461)	263,333	269,332
Total OF	**7,693,447**	**(632,461)**	**7,060,986**	**6,518,521**
Total MCR			**1,316,663**	**1,346,660**
Surplus/(shortage)			**5,744,323**	**5,171,861**

As seen from the above tables, the rules envisaged in the Regulation for the identification of own funds eligible to meet SCR and MCR resulted in:

- for SCR coverage purposes, no adjustment to the basic own funds;
- for MCR coverage purposes, a decrease in Tier 2 following application of the more stringent eligibility rules summarised in the introduction.

Reconciliation with shareholders' equity from the financial statements

The MCBS at 31 December 2017 shows that assets exceed liabilities by €6,081,152k (€5,617,766k at 31/12/2016), €249,030k higher (€10,004k at 31/12/2016) than the shareholders' equity recorded in the Company's financial statements at the same date (the "Financial Statements"). This difference is due to the different valuation of shareholders' equity components, as seen in the following statement of reconciliation:

Statement of reconciliation between Financial Statements and MCBS Shareholders' equity

Amounts in €k		2017	2016
A	**Shareholders' equity (Financial Statements)***	**5,832,122**	**5,607,762**
	Adjustments by assets/liabilities type		
1	Intangible assets	(794,796)	(847,328)
2	Properties and tangible assets for investment and for own use	236,194	199,402
3	Other financial investments	2,798,475	3,497,043
4	Non-life technical provisions	1,346,611	798,449
5	Non-life reinsurance recoverables	(117,417)	(92,034)
6	Life technical provisions	(2,319,599)	(2,999,155)
7	Life reinsurance recoverables	(8)	
8	Financial Liabilities	(97,888)	(111,489)
9	Other assets	(65,699)	(65,095)
10	Provisions		136
11	Other liabilities	(74,739)	(73,364)
12	Deferred taxes	(662,104)	(296,559)
	Total adjustments	**249,030**	**10,004**
B	**Shareholders' equity (MCBS)**	**6,081,152**	**5,617,766**

* It should be noted that the difference with the Total Shareholders' Equity, resulting from item 110 of the Financial Statements Liabilities of the Company's Annual Report (€5,752,829k at 31/12/2017) is due to the recognition, in that Statement, of the treasury shares (€79,292k) as an adjustment to the Shareholders' Equity.

Section D above illustrates the valuation criteria adopted for preparation of the MCBS, as well as more detailed quantitative information on the comparison with financial statements values.

E.2 Solvency Capital Requirement and Minimum Capital Requirement

As already mentioned, the Company calculates its Solvency Capital Requirement on the basis of the Partial Internal Model, without adopting the simplified calculations permitted by regulations. The valuations were performed by applying the Volatility Adjustment (VA) as the long-term measurement envisaged in the Solvency II regulations, the precise value of which as communicated by EIOPA at the reference date of 31 December 2017 was 4 basis points.

The SCR total for the Company UnipolSai at the end of the reference period was €2,925,918k, down by €66,658k compared to the SCR relating to 31 December 2016. The change in the SCR between the two periods subject to analysis was primarily due to the change in the value of the Non-Life and Health Underwriting Risks and Market Risks; for an explanation of the reasons for this change, please refer to chapter C.

The total MCR of the Company at the end of the reference period was €1,316,663k. As represented in the attached QRT S.28.02.01[13], the MCR is calculated on the basis of the $MCR_{combined}$, the value of which is higher than that of the Absolute Minimum Capital Requirement (AMCR). The $MCR_{combined}$ is represented by the value of the MCR cap, as it is lower than that of the Linear MCR.

The amount of the SCR for each risk category established for the Partial Internal Model is shown below along with a comparison with the data relating to 31 December 2016:

[13] Column C0130, rows from R0300 to R0350 and R0400.

SCR - Partial Internal Model

Amounts in €k

Risk Modules	2017	2016	Change on 2016
Non-life and health underwriting risk[1]	2,011,159	2,196,290	(185,131)
Life underwriting risk	193,999	212,599	(18,600)
Market risks	2,051,666	1,726,000	325,666
Credit risk	365,654	397,828	(32,174)
Diversification	*(1,117,174)*	*(1,017,826)*	*(99,348)*
BSCR	3,505,304	3,514,891	(9,587)
Operational risk	493,916	524,179	(30,263)
ALAC TP	(276,433)	(200,414)	(76,019)
ALAC DT	(847,262)	(902,230)	54,968
Model Adjustment	50,393	56,151	(5,758)
SCR	2,925,918	2,992,577	(66,658)

[1] It should be noted that the representation used in the current table for "Non-Life and Health underwriting Risk" includes the diversification between Non-Life and Health modules, whereas the QRT S.25.02.21 does not.

As part of the risk assessment carried out using the Partial Internal Model, UnipolSai quantifies the Non-Life tariff-setting and provisions risks for the lines of business (i) MV TPL, (ii) General Liability and (iii) Fire and other damage to property through the Standard Formula and use of the Undertaking Specific Parameters (USP).

E.3 Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement

The Company does not use the equity risk sub-module pursuant to Art. 304 of the Regulation to calculate the SCR.

E.4 Differences between the standard formula and any internal model used

The Company calculates its Solvency Capital Requirement using a Partial Internal Model in order to more adequately assess the real risk profile of the enterprise with respect to the standard formula. On 8 February 2017, the Company received from the supervisory authorities the authorisation to use the Partial Internal Model for regulatory purposes, from 31 December 2016 onwards.

To provide a more complete representation of the risk profile, the Company has adopted risk classification criteria somewhat different from those proposed by the Standard Formula, which is the method used to calculate the Solvency Capital Requirement ("SCR") for companies that have not developed an internal model. In particular, with regard to market risk, as part of the PIM, the Company also considers the risks relating to the volatility of share prices and interest rates.

For the risk modules not within the scope of the PIM, the Standard Formula is used with the application of specific parameters of the company (Undertaking Specific Parameters or USP) to calculate premium risk and reserve risk relating to the following segments:

- Segment 1, Proportional insurance and reinsurance on TPL resulting from the circulation of vehicles, comprising business areas 4 and 16 as defined in Annex I to the Regulation. This segment is also referred to as "Motor third-party liability" or "Motor vehicle liability" or the acronym MVL;
- Segment 4, Proportional insurance and reinsurance against fire and other damage to property resulting, comprising business areas 7 and 19 as defined in Annex I to the Regulation. This segment is referred to as "Fire and other property damage" or "Fire and other Damage to Property" or the acronym FDP;
- Segment 5, Proportional insurance and reinsurance on general third-party liability, comprising business areas 8 and 20 as defined in Annex I to the Regulation. This segment is also referred to as "Third-party liabilities" or "General liability" or the acronym GLI.

In addition, within the Partial Internal Model the Company also assesses the following risks using the Market Wide Standard Formula:

- market concentration risk;
- the Credit risk exposure to residual counterparties for which no information has at present been obtained for PIM modelling;
- the Health and Non-Life Catastrophe risks other than Earthquake risk;
- the Non-Life and Health tariff-setting and provision risks for lines of business other than those indicated previously;
- Non-Life and Health surrender risk;
- Life business catastrophe risk;
- operational risk;
- all Market risks and all Life underwriting risks in reference to index-linked policies, unit-linked policies and pension funds.

The risk aggregation process calls for a bottom-up approach and may be broken down into two phases:

- aggregation of the risk sub-modules that make up the Market, Non-Life and Health, Life and Credit risks.
- aggregation of the Market, Non-Life and Health, Life and Credit risk modules.

The aggregation of the sub-modules involves three distinct approaches:

- joint sampling of risk factors;
- aggregation by means of the Var-Covar method with a posteriori determination of the Probability Distribution Forecast (PDF);
- aggregation of multiple marginal distributions through copula functions.

More specifically:

- the joint sampling is a risk aggregation method involving the direct calculation of PDF values subject to the occurrence of scenarios with multiple variations of the risk factors in question. This approach allows projection of the Company's MCBS against the set of joint scenarios identified, and subsequent determination of the distribution of the probability of profit and losses aggregated over a time horizon consistent with the holding period of the risk assessment;
- the Var-Covar method is used to aggregate the components of the model adopting the Standard Formula with the components valued using the Internal Model. The main objective is to aggregate the Standard Formula component with the Internal Model component, preserving the PDF-related information;
- when at one point in the PIM aggregation hierarchy two or more empiric distributions meet, these distributions are aggregated using the copula functions. This aggregation method allows the determination of a joint distribution formed by two or more marginal distributions, and to subsequently sample the variable sum distribution.

After determining the PDFs for each risk model (Market PDF, Non-Life PDF, Credit PDF, Life PDF), they are aggregated through:

- determination of a Proxy PDF through scenario-to-scenario association of empiric margins;
- determination of the PDF by means of a Gaussian copula.

This process determines the joint PDF for the four risk modules, considered indispensable in order to adequately capture the Company's risk profile taking into account the dependencies between the various risks.

The loss recorded at the 99.5th percentile of the joint PDF represents the BSCR value of the Company.

The Solvency Capital Requirement is obtained by adding the components relating to operational risk, risk associated with ring fenced funds and those relating to adjustments for loss-absorbing capacity of technical provisions and deferred tax assets and liabilities to the BSCR.

The reasons for which it is considered that the PIM offers a more suitable representation of the Company's risk profile than the Standard Formula are provided below.

Life underwriting risk

The Internal Model measures Life business underwriting risk more accurately than the Standard Formula, mainly for the following reasons:

- it allows a maximum loss calculation based on scenarios calibrated on the specific portfolio of the Company, through actual analysis of the trend in Life underwriting risk factors. Whilst the Standard Formula adopts a scenario-based approach with scenarios predefined and calibrated on the European market situation, the Internal Model determines the maximum loss to which the Company could be exposed based on changes in the Life underwriting risk factors;
- it uses more granular and specific actuarial scenarios, defined on the basis of the risk characteristics of the Company's policies portfolio. Unlike the Standard Formula, in which scenarios for each Life underwriting risk are unambiguous for all product classes, in the PIM the scenarios that determine the Company's maximum loss are differentiated on the basis of standardised product classes;
- it allows periodic updating of the scenarios relating to each risk factor. In fact, with the PIM, the scenarios that determine the maximum loss are updated quarterly;
- it allows a more suitable valuation of the effects of mitigation deriving from the management strategies of financial portfolios underlying the Life insurance policies;
- it facilitates the use test, guaranteeing consistency with the assumptions and models used in the business valuations.

Market risks

The Internal Model measures the market risks of the Company's financial instruments more accurately than the Standard Formula, mainly for the following reasons:

- it allows more accurate measurement of the market risks, determining the maximum loss on the basis of effective changes in the total portfolio value against a combination of risk factors and not through the parameter-based approaches defined in the Standard Formula;
- it uses more granular and specific risk factors, defined on the basis of the risk characteristics of the financial instruments portfolio currently held by the Company;
- it allows constant calibration updating of the models that generate stochastic financial scenarios relating to risk factors identified on the basis of market developments, whilst these scenarios remain static in the Standard Formula;
- it allows calculation of the spread risk by applying stochastic financial scenarios calibrated on historical data and determination of the effective change in the asset value rather than using the parameter-based method envisaged in the Standard Formula;
- it allows calculation of the property risk on the basis of scenarios calibrated on indices representing the Italian real estate market, rather than indices calibrated on the European-UK markets, given the diversity characterising the different markets;
- it allows benefits of diversification between the market risk factors to be captured, based on historically verified correlations. For example, with reference to equity risk, the Internal Model considers the values of sector indices representing individual shares as risk factors, allowing benefits deriving from a diversified portfolio to be captured;
- from a use test point of view, it allows a risk measurement tool to be used that allows continuous dialogue and comparison with the operating departments that manage the investment portfolios, using logics shared with the lines of business. It combines the need for strict capital at risk measurement with the need to have an operating decision-making support tool to optimise the risk/return parameters of the portfolio.

The Market risk module of the Company's Internal Model includes the following sub-modules not envisaged by the Standard Formula:

- Equity volatility risk, i.e. the risk of a potential negative change in the value of available capital due to changes in the volatility of the equity instruments;
- Interest rate volatility risk, i.e. the risk of a potential negative change in the value of available capital due to changes in the volatility of the interest rate derivative instruments.

Credit risk
The Internal Model quantifies the maximum loss of all exposures for which specific financial information can be identified or the degree of risk determined based on historical information obtained internally. For such counterparties it is therefore possible to identify the specific risk parameters. Vice versa, the weighted averages envisaged in the Standard Formula do not allow the use of accurate information that distinguishes the counterparties analysed.

The decision to adopt the Internal Model to calculate the capital requirement for credit risk was, in addition to the purpose of accurately capturing the risk profile of exposures, also dictated by the need - for certain types of exposure - to envisage weightings in line with the effective level of risk detected.

The Internal Model provides the results necessary to fully characterise the Company's risk profile. In particular, the model calculates the entire distribution of losses, highlighting any concentration effects. These aspects are also set out on the basis of the business segment (Life, Non-Life) and the types of credit making up the Company's exposure: exposure to banks, insurance companies, co-insurers, reinsurers, insurance intermediaries (agencies and brokers), policyholders and other receivables.

Earthquake risk
The Internal Model measures Non-Life business earthquake risk more accurately than the Standard Formula, mainly because:

- it allows more granular geo-referencing of the Company's risks in a given area and a specific assessment of the risk mitigation effect guaranteed by the policy terms and conditions (deductibles, reimbursement limits, non-coverage). In addition, the modular composition allows separate assessment of the seismic dangers of a given area and the vulnerability of the assets insured, the latter assessed on the basis of construction, property usage, year of construction and building height characteristics;
- facilitate the use test by adopting models more aligned to those used by the business. In addition to calculation of the earthquake SCR, the model is also used in particular:
  - to support the pricing of Standardised Products and Corporate Risks, as well as valuation of the reliable estimate of losses if a seismic event occurs (post-event analysis);
  - to measure the reinsurance purchasing capacity for the catastrophe treaties and to estimate the related cost.

E.5 Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement

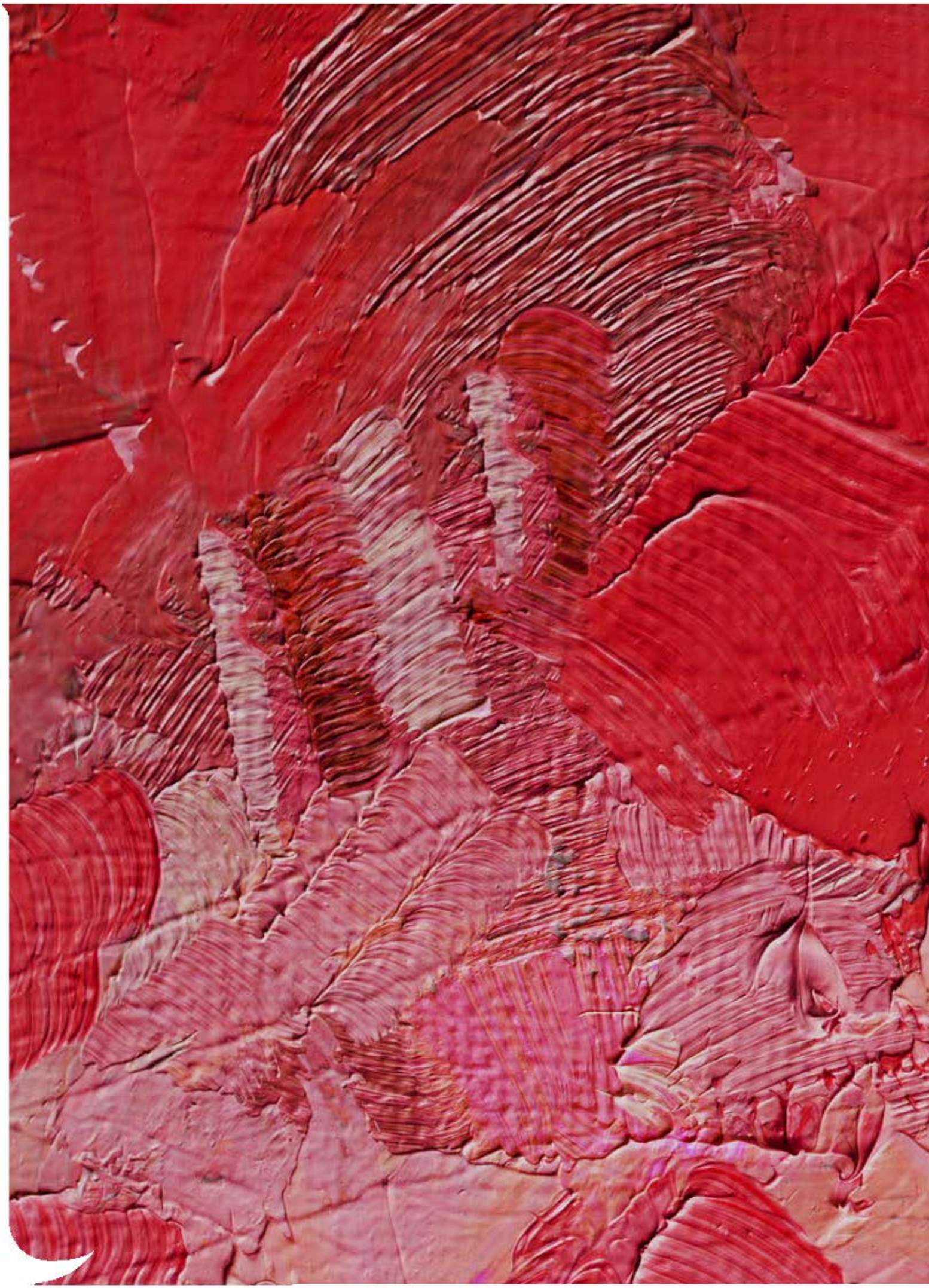
At no time, during the year, did the Company fail to meet its Solvency Capital Requirement or its Minimum Capital Requirement.

E.6 Any other information

There is no significant additional information to report on the company's capital management.

Bologna, 23 April 2018

The Board of Directors



QRT MODELS

S.02.01.02

Balance sheet

		Solvency II
Assets		
Goodwill	R0010	
Deferred acquisition costs	R0020	
Intangible assets	R0030	
Deferred tax assets	R0040	143,551
Pension benefit surplus	R0050	
Property, plant & equipment held for own use	R0060	586,149
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	44,750,250
Property (other than for own use)	R0080	2,132,598
Holdings in related undertakings, including participations	R0090	3,382,372
Equities	R0100	878,271
Equities - listed	R0110	705,173
Equities - unlisted	R0120	173,098
Bonds	R0130	35,917,052
Government Bonds	R0140	24,180,587
Corporate Bonds	R0150	10,799,297
Structured notes	R0160	908,258
Collateralised securities	R0170	28,910
Collective Investments Undertakings	R0180	2,214,669
Derivatives	R0190	141,558
Deposits other than cash equivalents	R0200	83,731
Other investments	R0210	
Assets held for index-linked and unit-linked contracts	R0220	4,169,329
Loans and mortgages	R0230	786,182
Loans on policies	R0240	28,404
Loans and mortgages to individuals	R0250	339,306
Other loans and mortgages	R0260	418,472
Reinsurance recoverables from:	R0270	475,025
Non-life and health similar to non-life	R0280	423,524
Non-life excluding health	R0290	414,539
Health similar to non-life	R0300	8,985
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	51,501
Health similar to life	R0320	
Life excluding health and index-linked and unit-linked	R0330	51,501
Life index-linked and unit-linked	R0340	
Deposits to cedants	R0350	15,100
Insurance and intermediaries receivables	R0360	1,259,037
Reinsurance receivables	R0370	65,177
Receivables (trade, not insurance)	R0380	110,646
Own shares (held directly)	R0390	13,640
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400	
Cash and cash equivalents	R0410	922,340
Any other assets, not elsewhere shown	R0420	1,244,021
Total assets	R0500	54,540,448

Liabilities		Solvency II
Technical provisions – non-life	R0510	12,905,390
Technical provisions – non-life (excluding health)	R0520	12,297,697
Technical provisions calculated as a whole	R0530	
Best Estimate	R0540	11,820,910
Risk margin	R0550	476,787
Technical provisions - health (similar to non-life)	R0560	607,693
Technical provisions calculated as a whole	R0570	
Best Estimate	R0580	574,711
Risk margin	R0590	32,982
Technical provisions - life (excluding index-linked and unit-linked)	R0600	27,023,230
Technical provisions - health (similar to life)	R0610	
Technical provisions calculated as a whole	R0620	
Best Estimate	R0630	
Risk margin	R0640	
Technical provisions – life (excluding health and index-linked and unit-linked)	R0650	27,023,230
Technical provisions calculated as a whole	R0660	
Best Estimate	R0670	26,856,241
Risk margin	R0680	166,989
Technical provisions – index-linked and unit-linked	R0690	4,165,302
Technical provisions calculated as a whole	R0700	
Best Estimate	R0710	4,140,683
Risk margin	R0720	24,619
Other technical provisions	R0730	
Contingent liabilities	R0740	
Provisions other than technical provisions	R0750	360,559
Pension benefit obligations	R0760	87,845
Deposits from reinsurers	R0770	168,962
Deferred tax liabilities	R0780	26,879
Derivatives	R0790	264,970
Debts owed to credit institutions	R0800	2,866
Financial liabilities other than debts owed to credit institutions	R0810	
Insurance & intermediaries payables	R0820	77,119
Reinsurance payables	R0830	56,505
Payables (trade, not insurance)	R0840	82,088
Subordinated liabilities	R0850	2,128,625
Subordinated liabilities not in Basic Own Funds	R0860	
Subordinated liabilities in Basic Own Funds	R0870	2,128,625
Any other liabilities, not elsewhere shown	R0880	1,108,956
Total liabilities	R0900	48,459,296
Excess of assets over liabilities	R1000	6,081,152

S.05.01.02
Premiums, claims and expenses by line of business

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)												Line of Business for: accepted non-proportional reinsurance				Total
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Health	Casualty	Marine, aviation, transport	Property	
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
Premiums written																		
Gross - Direct Business	R0110	272,268	563,450		3,305,588	623,788	31,723	1,087,051	684,785	53,886	63,431	147,667	57,808					6,891,445
Gross - Proportional reinsurance accepted	R0120				1		269	4,087	3,183	88								7,628
Gross - Non-proportional reinsurance accepted	R0130													244	1,019		285	1,547
Reinsurers' share	R0140	40,152	21,246		37,961	1,238	14,103	65,327	23,345	27,382	50,156	130,327	322	16	28		34	411,636
Net	R0200	232,116	542,204		3,267,628	622,550	17,890	1,025,810	664,622	26,593	13,275	17,340	57,486	228	991		250	6,488,984
Premiums earned																		
Gross - Direct Business	R0210	263,656	562,715		3,321,119	612,400	31,773	1,068,738	682,592	57,726	62,299	145,396	59,170					6,867,584
Gross - Proportional reinsurance accepted	R0220	()	()		1		258	4,426	3,186	67			(31)					7,907
Gross - Non-proportional reinsurance accepted	R0230													244	1,019		285	1,547
Reinsurers' share	R0240	42,014	19,472		33,190	1,296	14,048	64,755	21,883	36,068	51,244	129,302	274	16	28		34	413,625
Net	R0300	221,642	543,243		3,287,930	611,104	17,983	1,008,409	663,895	21,725	11,055	16,093	58,865	228	991		250	6,463,413
Claims incurred																		
Gross - Direct Business	R0310	126,004	236,980		2,216,528	383,317	13,596	682,022	304,807	15,237	18,077	59,061	22,591					4,078,219
Gross - Proportional reinsurance accepted	R0320	(11)	(24)		818		165	5,119	(2,151)	866	10		14					4,806
Gross - Non-proportional reinsurance accepted	R0330													(450)	602	()	1,350	1,501
Reinsurers' share	R0340	13,379	10,809		19,254	(393)	2,196	47,511	7,245	3,044	11,331	52,741	1,206		(16)		1,102	169,408
Net	R0400	112,614	226,146		2,198,092	383,710	11,565	639,629	295,411	13,060	6,756	6,321	21,399	(450)	617	()	248	3,915,119
Changes in other technical provisions																		
Gross - Direct Business	R0410	2,520	(1,143)			(1,359)	(67)	(25,801)		8,547			(11)					(17,313)
Gross - Proportional reinsurance accepted	R0420							2										2
Gross - Non- proportional reinsurance accepted	R0430																202	202
Reinsurers'share	R0440																	
Net	R0500	2,520	(1,143)			(1,359)	(67)	(25,798)		8,547			(11)				202	(17,109)
Expenses incurred	R0550	100,032	207,013		1,050,864	203,441	15,571	459,282	307,544	31,370	(12,206)	6,940	24,350					2,394,201
Other expenses	R1200																	
Total expenses	R1300																	2,394,201

S.05.01.02

Premiums, claims and expenses by line of business

		Line of Business for: life insurance obligations						Life reinsurance obligations		Total
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance	
		C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
Premiums written										
Gross	R1410		1,998,855	789,786	103,176				370	2,892,188
Reinsurers' share	R1420		2,047		4,236				72	6,356
Net	R1500		1,996,807	789,786	98,940				298	2,885,831
Premiums earned										
Gross	R1510		2,010,396	789,786	96,206				370	2,896,758
Reinsurers' share	R1520		1,915		4,369				72	6,356
Net	R1600		2,008,481	789,786	91,837				298	2,890,402
Claims incurred										
Gross	R1610		2,256,183	1,198,017	23,855				3,479	3,481,534
Reinsurers' share	R1620		7,709		1,757				1,553	11,019
Net	R1700		2,248,474	1,198,017	22,098				1,927	3,470,516
Changes in other technical provisions										
Gross	R1710		(329,478)	352,649	130				3,386	26,688
Reinsurers' share	R1720		6,286		(487)				1,781	7,580
Net	R1800		(335,764)	352,649	617				1,605	19,108
Expenses incurred	R1900		189,273	23,343	7,422				68	220,106
Other expenses	R2500									
Total expenses	R2600									220,106

S.12.01.02

Life and Health SLT Technical Provisions

		Insurance with profit participation	Index-linked and unit-linked insurance			Other life insurance			Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	Total (Life other than health insurance, incl. Unit-Linked)	Health insurance (direct business)			Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health reinsurance (reinsurance accepted)	Total (Health similar to life insurance)
				Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees					Contracts without options and guarantees	Contracts with options or guarantees			
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0150	C0160	C0170	C0180	C0190	C0200	C0210
Technical provisions calculated as a whole	R0010																
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	R0020																
Technical provisions calculated as a sum of BE and RM																	
Best Estimate																	
Gross Best Estimate	R0030	26,958,279		740,779	3,399,905		(111,767)			9,729	30,996,925						
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0080	41,966					3,918			5,617	51,501						
Best estimate minus recoverables from reinsurance/SPV and Finite Re - total	R0090	26,916,313		740,779	3,399,905		(115,684)			4,112	30,945,424						
Risk Margin	R0100	144,626	24,619			22,328				34	191,607						
Amount of the transitional on Technical Provisions																	
Technical Provisions calculated as a whole	R0110																
Best estimate	R0120																
Risk margin	R0130																
Technical provisions - total	R0200	27,102,905	4,165,302			(89,438)				9,763	31,188,532						

S.17.01.02
Non-life Technical Provisions

		Direct business and accepted proportional reinsurance												Accepted non-proportional reinsurance				Total Non-Life obligation
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180
Technical provisions calculated as a whole	R0010																	
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	R0050																	
Technical provisions calculated as a sum of BE and RM																		
Best estimate																		
Premium provisions																		
Gross	R0060	66,006	118,450		1,093,785	200,296	10,848	479,189	266,876	88,361	8,055	33,928	15,269					2,381,065
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0140	24	47		4,553	2	1,957	25,145	3,069	34,342			11					69,151
Net Best Estimate of Premium Provisions	R0150	65,983	118,403		1,089,232	200,293	8,891	454,044	263,807	54,019	8,055	33,928	15,258					2,311,914
Claims provisions																		
Gross	R0160	95,756	293,531		5,317,348	113,625	73,703	707,653	2,961,078	320,772	77,578	21,943	15,319	967	8,630	451	6,202	10,014,556
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0240	794	8,121		48,243	1,225	23,951	63,154	46,481	128,482	33,006	211	704					354,373
Net Best Estimate of Claims Provisions	R0250	94,962	285,410		5,269,105	112,400	49,751	644,499	2,914,597	192,290	44,572	21,732	14,614	967	8,630	451	6,202	9,660,183
Total Best estimate - gross	R0260	161,762	411,981		6,411,133	313,921	84,551	1,186,842	3,227,954	409,133	85,633	55,872	30,588	967	8,630	451	6,202	12,395,621
Total Best estimate - net	R0270	160,945	403,814		6,358,336	312,693	58,642	1,098,543	3,178,403	246,309	52,627	55,660	29,872	967	8,630	451	6,202	11,972,097
Risk margin	R0280	5,324	27,625		214,276	15,536	3,426	60,622	142,290	29,693	5,018	1,477	3,922	33	301	15	212	509,769
Amount of the transitional on Technical Provisions																		
Technical Provisions calculated as a whole	R0290																	
Best estimate	R0300																	
Risk margin	R0310																	
Technical provisions - total																		
Technical provisions - total	R0320	167,086	439,606		6,625,409	329,456	87,977	1,247,464	3,370,244	438,826	90,651	57,349	34,510	1,001	8,931	466	6,414	12,905,390
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	R0330	818	8,167		52,797	1,228	25,909	88,299	49,550	162,824	33,006	211	716					423,524
Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total	R0340	166,269	431,439		6,572,613	328,229	62,068	1,159,165	3,320,694	276,002	57,645	57,138	33,794	1,001	8,931	466	6,414	12,481,866

S.19.01.21

Non-life Insurance Claims Information

Accident year / Underwriting year	Z0020	2017

Gross Claims Paid (non-cumulative)

(absolute amount)

Year		Development year 0	1	2	3	4	5	6	7	8	9	10 & +
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110
Prior	R0100											267,211
N-9	R0160	2,791,950	2,117,746	780,420	403,713	293,421	240,757	173,910	142,998	115,199	56,527	
N-8	R0170	2,922,843	2,233,184	748,102	445,814	316,849	216,235	170,880	140,157	87,095		
N-7	R0180	2,759,150	1,903,343	702,678	413,390	253,438	191,622	150,662	102,843			
N-6	R0190	2,412,457	1,636,215	597,867	318,756	200,982	160,431	118,497				
N-5	R0200	2,079,049	1,541,656	531,406	265,779	171,884	126,882					
N-4	R0210	1,855,708	1,250,354	496,342	271,307	153,548						
N-3	R0220	1,674,914	1,226,220	513,610	230,313							
N-2	R0230	1,412,732	1,239,988	421,549								
N-1	R0240	1,603,548	1,260,771									
N	R0250	1,718,725										

		In Current year	Sum of years (cumulative)
		C0170	C0180
	R0100	267,211	267,211
	R0160	56,527	7,116,641
	R0170	87,095	7,281,159
	R0180	102,843	6,477,126
	R0190	118,497	5,445,204
	R0200	126,882	4,716,656
	R0210	153,548	4,027,258
	R0220	230,313	3,645,058
	R0230	421,549	3,074,269
	R0240	1,260,771	2,864,319
	R0250	1,718,725	1,718,725
Total	R0260	4,543,960	46,633,625

Gross undiscounted Best Estimate Claims Provisions

(absolute amount)

Year		Development year 0	1	2	3	4	5	6	7	8	9	10 & +
		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300
Prior	R0100											1,302,165
N-9	R0160									418,499	294,524	
N-8	R0170								519,285	360,938		
N-7	R0180							656,154	456,782			
N-6	R0190						710,122	517,569				
N-5	R0200					781,948	574,061					
N-4	R0210				918,462	675,331						
N-3	R0220			1,158,600	816,771							
N-2	R0230		1,455,017	941,561								
N-1	R0240	2,776,580	1,451,598									
N	R0250	2,728,507										

		Year end (discounted data)
		C0360
	R0100	1,298,173
	R0160	292,352
	R0170	357,495
	R0180	451,616
	R0190	511,437
	R0200	566,614
	R0210	665,650
	R0220	803,554
	R0230	926,638
	R0240	1,433,235
	R0250	2,707,792
Total	R0260	10,014,556

S.22.01.21
Impact of long term guarantees measures and transitionals

		Amount with Long Term Guarantee measures and transitionals	Impact of transitional on technical provisions	Impact of transitional on interest rate	Impact of volatility adjustment set to zero	Impact of matching adjustment set to zero
		C0010	C0030	C0050	C0070	C0090
Technical provisions	R0010	44,093,922			81,068	
Basic own funds	R0020	7,693,447			(55,676)	
Eligible own funds to meet Solvency Capital Requirement	R0050	7,693,447			(55,676)	
Solvency Capital Requirement	R0090	2,925,918			6,340	
Eligible own funds to meet Minimum Capital Requirement	R0100	7,060,986			(55,106)	
Minimum Capital Requirement	R0110	1,316,663			2,853	

S.23.01.01

Own funds

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35						
Ordinary share capital (gross of own shares)	R0010	2,031,456	2,031,456			
Share premium account related to ordinary share capital	R0030	407,256	407,256			
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	R0040					
Subordinated mutual member accounts	R0050					
Surplus funds	R0070					
Preference shares	R0090					
Share premium account related to preference shares	R0110					
Reconciliation reserve	R0130	3,126,110	3,126,110			
Subordinated liabilities	R0140	2,128,625		1,232,831	895,794	
An amount equal to the value of net deferred tax assets	R0160					
Other own fund items approved by the supervisory authority as basic own funds not specified above	R0180					
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220					
Deductions						
Deductions for participations in financial and credit institutions	R0230					
Total basic own funds after deductions	R0290	7,693,447	5,564,822	1,232,831	895,794	
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	R0300					
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	R0310					
Unpaid and uncalled preference shares callable on demand	R0320					
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330					
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340					
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350					
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360					
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370					
Other ancillary own funds	R0390					
Total ancillary own funds	R0400					

Available and eligible own funds						
Total available own funds to meet the SCR	R0500	7,693,447	5,564,822	1,232,831	895,794	
Total available own funds to meet the MCR	R0510	7,693,447	5,564,822	1,232,831	895,794	
Total eligible own funds to meet the SCR	R0540	7,693,447	5,564,822	1,232,831	895,794	
Total eligible own funds to meet the MCR	R0550	7,060,986	5,564,822	1,232,831	263,333	
SCR	R0580	2,925,918				
MCR	R0600	1,316,663				
Ratio of Eligible own funds to SCR	R0620	2.6294				
Ratio of Eligible own funds to MCR	R0640	5.3628				

		C0060	
Reconciliation reserve			
Excess of assets over liabilities	R0700	6,081,152	
Own shares (held directly and indirectly)	R0710	107,667	
Foreseeable dividends, distributions and charges	R0720	402,298	
Other basic own fund items	R0730	2,438,712	
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740	6,364	
Reconciliation reserve	R0760	3,126,110	
Expected profits			
Expected profits included in future premiums (EPIFP) - Life business	R0770	585,709	
Expected profits included in future premiums (EPIFP) - Non- life business	R0780	25,242	
Total Expected profits included in future premiums (EPIFP)	R0790	610,951	

S.25.02.21

Solvency Capital Requirement - for undertakings using the standard formula and partial internal model

Component-specific information

Unique number of component	Components description	Calculation of the Solvency Capital Requirement	Amount modelled	USP	Simplifications
C0010	C0020	C0030	C0070	C0090	C0120
1	Market risk	2,051,666	1,924,527	None	
2	Counterparty default risk	365,654	289,520	None	
3	Life underwriting	193,999	148,095	None	
10	Non-life and Health underwriting risk	2,011,159	309,134	Segment 1 Standard deviation for non-life premium risk, Segment 1 Standard deviation for non-life reserve risk, Segment 4 Standard deviation for non-life premium risk, Segment 4 Standard deviation for non-life reserve risk, Segment 5 Standard deviation for non-life premium risk, Segment 5 Standard deviation for non-life reserve risk	
6	Intangible asset risk			None	
7	Operational risk	493,916		None	
8	Loss-absorbing capacity of technical provisions	(276,433)		None	
9	Loss-absorbing capacity of deferred taxes	(847,262)		None	
11	Conservative Margin	50,393		None	

Calculation of Solvency Capital Requirement		C0100
Total undiversified components	R0110	4,043,092
Diversification	R0060	(1,132,489)
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	
Solvency capital requirement excluding capital add-on	R0200	2,925,918
Capital add-ons already set	R0210	
Solvency capital requirement	R0220	2,925,918
Other information on SCR		
Amount/estimate of the overall loss-absorbing capacity of technical provisions	R0300	(276,433)
Amount/estimate of the overall loss-absorbing capacity ot deferred taxes	R0310	(847,262)
Capital requirement for duration-based equity risk sub-module	R0400	
Total amount of Notional Solvency Capital Requirements for remaining part	R0410	2,900,341
Total amount of Notional Solvency Capital Requirement for ring fenced funds	R0420	25,577
Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	R0430	
Diversification effects due to RFF nSCR aggregation for article 304	R0440	

S.28.02.01
Minimum Capital Requirement - Both life and non-life insurance activity

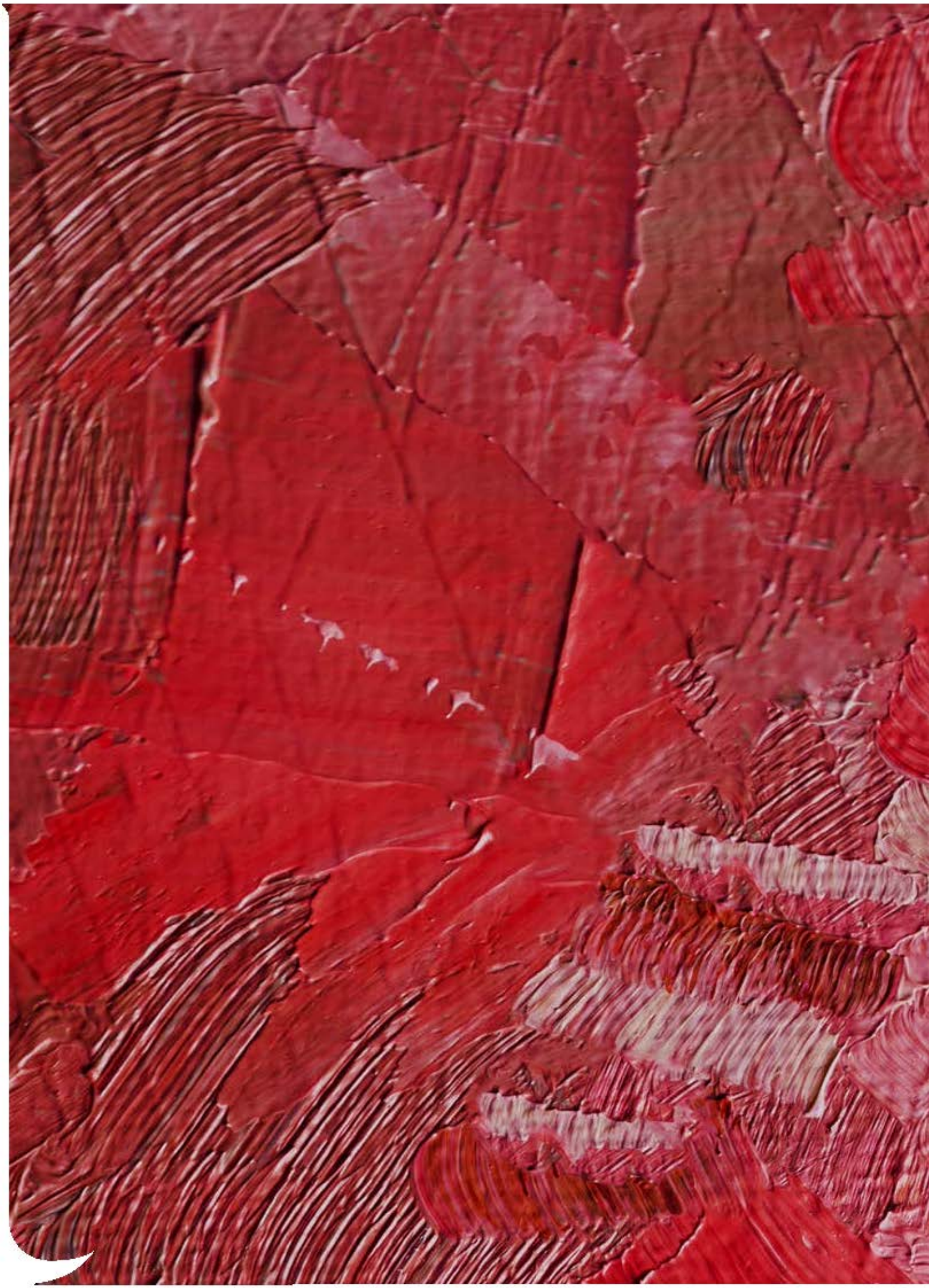
		Non-life activities	Life activities
		$MCR_{(NL,NL)}$ Result	$MCR_{(NL,L)}$ Result
		C0010	C0020
Linear formula component for non-life insurance and reinsurance obligations	R0010	1,720,071	

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months	Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0030	C0040	C0050	C0060
Medical expense insurance and proportional reinsurance	R0020	160,945	238,212		
Income protection insurance and proportional reinsurance	R0030	403,814	544,992		
Workers' compensation insurance and proportional reinsurance	R0040				
Motor vehicle liability insurance and proportional reinsurance	R0050	6,358,336	3,267,600		
Other motor insurance and proportional reinsurance	R0060	312,693	622,550		
Marine, aviation and transport insurance and proportional reinsurance	R0070	58,642	17,890		
Fire and other damage to property insurance and proportional reinsurance	R0080	1,098,543	1,026,563		
General liability insurance and proportional reinsurance	R0090	3,178,403	664,622		
Credit and suretyship insurance and proportional reinsurance	R0100	246,309	26,593		
Legal expenses insurance and proportional reinsurance	R0110	52,627	13,275		
Assistance and proportional reinsurance	R0120	55,660	17,340		
Miscellaneous financial loss insurance and proportional reinsurance	R0130	29,872	57,486		
Non-proportional health reinsurance	R0140	967	244		
Non-proportional casualty reinsurance	R0150	8,630	1,019		
Non-proportional marine, aviation and transport reinsurance	R0160	451			
Non-proportional property reinsurance	R0170	6,202	285		

		Non-life activities	Life activities	Non-life activities		Life activities	
		$MCR_{(NL,NL)}$ Result	$MCR_{(NL,L)}$ Result				
		C0070	C0080				
Linear formula component for life insurance and reinsurance obligations	R0200		951,572				
				Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk	Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
Obligations with profit participation - guaranteed benefits			R0210			25,835,715	
Obligations with profit participation - future discretionary benefits			R0220			1,084,216	
Index-linked and unit-linked insurance obligations			R0230			4,140,683	
Other life (re)insurance and health (re)insurance obligations			R0240				
Total capital at risk for all life (re)insurance obligations			R0250				32,920,928

Overall MCR calculation		C0130
Linear MCR	R0300	2,671,643
SCR	R0310	2,925,918
MCR cap	R0320	1,316,663
MCR floor	R0330	731,480
Combined MCR	R0340	1,316,663
Absolute floor of the MCR	R0350	7,400
		C0130
Minimum Capital Requirement	R0400	1,316,663

Notional non-life and life MCR calculation		Non-life activities	Life activities
		C0140	C0150
Notional linear MCR	R0500	1,720,071	951,572
Notional SCR excluding add-on (annual or latest calculation)	R0510	1,883,780	1,042,138
Notional MCR cap	R0520	847,701	468,962
Notional MCR floor	R0530	470,945	260,535
Notional Combined MCR	R0540	847,701	468,962
Absolute floor of the notional MCR	R0550	3,700	3,700
Notional MCR	R0560	847,701	468,962



INDEPENDENT
AUDITORS' REPORT

Unipolsai Assicurazioni SpA

Independent auditor's report
in accordance with article 47-septies, paragraph 7 of Legislative Decree 7 September 2005, n°209 and paragraph 10 of IVASS letter to the market of 7 December 2016

Templates "S.02.01.02 Balance sheet" and "S.23.01.01 Own funds" and related disclosures included in the Solvency and Financial Condition Report as at 31 December 2017

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Indipendent Auditor's Report

in accordance with article 47-septies, paragraph 7 of Legislative Decree 7 September 2005, n° 209 and paragraph 10 of IVASS letter to the market of 7 December 2016

To the Board of Directors of
UnipolSai Assicurazioni SpA

Templates "S.02.01.02 Balance sheet" and "S.23.01.01 Own funds" and related disclosures included in the Solvency and Financial Condition Report as at 31 December 2017

Opinion

We have audited the accompanying elements to the Solvency and Financial Condition Report (the "SFCR") of UnipolSai Assicurazioni SPA (the "Company") as at 31 December 2017, prepared in accordance with article 47-septies of Legislative Decree No 209/2005:

- templates "S.02.01.02 Balance sheet" and "S.23.01.01 Own funds" (the "Templates");
- sections "D. Valuation for solvency purposes" and "E.1. Own Funds" (the "Disclosures").

As required by paragraphs n° 9 and n° 10 of the IVASS Letter to the Market of 7 December 2016 our procedures have not covered:

- the technical provisions components related to the Risk Margin (lines R0550, R0590, R0640, R0680 and R0720) on the template "S.02.01.02 Balance sheet";
- the Solvency Capital Requirement (line R0580) and the Minimum Capital Requirement (line R0600) on the template "S.23.01.01 Own funds",

that are out of scope from our opinion.

The Templates and the Disclosures, with the exclusions listed above, compose "the Templates and related disclosures".

In our opinion, the Templates and related disclosures included in the SFCR of UnipolSai Assicurazioni SpA as at 31 December 2017 have been prepared, in all material respects, in accordance with the applicable EU requirements and with the Italian laws for the insurance business.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs).
Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Templates and related disclosures* section of this report.

PricewaterhouseCoopers SpA

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We are independent of the Company pursuant to the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) that are relevant to our audit of the Templates and related disclosures.

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

Enphasis matter - Basis of accounting, purposes and restriction of use

We draw attention to the section "D. Valuation for solvency purposes" which describes the basis of accounting. The Templates and related disclosures have been prepared, for solvency supervisory requirements, in accordance with the applicable EU requirements and the Italian laws for the insurance business, which compose a special purpose framework. As a result, they may not be suitable for other purposes. Our opinion is not modified with reference to this aspect.

Other matters

The Company has prepared the financial statements for the year ended 31 December 2017 in accordance with the Italian laws governing the criteria for their preparation, that had been audited by us with report issued on 1 April 2018.

Other matters in the SFCR

The Management is responsible for the preparation of the other information included in the SFCR in accordance with laws governing the criteria for their preparation.

Other information included in the SFCR are:

- templates "S.05.01.02 Premiums, claims and expenses by line of business", "S.12.01.02 Life and Health SLT Technical Provisions", "S.17.01.02 Non-life Technical Provisions", "S.19.01.21 Non-life Insurance Claims Information", "S.22.01.21 Impact of long term guarantees measures and transitionals", "S.25.02.21 Solvency Capital Requirement - for undertakings using the standard formula and partial internal model", "S.28.02.01 Minimum Capital Requirement - Both life and non-life insurance";

- sections "A. Business and performance", "B. System of governance", "C. Risk profile", "E.2. Solvency Capital Requirement and Minimum Capital Requirement", "E.3. Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement", "E.4. Differences between the standard formula and any internal model used", "E.5. Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement" e "E.6. Any other information".

Our opinion on the Templates and related disclosures does not cover these other information.

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With reference to the audit of the Templates and related disclosures, our responsibility is to carry out a critical review of the other information and consider whether the same are significantly inconsistent with the Templates and related disclosures or with our knowledge acquired during the audit or may be significantly incorrect.

If we identify possible inconsistencies or significant errors, we are required to determine whether there is a significant error in the Templates and related disclosures or in the other information. If, based on the work performed, we conclude that there is a significant error, we have to report this matter. With reference to this, we have nothing to report.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of the Templates and related disclosures in accordance with laws governing the criteria for their preparation and, in the terms prescribed by law, for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Management is responsible for assessing the Company's ability to continue as a going concern and, in preparing the Templates and related disclosures, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the Templates and related disclosures, management uses the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing, in the terms prescribed by law, the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Templates and related disclosures

Our objectives are to obtain reasonable assurance about whether the Templates and related disclosures as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 International Standards on Auditing (ISAs) 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 the Templates and related disclosures.
As part of an audit conducted in accordance with International Standards on Auditing (ISAs), we exercised our professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- we identified and assessed the risks of material misstatement of the Templates and related disclosures, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained audit evidence that is sufficient and appropriate to

provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- we obtained an understanding of internal control relevant to the audit of the Templates and related disclosures in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- we evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management;
- we concluded on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the SFCR or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

We communicated with those charged with governance, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable in accordance with the Code of Ethics for Professional Accountants (IESBA Code) issued by the International Ethics Standards Board for Accountants and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Milan, 4 May 2018

PricewaterhouseCoopers SpA

Antonio Dogliotti
(Partner)

This report has been translated into the English language from the original, which was issued in Italian and in accordance with Italian law, solely for the convenience of international readers.

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Share capital
€2,031,456,338.00 fully paid-up
Bologna Register of Companies
Tax and VAT No. 00818570012
R.E.A. No. 511469

A company subject
to management and coordination
by Unipol Gruppo S.p.A.,
entered in Section I of the Insurance
and Reinsurance Companies List
at No. 1.00006
and a member of the
Unipol Insurance Group,
entered in the Register of
the parent companies – No. 046

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