YAFA S.p.A.

Solvency and Financial Condition Report

FY 2017

Board of Directors
of 13th June 2018

Summary

Introduction

The Solvency II Directive came into effect on 1 January 2016.

In particular, as a result of the amendments to the code of private insurance companies (Italian Legislative Decree no. 209 of 7 September 2005), the Italian Legislative Decree no. 74 of 12 May 2015 enacted the Directive 2009/138/EC of the European Parliament and Council, by providing the Italian regulatory framework with the new solvency regime (Solvency II) to which insurance and reinsurance undertakings are subject.

Solvency II is based on three pillars: first, the quantitative capital requirements and quantification of risks; second, the qualitative requirements, with a particular focus on the corporate governance within the companies; third, the rules of transparency and disclosure to the public and the regulator.

Aimed at fulfilling the market transparency requirements, this Solvency and Financial Condition Report (SFCR) is prepared in accordance with the reporting criteria and structure defined by following laws and regulations:

<u>European Regulation</u>

- Directive no. 2009/138/EC of the European Parliament and Council (hereinafter “Directive”);
- Delegated Regulation (EU) 2015/35 of the Commission, of 10 October 2014;
- Delegated Regulation (EU) 2015/2452 of the Commission, of 2 December 2015;

<u>National Regulation</u>

- Italian Legislative Decree no. 209 of 7 September 2005 and subsequent amendments (Code of private insurance companies (hereinafter “Code”)
- IVASS Regulation no. 33 of 6 December 2016.

On May 23, 2017, IVASS ordered the registration of YAFA SpA to the Register of Parent Companies as the parent company of the Vittoria Insurance Group, as the last controlling company with responsibility for the Group's management and coordination.

The Solvency and Financial Condition report is divided into 5 sections, accompanied by a series of QRT to be attached:

A. Activities and results
It provides information on the company and the external auditor appointed by the Shareholders' Meeting. It contains information concerning the supervisory discipline to which the company is subject, the position of the company in the legal structure of the group, the holders of qualifying holdings in the company and the business and geographical areas in which the Company operates.
Here are also summarized the operating results for each business area in which the company operates and the results deriving from the investments held.

B. Governance System
The section is dedicated to describing the corporate governance system and the risk management system that the company uses and the Own Risk and Solvency Assessment

(ORSA). In particular, it contains information regarding the structure, roles, responsibilities, competence and integrity requirements and the remuneration policy of the administrative or supervisory board. It outlines any substantial changes in the governance system that took place during the reporting period or substantial transactions carried out with Shareholders, with persons having a significant influence on the company and with the members of the Administrative, Management or Supervisory Board.

C. Risk profile

It contains information on exposure, concentration and risk mitigation for each type of risk, together with a description of the methods used, the hypotheses formulated and the results of stress tests in relation to risk sensitivity.

D. Solvency assessment

It describes, for each class of assets and liabilities, including technical provisions, the methodology used to determine the Balance Sheet prepared for solvency purposes and a quantitative and qualitative explanation of the significant differences between the bases, the methods and the main assumptions used by the company for solvency assessment and those used for valuation in the financial statements.
For each class of assets and liabilities, including technical provisions, it shows the Local GAAP and Solvency II value.

E. Capital Management

The chapter provides information on the structure, amount and quality (expressed in three classes, so-called Tier) of the company's own funds, together with the targets to be achieved and the policies and processes applied to manage the own funds, and the time horizon used for planning activities.

It describes the elements of the reconciliation reserve. The chepter does not contain the analysis of the substantial changes in own funds during the reference period because the year 2017 is the first in which consolidated data are provided according to the Solvency II regulation.

It includes information on the Solvency Capital Requirement and the Minimum Capital Requirement of the company.

6 QRTs are required to be attached to the document

Overview of the main data relating to solvency position

The table below sums up the main data that are helpful to understand the solvency situation of the Group in relation to the financial year ended 31 December 2017.

Overview of key solvency data (€/000)

		31/12/17
A	Solvency Capital Requirement (SCR)	569,127
B	Minimum Capital Requirement (MCR)	256,107
C	Eligible own funds to meet Solvency Capital Requirement	824,205
D	Net deferred tax assets	9,044
C-D	Eligible own funds to meet Minimum Capital Requirement	815,161
C/A	**Ratio of Eligible own funds to SCR**	**144.8%**
(C-D)/B	**Ratio of Eligible own funds to MCR**	**318.3%**

As Yafa S.p.A. took over the role of Parent Company of Vittoria Assicurazioni Group over 2017, the above statement is the first one of the group, and hence does not include figures for a comparison with the previous relevant period.

Data indicated in the table above were therefore calculated using the Standard Formula and applying the Volatility Adjustment curve.

The subsidiary insurance company, Vittoria Assicurazioni S.p.A., obtained in May 2017 the authorization by the Supervisory Authority to use the USP (Undertaking Specific Parameters) from the data as at 31 December 2016 but, since the Parent Company has not yet requested the authorization for the corresponding GSP (Group Specific Parameters), the Group data as at 31 December 2017 were obtained using the general parameters provided for the sector.

A. Business and performance

A.1 Business

A.1.1 Name and legal form of the Parent Company

Yafa S.p.A. is a limited company founded in 1996.
It is the Parent Company of Vittoria Assicurazioni Insurance Group, entered on the Register of Insurance Groups under no. 008 held by the Insurance Regulator, and exercises the activity of management and coordination on the Group.

A.1.2 Regulator responsible for the Group's supervision

As ultimate Italian parent undertaking of Vittoria Assicurazioni Group, Yafa S.p.A. is subject to the supervision of IVASS – the Rome-based Italian Insurance Regulator.

A.1.3 External auditor

The Shareholders' Meeting of Yafa S.p.A. held on 26 May 2016 appointed the following audit firm for the period 2016 – 2020:
Deloitte & Touche S.p.A.
Via Tortona, 25
20144 - Milan

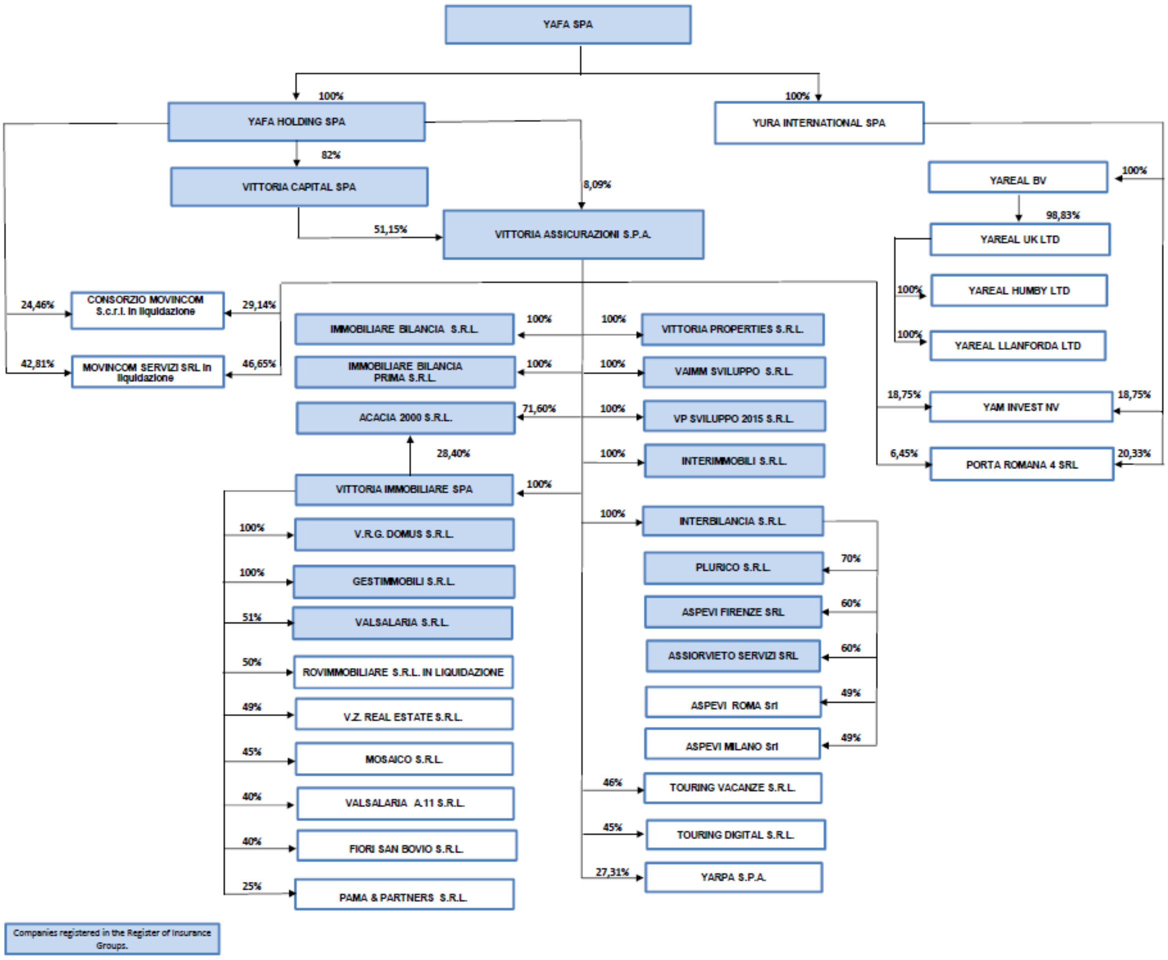
A.1.4 Qualifying holdings in the Parent Company (pursuant to Article 13, paragraph 21, of Solvency II decree)

As at the date of this Report, qualifying holdings in Yafa S.p.A. are solely held by Mr. Carlo Acutis.

A.1.5 Subsidiaries, associates and branches

As Parent Company of Vittoria Assicurazioni Group, Yafa S.p.A. is therefore required, as Ultimate Italian Parent Undertaking, to comply with measures to implement the existing regulation and provisions given by IVASS to ensure the stable and efficient management of the Group. Yafa S.p.A. controls Vittoria Assicurazioni through the chain of investors consisting of Yafa Holding S.p.A. and Vittoria Capital S.p.A.

Below is an overall representation of Vittoria Assicurazioni Group as at 31 December 2017:



A.1.6 Lines of business and material geographical areas where the Group carries out its business

Yafa S.p.A. operates in Italy by controlling Vittoria Assicurazioni S.p.A. through the chain of investors consisting of Yafa Holding S.p.A. and Vittoria Capital S.p.A. and, mainly abroad, through the subsidiary Yura International S.p.A, holding which mainly operates in real-estate, agriculture, and management of shareholdings and services in the European context.

A.1.7 Main differences between the area of consolidation considered for the purposes of the financial statements pursuant to Article 95 of the Code of Private Insurance Companies and the area considered for the purposes of Group solvency calculation (Solvency II).

For the purposes of the financial statements pursuant to Article 95 of the Code, the subsidiary Yura International S.p.A. was fully consolidated, while for the purposes of the calculation of Group solvency, it was consolidated with the equity method, as it is not related to the insurance activity. Section D hereof show the valuation criteria adopted for the consolidation with the equity method with Solvency II principles.

A.1.8 Infragroup and related-party transactions

Transactions with group companies referred to the normal course of business, using specific professional skills at going market rates. There were no atypical or unusual transactions.

Relationships with subsidiaries

In the period, with the subsidiaries Vittoria Capital S.p.A. and Yafa Holding S.p.A. there were no financial or commercial relationships.
Since 1 July 2017, service contracts are in place between the Parent Company Yafa S.p.A and Vittoria Assicurazioni S.p.A., aimed at exploiting operational synergies at Group level.

Intercompany transactions related to financial transactions were as follows:

- dividend distributed by Yafa Holding S.p.A. and collected by Yafa S.p.A. amounted to € 1.200 thousand;
- dividend distributed by Vittoria Capital S.p.A. and collected by Yafa Holding S.p.A. amounted to € 5.504 thousand;
- dividend distributed by Vittoria Assicurazioni S.p.A. and collected by Vittoria Capital S.p.A. amounted to € 7.238 thousand;
- dividend distributed by Vittoria Assicurazioni S.p.A. and collected by Yafa Holding S.p.A. amounted to € 1.145 thousand;
- interest-bearing loan by Yafa Holding S.p.A. to Yura International S.p.A. amounting to € 3.600 thousand disbursed in the year and interest of € 33 thousand;
- interest-bearing loan by Vittoria Capital S.p.A. to Yafa Holding S.p.A. amounting to € 1.500 thousand and interest of € 28 thousand;
- interest-bearing loan by Yafa Holding S.p.A. to Yura International S.p.A. amounting to € 8.495 thousand and interest of € 64 thousand;
- interest-bearing loan by Yafa Holding S.p.A. to Yareal B.V. amounting to € 4.975 thousand, in addition to receivables from Yareal B.V. and interest of € 44 thousand;
- interest-bearing loan by Yura International S.p.A. to Yareal B.V. amounting to € 8.835 thousand and interest of € 69 thousand.

Relations and transactions with associates

Below we report the main relationships that took place during the year with the Associated Companies.

Mosaico S.p.A. – Turin
45.00% equity interest via Vittoria Immobiliare S.p.A.
The subsidiary Vittoria Immobiliare S.p.A. granted the associate an interest bearing shareholder loan, which has a balance of 1,163 thousand euro (1,263 thousand euro as at 31 December 2016).

Pama & Partners S.r.l. – Genoa
25.00% equity interest via Vittoria Immobiliare S.p.A.
The subsidiary Vittoria Immobiliare S.p.A. granted the associate a non-interest bearing shareholder loan, which has a balance of 1,000 thousand euro, (877 thousand euro as at 31 December 2016).

VZ Real Estate S.r.l. – Turin
49.00% equity interest via Vittoria Immobiliare S.p.A.

The subsidiary Vittoria Immobiliare S.p.A. gave the associate an interest bearing shareholder loan, which has a balance of 2,322 thousand euro (2,540 thousand euro as at 31 December 2016).

Fiori di S. Bovio S.r.l. – Milan
40.00% equity interest via Vittoria Immobiliare S.p.A.
The subsidiary Vittoria Immobiliare S.p.A. gave the associate an interest bearing shareholder loan, which has a balance of 2,126 thousand euro (2,011 thousand euro as at 31 December 2016).

Valsalaria A11 S.r.l. – Rome
40.00% equity interest via Vittoria Immobiliare S.p.A.
The subsidiary Vittoria Immobiliare S.p.A. gave the associate an interest bearing loan, which has a balance of 4,801 thousand euro, unchanged with respect to 31 December 2016).

Aspevi Milano S.r.l. – Roma
49.00% equity interest via Interbilancia S.r.l.
The services rendered during the year by the company to Vittoria Assicurazioni for commissions totalled 2,518 thousand euro.

Aspevi Roma S.r.l. – Roma
49.00% equity interest via Interbilancia S.r.l.
The services rendered during the year by the company to Vittoria Assicurazioni for commissions totalled 4,575 thousand euro (4,644 thousand euro as at 31 December 2016.

A.2 Underwriting performance.

Given that Vittoria Assicurazioni S.p.A. is the only Insurance Company belonging to Vittoria Assicurazioni Group, below is the information of the Company relating to results as at 31 December 2017 with the figures of the previous period.

(€/000)

Underwriting performance by line of business	Premiums written		Claims incurred		Changes in other technical provisions		Expenses	
	31/12/17	31/12/16	**31/12/17**	31/12/16	**31/12/17**	31/12/16	**31/12/17**	31/12/16
Direct Business								
Non-life								
(1) Medical expense insurance	17,407	15,218	(7,709)	(6,304)	-	-	(6,019)	(5,120)
(2) Income protection insurance	87,250	78,599	(28,514)	(29,299)	-	-	(32,049)	(29,001)
(4) Motor vehicle liability insurance	666,700	638,959	(495,817)	(464,039)	-	-	(164,930)	(154,599)
(5) Other motor insurance	125,329	113,457	(65,709)	(58,270)	(376)	(340)	(41,351)	(36,713)
(6) Marine, aviation and transport insurance	3,974	3,402	(1,939)	(1,596)	(5)	(4)	(1,275)	(1,571)
(7) Fire and other damage to property insurance	105,563	96,683	(69,330)	(48,962)	(233)	(222)	(41,231)	(37,073)
(8) General liability insurance	57,827	52,519	(27,369)	(26,509)	-	-	(21,408)	(19,299)
(9) Credit and suretyship insurance	3,925	5,156	(14,570)	(16,848)	-	-	(3,304)	(4,123)
(10) Legal expenses insurance	5,481	4,872	(329)	(298)	-	-	(1,646)	(1,446)
(11) Assistance	26,389	23,772	(7,411)	(6,138)	-	-	(11,573)	(9,547)
(12) Miscellaneous financial loss	48,226	48,507	(1,122)	(1,511)	-	-	(14,335)	(14,279)
Total Non-life	**1,148,072**	**1,081,145**	**(719,820)**	**(659,775)**	**(614)**	**(567)**	**(339,119)**	**(312,772)**
Life								
(29) Health insurance	986	912	(32)	(46)	-	-	(78)	(79)
(30) Insurance with profit participation	160,980	172,709	(98,985)	(114,720)	-	-	(14,131)	(17,626)
(31) Index-linked and unit- linked insurance	17,965	4,817	(2,069)	(6,804)	-	-	(632)	(122)
(32) Other life insurance	11,213	11,031	(13,730)	(15,608)	-	-	(403)	(632)
Total Life	**191,144**	**189,469**	**(114,816)**	**(137,178)**	**-**	**-**	**(15,243)**	**(18,460)**
Total Direct Business	**1,339,216**	**1,270,614**	**(834,636)**	**(796,953)**	**(614)**	**(567)**	**(354,362)**	**(331,232)**
Reinsurers' share								
Non-life	(36,729)	(31,574)	40,848	17,654	-	-	5,489	4,452
Life	(1,157)	(1,182)	7,645	455	-	-	197	165
Total Reinsurers' share	**(37,886)**	**(32,756)**	**48,493**	**18,109**	**-**	**-**	**5,686**	**4,617**
Total Direct Business net of reinsurers' share	**1,301,330**	**1,237,858**	**(786,143)**	**(778,844)**	**(614)**	**(567)**	**(348,676)**	**(326,615)**

With reference to the Non-Life Business, the Company carries out accepted quota share reinsurance activity, whose performance as at 31 December 2017 is positive for 57 thousand euro (50 thousand euro as at 31 December 2016).

As at 31 December 2017, there are no reinsurance bonds of Life Business (there was a positive result of 30 thousand euro as at 31 December 2016).

The table below shows the geographical split of the premiums relating to direct business, detected according to the location of the agencies.

(€/000)

Regions	Agencies	Non-Life Business Premiums	%	Life Business Premiums	%
NORTH					
Emilia Romagna	35	91,549		13,143	
Friuli Venezia Giulia	8	11,033		934	
Liguria	16	44,459		5,364	
Lombardy	106	233,491		70,862	
Piedmont	52	95,799		8,933	
Trentino Alto Adige	9	12,245		1,454	
Valle d'Aosta	1	4,431		309	
Veneto	41	67,479		13,079	
Total	268	560,486	48.8	114,078	59.7
CENTRE					
Abruzzo	12	54,292		5,567	
Lazio	29	112,278		18,953	
Marche	18	40,411		4,902	
Tuscany	51	125,964		10,742	
Umbria	15	54,264		8,356	
Total	125	387,209	33.7	48,520	25.4
SOUTH AND ISLANDS					
Basilicata	4	10,716		1,056	
Calabria	2	3,270		35	
Campania	13	43,616		3,399	
Molise	2	6,403		415	
Puglia	6	28,632		18,052	
Sardinia	11	43,314		1,088	
Sicily	13	64,300		4,501	
Total	51	200,251	17.4	28,546	14.9
Total ITALY	**444**	**1,147,946**	**100.0**	**191,144**	**100.0**
France	**0**	**126**	**0.0**	**0**	**0.0**
OVERALL TOTAL	**444**	**1,148,072**		**191,144**	

A.3 Investment performance

The table below provides the total revenues, net of expenses, from investments held by the group:

(€/000)

Investment performance	Total income 31/12/2017	Total cost 31/12/2017	**Total net income 31/12/17**	Total net income 31/12/16	Change
Investments (other than assets held for index-linked and unit-linked contracts)					
Property (other than for own use)	6,084	(6,681)	**(597)**	85	(682)
Holdings in related undertakings, including participations	55	(955)	**(900)**	(8,433)	7,533
Equities					
-Equities — listed	453	(4)	**449**	328	122
-Equities — unlisted	1,291	(7)	**1,284**	7,418	(6,135)
Bonds					
-Government Bonds	53,702	(27,671)	**26,032**	118,638	(92,606)
-Corporate Bonds	5,099	(2,635)	**2,464**	1,084	1,381
-Structured notes	158	(2)	**155**	156	(1)
Collective Investments Undertakings	12,673	(3,221)	**9,452**	142	9,309
Deposits other than cash equivalents	10	-	**10**	11	(1)
Total Investments (other than assets held for index-linked and unit-linked contracts)	**79,524**	**(41,175)**	**38,349**	119,428	(81,079)
Assets held for index-linked and unit-linked contracts	4,485	(2,069)	**2,416**	(187)	2,603
Total	**84,009**	**(43,243)**	**40,765**	119,241	(78,476)

The asset classes are Solvency II and the net proceeds are Local GAAP.
Revenues refer to income relating to the period, such as coupons, dividends, gains on disposal or reimbursement, value re-adjustments and leasing instalments.
Costs refer to expenses directly and indirectly borne for the management of investments, expenses on disposal or reimbursement and value re-adjustments and the depreciation charge of real estate properties.

The results of the investments decrease from 115,228 thousand euro to 39,141 thousand euro, down by 76, 087 thousand euro. This decrease is mainly due to the extraordinary sale operation of Italian government bonds allocated to the Non-Life Business management, which took place in the previous financial year, and generated 44,037 thousand euro of extraordinary gains, net of the tax effect. Thus, the weighted average return of the segment “bonds and other fixed-income securities” decreases from 6.4% as at 31 December 2016 to 1.8% as at 31 December 2017.

A.4 Performance from other activities

Yafa S.p.A. carries out exclusively equity holding activity.

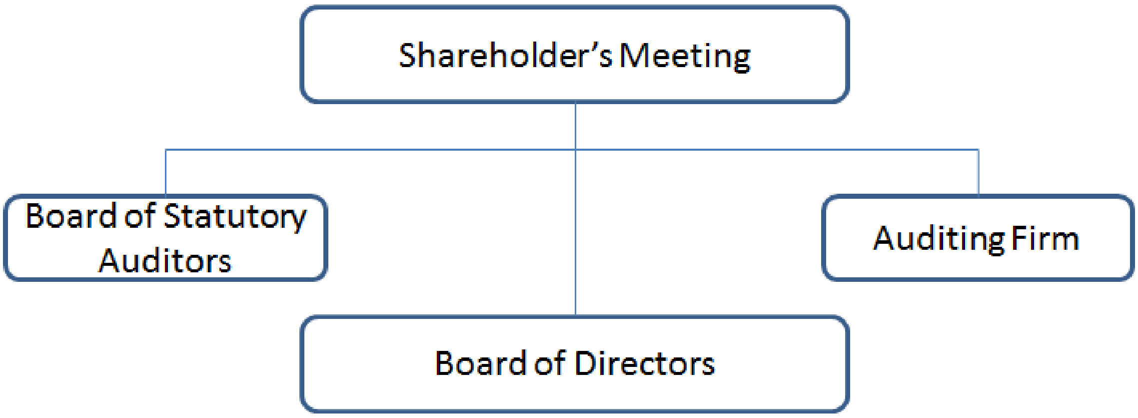
A.5 Other information

Nothing to be reported.

B. System of Governance

B.1 Overall information on the system of governance

The governance structure of Yafa S.p.A. can be summed up as follows:



Yafa S.p.A. adopts, as management and control system, the so-called traditional pattern, characterized by the presence of a shareholder's meeting (governed by Articles 2363 et seq. of the Civil Code), and of two elected bodies:

- the Board of Directors (governed by Articles 2380-bis et seq. of the Civil Code);
- the Board of Statutory Auditors (governed by Articles 2397 et seq. of the Civil Code).

The statutory audit is performed by an auditing firm entered on the register of statutory auditors (Article 2409-bis et seq. of the Civil Code).

Within this structure, by adopting a three-branch system as per regulatory framework of the Regulator:

- the function of guidance and strategic supervision (i.e. the functions of business management, by means of, among others, examination and resolution on the industrial or financial plans or the strategic operations) lies with the Board of Directors, which resolves on the strategic guidelines and constantly checks their implementation;
- the function of management lies with:
  - the Board of Directors, as for the assignments that are not expressly delegated to other bodies;
  - the delegated Board members, for assignments specifically conferred to them;
- the function of control lies with Board of Statutory Auditors, which oversees compliance with rules and regulations on the fulfilment of the principles of proper administration, adequacy of the organizational structure of the company for the issues within its purview, the internal control system and the administrative and accounting system, as well as on the reliability of the latter to properly represent management-related operations.

In defining its system of corporate governance, the Group adopts the governance recommendations provided by the relevant primary and secondary national regulatory provisions under the Code of Private Insurance Companies and related implementation Regulations issued by IVASS, as well as by the European-level rules.

The Insurance Group named Vittoria Assicurazioni is entered on IVASS Register of Insurance Groups under no. 008, and Yafa S.p.A. is the ultimate Italian parent undertaking that since May 2017 has taken the role of Parent Company of Vittoria Assicurazioni Group, and is therefore responsible for the implementation of the provisions on the corporate governance at Group level pursuant to Article 215-bis, paragraph 2 of the Code of Private Insurance Companies. Areas subject to management and coordination by the Parent Company Yafa

S.p.A. are outlined in the Group Regulation, which regulates the obligations of the subsidiaries with regard to the activities that are necessary for the Parent Company to fulfil the tasks provided for by the existing regulation on group solvency, control of the intra-group operations and management of risk-concentration.
The Regulation has also the purpose of not affecting the tasks and responsibilities of the Board of Directors of Vittoria Assicurazioni with reference to the strategic guidance within its purview, in particular for the decisions on the business strategies, in compliance with the guidelines provided by the Parent Company.
The Regulation provides for the differentiated management of the application areas of the intra-group coordination, by delegating to Vittoria Assicurazioni the management and coordination of its subsidiaries and all its risk control and management measures, currently implemented under IVASS regulation, while Yafa S.p.A. is responsible for managing and directly coordinating the other subsidiaries.
The management and coordination activity of the Parent Company involves the administrative bodies, the senior management, the Group functions and provides for, in compliance with existing legislation, the adoption of structures, mechanisms, measures, procedures and information flows that allow:

(i) strategic control on the development of the different business areas in which the Insurance Group operates and the related risks;
(ii) management control, aimed at ensuring that the economic and financial stability is maintained, both in relation to each undertaking and to the Insurance Group as a whole;
(iii) an operational technical control, aimed at assessing the different risk profiles of each subsidiary to the Group.

Therefore, the Parent Company has designed the governance, the organizational structures and the flows consistently with the foregoing, to pursue these purposes and the strategic objectives in compliance with the general and industry regulations.

B.1.1 Roles and responsibilities of the administrative, management or supervisory bodies and key functions - Structure and functions of the Board of Directors.

Structure and functions of the Board of Directors
The Board of Directors of Yafa S.p.A. is appointed by the Shareholders' Meeting for no more than three financial years. The Directors' term of office expires on the date of approval of the financial statements relating to their last financial year and they may be re-elected. Pursuant to the By-Laws, the Board of Directors consists of no fewer than three and no more than fifteen directors, both executive and non-executive, having proper requirements of professionalism, integrity and independence.
The Directors of any company of the Group shall meet the requirements of professionalism, integrity and independence set forth by the primary insurance rules and regulations and, in particular, by the civil code, the Code of Insurance Private Companies and the Decree of the Minister for Economic Development no. 220 of 11 November 2011 and, where applicable, cannot hold offices in other Insurance Companies in violation of the interlocking prohibition under Article 36 of the Law Decree no. 201/2011.
On an annual basis, the assessment of the size, composition and functioning of the Board is performed, in accordance with Regulation 20/2008 and the policy adopted by the Parent Company and its subsidiaries.
The shareholders' meeting of Yafa Spa held on May 25, 2018 appointed as directors for the next three years, after resolution of 10 members, the following:
TAYLOR Roger – Chairman
ACUTIS Adriana *

ACUTIS Andrea *
ACUTIS Carlo *
ARGAND Luc Jean Edouard
BRANDOLINI D'ADDA Tiberto
CACCIAMANI Claudio
HOLSBOER Jan Hendrix
MATOS DE CARVALHO RUI OCTAVIO
VERDUN DI CATOGNO Gian Domenico

(*) directors in common with Vittoria Assicurazioni S.p.A.

The Board of Directors held on the same date resolved to appoint Mrs Adriana Acutis as Chief Executive Officer.
As at the date of approval of this Report, no committees were established within the Board of Directors of Yafa S.p.A.
The functions of the Board of Directors are determined according to By-Laws, as well as under applicable rules and regulations.
In accordance with the By-Laws, the Board of Directors is vested with the broadest powers for the ordinary and extraordinary administration of the Company, with the exception of those deemed by law to be specifically reserved for the Shareholders' Meeting. In addition to issuing non-convertible bonds, the Board of Directors may also resolve upon:

- merger and demerger, in the cases provided for by the law;
- the establishment or elimination of secondary branches;
- which of the directors, besides the Chairman, may represent the Company;
- any reduction of the capital in case of withdrawal of the shareholder;
- harmonization of the By-Laws to the provisions of the law;
- the transfer of the headquarters within the national territory.

As set forth by the By-Laws of Yafa S.p.A., the Board of Directors approves the Company's strategic plan, setting the objectives based on the macro-economic and market scenarios. As at the date of approval of this Report, the Board approved with resolution of 28 March 2018 the strategic plan for the three-year period 2018/2020.
The Board is also exclusively in charge of resolutions upon transactions which are strategically, economically or financially significant for the Company, as it results from the limitations of the powers delegated as outlined below.
As provided for by law, the Board is responsible for defining the corporate governance system. To this end, it approves the organisational and functional charts of the Company, these being documents that identify and define the responsibilities related to the main corporate decision-making processes, together with the model of the delegations and powers defining the structure of the responsibilities assigned to each business unit.
Yafa S.p.A. provides training for the Board members according to the existing regulations on the obligation of training and refresher of the Board members.

Activity of the Board with reference to the Insurance Group
Yafa S.p.A., as ultimate parent undertaking, is responsible for the implementation of the provisions on corporate governance at Group level pursuant to Article 215-bis, paragraph 2 of the Code of Private Insurance Companies. As a result, Yafa S.p.A. exercises the activity of management and coordination on the companies belonging to the Group.
The internal control and risk management system is implemented by the Parent Company, through a management and coordination process operated under Article 2497 et seq. of the

Civil Code and in accordance with industry-specific rules (IVASS Regulation no. 22/2016 and Regulation no. 20/2008 Article 27 et seq.).
The managerial supervision tasks are performed through:

- a system of delegated powers;
- constant information on the ongoing corporate projects of the Board, which approves the ones with major impact on the internal control system;
- the approval of the most significant internal procedures, delegating to the different functions the task of regulating with handbooks and/or procedures all the corporate areas that are deemed to be sensitive and implementing the measures to ensure continuity and regularity of the activity performed, as well as developing emergency plans.
- the adoption, within the scope of the risk management system, of reporting procedures needed to identify, monitor, manage and report risks at aggregate level;
- the adoption, within the scope of the internal control, of administrative and accounting procedures and of a proper system of information disclosure at Group level;
- the appointment of the heads of Internal Audit, Risk Management and Compliance;
- the approval of the Audit annual plan and any amendments thereof, the Compliance annual plan and Risk Management plan;
- information by delegated bodies;
- the annual communication by Yafa S.p.A. to IVASS of any significant risk concentration at Group level;
- the adoption of organizational and administrative measures;
- the approval of documents relating to guidance, technical issues, risk management and monitoring to which the corporate operativeness is usually exposed, such as:

The Board of Directors is responsible for defining the rules of the Internal Control System, as outlined below:

- ensuring the identification, evaluation, management and monitoring of the corporate current and forward-looking risk profile and the compliance with rules and regulations;
- respecting the competences for each corporate role;
- ensuring a proper training;
- defining the workloads over time;
- defining and formalizing clear objectives, roles and activities and responsibilities;
- ensuring that the staff at every level is informed on related roles and responsibilities and the activities to be borne also in compliance with the control activities;
- ensuring compliance with the system of powers and delegations, where conferred;
- ensuring the segregation of roles and the proper management of the conflicts of interests;
- ensuring suitability, availability, traceability and certification of the information.

Such rules must be adopted when defining, implementing and daily managing the organizational structure of the Parent Company and, therefore, of the whole company staff operating at the three levels of the Internal Control System.
Furthermore, the Board of Directors is in charge of providing the objectives of the core corporate Systems/Areas for the definition of an efficient Internal Control System.
Vittoria Assicurazioni Group has adopted an internal system of Policies to define the means of managing the main corporate processes, outlining, within these processes, roles and responsibilities of the structures involved.
In performing its management and coordination activity, the Board of the Directors of the Parent Company prepares, in order to comply with the Corporate Governance provisions, an annual plan for the issuance of governance and risk management policies both with respect to the Group and to the insurance company and other companies making it up. These policies are

formalized and issued by the Parent Company and provide guidelines to the Company for the drawing up of its policies and are implemented by the other subsidiaries of the Group for issues within their purview.
Findings of the control activities performed at the various Group companies by the different control functions and, in particular, by the Internal Audit were submitted to the Parent Company; this enables the Parent Company to identify the criticalities and to act properly and promptly if one or more Companies were not in line with the instructions given by the Parent Company and/or adopted by the Authority. To this end, during 2017, specific information flows were arranged.
In 2017, with reference to obligations required, for each company of the Group, by existing regulations, the Board of Directors of the Parent Company, in performing its activity of management and coordination, issued governance and risk management policies both with respect to the Group and to the insurance company and other companies making it up. In particular, the Parent Company defined its specific policies with reference to:

- the governance system,
- the reporting system,
- the risk management.

Said policies were implemented by the Board of Directors of the Company in its own separate policies or by reviewing the already existing ones.
Consistently with the provisions of ISVAP Regulation 20/2008, providing for the existence, within the insurance group, also of group governance and a risk control and management system, in addition to each insurance company’s own risk control and management systems, specific Group policies by the Parent Company containing management principles and criteria common to all entities belonging to the Group were issued.
Activities aimed at checking accordance with the principles contained in above policies/guidelines and their compliance with regulatory provisions are submitted to the Board of Directors of the Parent Group by the Functions of internal control by means of specific regular reporting.
Yafa S.p.A. (and the Company, for issues within its purview) notifies, in accordance with the Group Regulation, the addressees of:
- decisions taken on *corporate governance* and *risk control and management* at Group level;
- decisions taken on the calculation of *Group solvency*;
- decisions taken on authorizations or opinions requested by the Group’s companies on specific issues;
- information of general interest to the Group or specific interest for each company of the Group.
Yafa S.p.A. and the Company notify Yafa S.p.A. subsidiaries, and Vittoria subsidiaries by delegation, respectively, of the strategic and operating guidelines, as well as of further provisions they must abide by.
The addressees are required to:
- notify Yafa S.p.A. of all data and information that it may deem necessary and appropriate to acquire for the performance of its functions;
- ask for opinions or prior authorizations to Yafa S.p.A. on the matters subject to such obligation;
- adhere to rules and checks defined by the Board of Directors of Yafa S.p.A.
The Addressees provide, on a regular basis, a feedback on the implementation by their Boards of Directors of the guidelines and principles therein.

Structure and functions of the Board of Statutory Auditors

The Board of Statutory Auditors is made up of three standing auditors, and two substitute auditors.
The Board of Statutory Auditors in office was appointed by the Shareholders' Meeting held on 26 May 2016 for the FYs 2016, 2017 and 2018, hence till the date of the Meeting that will approve the financial statements as at 31 December 2018.
The Statutory Auditors' term of office expires on the date of approval of the financial statements relating to their last financial year, and they may be re-elected.
The Board of Statutory Auditors ensures, along with the Board of Directors, that the operations implemented by the Company comply with rules and regulations and may not be in conflict of interest or manifestly imprudent.
During the mandate, the Board, in order to regularly oversee the effectiveness of the internal control system, holds a series of meetings with the internal control actors (Compliance, Risk Management, Internal Audit, Independent Auditor).
The Board of Statutory Auditors has the tasks of participating in the meetings of the Board of Directors and getting regular information on the operating performance, checking the legitimacy of conducts and resolutions of the directors with the law and the By-Laws, monitoring the adequacy of the governing structure and the adequacy of the internal control system.

Independent Auditor

On 26 May 2016, the Shareholders' Meeting appointed Deloitte & Touche S.p.A. as independent auditor for 2016 – 2020.

Primary Functions

The primary company functions, identified under Solvency II Directive, are Internal Audit, Compliance, Risk Management.
In accordance with provisions under the Regulation no. 20/2008, Yafa S.p.A. established the primary functions with features appropriate to the nature and structure of the Parent Company, as well as to the complexity of the activity performed and development objectives that it aims to pursue.
The primary functions are formed on the staff of the Board of Directors in compliance with the principle of segregation of duties between operating and control functions.
Yafa S.p.A. outsourced, in compliance with Regulation 20/2008 enabling the insurance companies to outsource the Primary Functions, in case of reduced scale and complexity of the risks relating to its business and on the ground that its establishment fails to meet the criteria of cost-effectiveness, and subject to attainment of required authorizations, the control functions of Internal Audit and Risk Management with effect from 1 June 2017, to two professionals, for the performance of services to the principal Parent Company commissioning said services.
The outsourcing of the Functions is carried out in compliance with the conditions outlined in the Outsourcing Policy already approved by the Parent Company.
In order to ensure their independence and autonomy, the outsourced functions report to the Board of Directors of the Parent Company, to two Board members appointed respectively, each for one of the function, as duly notified to the Regulator according to the principles under aforesaid Regulation no. 20/08.
The Compliance Function, it not being subject to outsourcing reports functionally to the Board of Directors and hierarchically to the Managing Director.

Yafa S.p.A. provides guidance to keep the conditions of economic and financial stability of each undertaking, and of the group as a whole, which will be constantly monitored even in consideration of the strategic guidelines chosen by the Company, in relation to the Group objectives.
Therefore, dedicated flows were defined, and as a result, operating procedures aimed at supporting the Administration, Corporate Governance and Data Quality Function (now Administration and Corporate Governance) and the other functions involved in this process are currently being drafted.
Yafa S.p.A. has deemed to derogate the establishment of an actuarial function, given the presence of one undertaking carrying out the insurance activity and having the actuarial function within the group.
Objectives and responsibilities of the primary functions are identified under IVASS Regulation no. 20/2008 and better described in the following paragraphs.

B.1.2 Significant changes in the governance system introduced in the relevant period

This paragraph outlines the significant changes in the governance system of the Parent Company in the relevant period, as well as all changes in relation to the organizational chart and the system of delegations already notified to the Authority.
Changes made to the governance system as at the date of approval of this document are:

- On 24 May 2017, Mr. Lodovico Passerin d'Entreves et Courmayeur resigned from his position as Director responsible for the outsourced Internal Audit that was assigned to him by the Board of Directors held on 29 March 2017 and did not renew his candidacy as director.
- With resolution of 24 May 2017, the Shareholders' Meeting appointed Mr. Gian Domenico Verdun di Cantogno as new director.
- With resolution of 24 May 2017, the Shareholders' Meeting appointed Mr. Gian Domenico Verdun di Cantogno as Director responsible for the outsourced Internal Audit.
- With resolution of 24 May 2017, the Shareholders' Meeting appointed Mr. Claudio Cacciamani, confirming the office already held, as Director responsible for the outsourced Risk Management.
- The Board of Directors of 23 May 2018 approved the new organizational and functional charts, as a result of the decision on the reinternalization of the outsourced Internal Audit Function, furthermore. with the same resolution the Board assigned the tasks of the Data Quality Function to the outsourced Risk Management Function. On the same date, the Board appointed a new Head of Administration and Corporate Governance, with effect from 1 June 2018, entrusting him with the tasks relating to the function. In view of the foregoing, on 23 May 2018, the Board of Directors:
  - appointed Mr. Piero Angelo Parazzini as Head of Internal Audit,
  - appointed Mr. Dario Ghiroldi as Head of Administration and Corporate Governance.

Below are also the main changes to the composition of the Board of Directors during 2017 and till 25 May 2018.

- The Shareholder's Meeting held on 24 May 2017 appointed:
  - Mrs. Adriana Acutis, Managing Director and formerly entrusted with the same role,
  - Mr. Roger Taylor, Chairman and formerly entrusted with the same role,
  - Mr. Rui Octavio Matos De Carvalho, Vice Chairman.
- The organizational structure previously included two Vice Chairmen.
- Vice Chairman Mr. Roberto Guarena resigned from his office with effect from 23 March 2017.

B.1.3 Information relating to the delegation of corporate responsibilities, to the hierarchical relationships and to the assignment of functions

Please see Paragraph B.1.5 ”Description of the internal organizational structure” for reference.

B.1.4 Remuneration for the members of the administrative, management and supervisory bodies.

Principles of the Remuneration Policy

The Board of Directors of Yafa S.p.A., with resolution of 20 December 2017, approved the Guidelines on Remuneration.
The Guidelines were defined by the Board of Directors of Yafa S.p.A., Parent Company of Vittoria Assicurazioni Group (hereinafter also “the Group”) in line with ISVAP Regulation (now IVASS) no. 39 of 9 June 2011, and in light of the definition of the overall Group Remuneration Policy, whose issuance is provided for after the entry-into-force of the new IVASS Regulation laying down provisions on corporate governance as envisaged by IVASS Paper no. 2/2017, currently for public consultation, whose entry-into-force will result in repealing above Regulation no. 39. The overall Group Remuneration Policy will also be subject to the approval of the Ordinary Shareholders’ Meeting that is also responsible for its proper application.
The guidelines of the Remuneration Policy are based on the principles of sound and prudent risk management and in line with the strategic objectives, the profitability and the stability of the Group in the long term.
It should also be considered that the subsidiary Vittoria Assicurazioni S.p.A. is a listed company, and therefore subject to the specific remuneration legislation, but it adopted also a policy in line with requirements under ISVAP Regulation no. 39/2011. The definitive Group Remuneration Policy will be drawn up according to the regulation issued in line with the Guidelines and will be adopted by resolution of the Ordinary Shareholders’ Meeting, that - to this end - may make all amendments and additions to the Guidelines that are necessary after the entry-into-force of the new Regulation on governance.
The Document provides:
- the framework for the remuneration policy which the Group shall comply with for the financial year 2018,
- principles and criteria to determine the remuneration of executive directors and other top-level subjects of the Group companies,
- criteria to be used to determine the variable component of the remuneration, if any.

The Parent Company adopts, for itself and for the Group companies, remuneration policies focused on a sound and prudent risk management and in line with the strategic objectives of ongoing balanced growth, profitability and prominent position in the relevant markets in the long run.
The primary objective of the remuneration policies implemented shall be to ensure an adequate remuneration to attract, motivate and retain resources with the professional qualities required to successfully pursue the goals of the individual Companies of the Group; in particular, they shall strive to achieve continual excellent results in the attainment of their corporate purpose, and as a result, to create value for shareholders and safeguard company assets over the long term.

Principles for the Companies of Vittoria Assicurazioni Group
The Guidelines are defined and adjusted by the Board of Directors, by taking into account the characteristics of the Group Companies and the regulatory framework of the foreign country in which some Group Companies are established, and by ensuring the overall consistency.

The Remuneration Policies of the Group Companies:
- shall not provide for incentives aimed at risk-taking that could conflict with above objectives,
- shall be defined, as for senior positions and all staff, according to the responsibilities assigned to the individual concerned, the position held, the individual's skills and the relevant market, in accordance with fairness principles,
- shall be defined in compliance with applicable regulation for individual companies,
- shall be notified to the Parent Company.

Principles for Vittoria Assicurazioni
In particular, Vittoria Assicurazioni S.p.A., the only insurance undertaking of the Group, in defining its remuneration policy, shall adhere to existing provisions issued by IVASS on remuneration, taking also into account the application principles and criteria under the Corporate Governance Code adopted by the company.

Relevance of fixed and variable remuneration components

Remuneration of Directors
The remuneration of Directors of the Group companies shall be established according to the following criteria:
- the remuneration to the Board of Directors is established by the Shareholders’ Meeting, and the Board determines its allocation among its members,
- the remuneration of Chairmen, Vice Chairmen and Managing Directors, as well as Directors with specific duties is determined by the Board of Directors after hearing the opinion of the Board of Statutory Auditors, where appointed.

No Company’s performance-based remuneration is contemplated for Chairmen, Vice Chairmen and non-executive Directors that do not hold corporate offices.
Non-monetary benefits are not contemplated for non-executive Directors that do not hold corporate offices.

Remuneration of the Statutory Auditors
The remuneration of the Board of Statutory Auditors is established, in accordance with the law and the By-Laws, by the Shareholders’
Meeting upon appointment. No variable remuneration is contemplated for the Statutory
Auditors. Statutory Auditors are entitled to reimbursement of costs incurred in for the performance of their duties.

Remuneration of the executive Directors, Senior Managers and Risk Takers
A proper remuneration policy relating to the executive Directors, Senior Managers and to the staff “*whose activities have a potentially significant impact on the Company’s risk profile*” (so-called “*Risk Takers*”) is based on the following principles:
– ensuring the sound and prudent risk management of the company in order to pursue the strategic objectives such as the company’s growth in value over time and a long-term profitability of the shareholders’ investment,
– ensuring a proper balance of exposure to risks, with regard to the characteristics of the company, of the position held on the market, of the size and activities of the company,
– determining management compensation in such a way as to ensure that the fixed component of compensation is, in all cases, sufficient to remunerate the service performed regardless of the achievement of objectives that entitle the individual to receive a variable

remuneration portion as calculated below, ensuring a proper balance between the fixed component and the variable component, if any,
– if a variable component of the remuneration is established, not placing excessive emphasis on the short-run results in the determination of the objectives, taking into account the specific features of the activities of the individual Group Companies, by combining stability and development over a medium-long term.

Fixed Remuneration
The level of the fixed remuneration shall be adequate to attract, motivate and retain resources, and sufficient to remunerate the role, if the variable component is not paid due to the failed attainment of the individual, department or company targets, so reducing the possibility of conducts that are not commensurate to the level of Company's risk appetite.

Variable Remuneration
The variable remuneration, if any, is tied to the achievement of business objectives with a direct link between incentives and objectives of the company, the department and, not least, the individual objectives, in terms of quality and quantity. All decision-making processes shall be formalized, clear and transparent and structured so as to avoid any conflicts of interest between the company and the recipients of the remuneration policies.

Malus and Clawback Conditions
If the individual company of the Group adopts a variable remuneration policy, there shall be rules establishing that the variable remuneration component will not be paid, in full or in part, if following conditions apply:

a. non-attainment of the agreed Gate objectives within each financial year and over the medium-long term plan,
b. a significant deterioration of the capital and financial situation of the company, providing in this case for the possibility of reviewing one part of the variable remuneration,
c. failed attainment, in the year preceding the year of payment of the differed part, of a distributable profit and an adequate level of capital solidity.

If culpable or seriously culpable conducts are to be found which led to results that proved to be non-lasting or even not actually pursued, or which caused a significant deterioration of the risk profiles, non-payment or partial or total return of the variable remuneration component applies, without prejudice to any further action. The Board of Directors is responsible for fact-finding and assessing whether the conditions giving rise to non-payment or return obligation apply.

Information on the individual and collective performance criteria on which any entitlement to share options, shares or variable components of remuneration is based

There are no individual and collective performance criteria on which any entitlement to share options, shares or variable components in addition to those indicated under paragraphs: "Principles of the remuneration policy" and "Relevance of fixed and variable remuneration components".

Description of the main features of the supplementary pension or early retirement schemes for the members of the administrative, management or supervisory bodies and for holders of other key functions

No supplementary pension schemes are provided for the members of the administrative, management and supervisory bodies.
No early retirement schemes are provided for the members of the administrative, management or supervisory bodies, as well as for holders of other key functions.

B.1.4 Information on the material transactions performed during the reporting period with the shareholders, with the persons who exercise a significant influence on the undertaking and with the members of the administrative, management or supervisory bodies.

No material transactions were performed during the reporting period with the shareholders, with the persons who exercise a significant influence on the undertaking and with the members of the administrative, management or supervisory bodies.

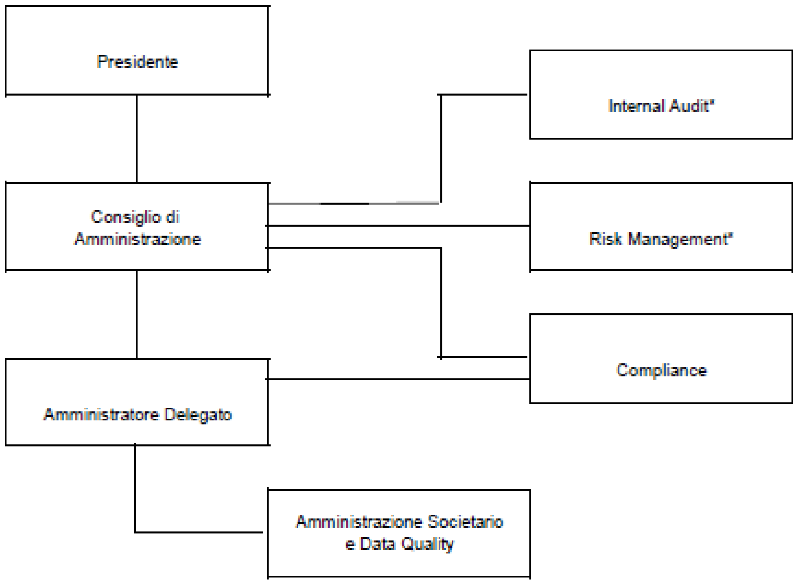
B.1.5 Description of the internal organizational structure

The Organizational Chart of the Company, as at 31 December 2017, representing the I level reporting to the Managing Director, could be summed up with the following schema and provided for the following Functions directly reporting to the Managing Director:

- Administration, Corporate Governance and Data Quality Function (having the task of producing data and information relevant for the purposes of Group supervision, pursuant to Article 215-bis of the Code of Private Insurance Companies and to IVASS Regulation no. 33 of 6 December 2016 concerning the information to the public and IVASS, as well as the role of the sole point of contact),
- Compliance Function, reporting hierarchically.

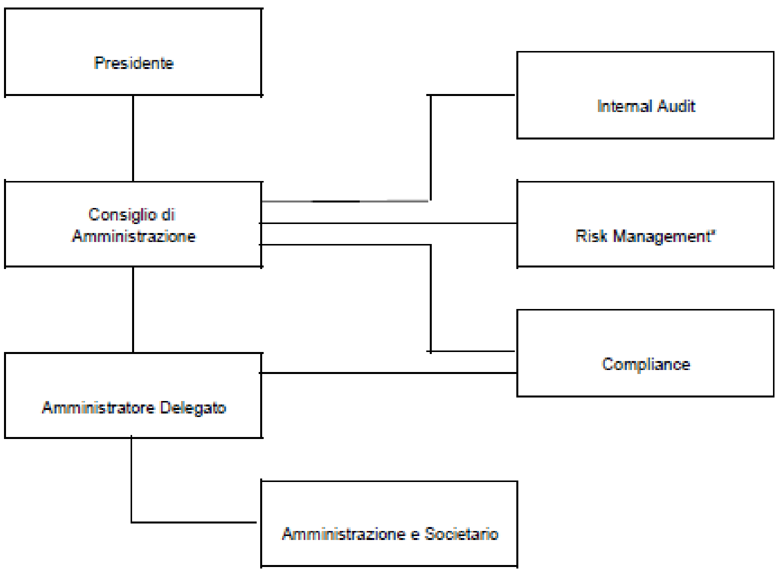
The organizational chart approved provides for the following Functions directly to the Board of Directors:

- Outsourced Internal Audit Function through one independent Board member,
- Outsourced Risk Management Function through one independent Board member,
- Compliance Function, reporting functionally.



* Funzione esternalizzata: il professionista esterno riporta al Consiglio di Amministrazione per il tramite di un Consigliere Indipendente.

The Board of Directors of 23 May 2018 approved the new organizational chart, as a result of the decision on the re-insourcing of the outsourced Internal Audit Function, furthermore. with the same resolution the Board assigned the tasks of the Data Quality Function to the outsourced Risk Management Function. On the same date, the Board appointed a new Head of Administration and Corporate Governance, with effect from 1 June 2018, entrusting him with the tasks relating to the function. The currently existing organizational chart, as notified to the Authority, in the light of the foregoing, is represented as follows:



* Funzione esternalizzata: il professionista esterno riporta al Consiglio di Amministrazione per il tramite di un Consigliere Indipendente.

The Senior Management of the Parent Company is made up of the Managing Director; as at the date of this Report, there are no Executives with strategic responsibilities.

Bodies delegated by the Board of Directors

In accordance with the By-Laws, the sole director may sign on behalf of and represent the company before third parties and in legal proceedings and may take all actions that are consistent with the corporate purpose, within the limits of law, with the right to appoint and revoke proxies, by determining their powers.

If the company is governed by one Board of Directors, the signature and representation of the Company are granted to the Chairman and, if appointed, to the Vice Chairmen and Managing Directors in the framework and exercise of the powers conferred on them and furthermore, separately, in legal proceedings, as well as in the execution of the resolutions of the Board and executive committee, if appointed.

The Managing Director and the Chairman are entitled to be responsible for, sign on behalf of and represent the company before third parties and in legal proceedings in the framework and exercise of the powers conferred; they are all vested with all broadest powers for the ordinary management of the Company that are not expressly reserved by law or By-Laws to the Board of Directors.

The Board of Directors, appointed on 24 May 2017, conferred management powers on the Managing Director, Mrs. Adriana Acutis. The Board also conferred the same powers on the Board Chairman, Mr. Roger Taylor.

The Board of Directors, appointed on 25 May 2018, conferred management powers on the Managing Director, Mrs. Adriana Acutis and the Chairman of the Board, Mr. Roger Taylor to practice in a disjunct form.

At the same meeting the Board of Directors also conferred on the Administrator Gian Domenico Verdun of Cantogno the same powers conferred on the Chairman of the Board of Directors and the Managing Director to be used in case of necessity and urgency in order to ensure adequate coverage and guarantee the correct operation of the Company.

Mrs. Adriana Acutis, Managing Director of the company, does not hold other positions, outside Vittoria Assicurazioni Group, which may lead her to interlocking directorate situations.

Further delegations conferred by the Board of Directors of Yafa S.p.A.

The Board of Directors of Yafa S.p.A. with resolution of 19 May 2017 conferred powers on the Head of the Administration, Corporate Governance and Data Quality. Such powers have been revoked with effect from 1 June 2018 and conferred on the Head of Administration and Corporate Governance.

The Board of Directors of Yafa S.p.A. did not confer further delegations in addition to those outlined in the previous paragraphs and just listed.

B.2 Fit & proper requirements

The Board of Directors of Yafa S.p.A. approved the Fit & Proper Policy with resolution of 22 February 2017 to ensure that all persons who effectively run the undertaking or have other key functions have the professional qualifications, and proper knowledge and experiences for a sound and prudent management, as well as a good reputation and integrity.

Said Policy was subject to amendments, with Board resolution of 27 July 2017, in order to implement the change relating to the name of the Group from “Yafa Group” to “Vittoria Assicurazioni Group”. The new amended document has been in effect since 1 August 2017.

On 28 March 2018, the Board of Directors of Yafa S.p.A. resolved on the approval of a new version of, in force as at the date of approval of this Report, the aforementioned Policy with the purposes of: overall review of the document setting in order to easily read it, maintain the alignment of the document with the relevant regulatory framework (regulations and internal rules) and improve its understanding and finally to adjust the terminology to the Consultation Paper no. 2/2017, making it more in line with the Solvency II Directive.

In particular, the Policy sets forth criteria and procedures, and provides the guidelines on the maintenance of minimum standards to be applied, in order to ensure that the members of the administrative and control bodies and the heads of the Primary Functions do have adequate professional qualifications, knowledge and experiences for a sound and prudent management, as well as a good reputation and integrity, in compliance with the legislation and national regulations and pursuant to the regulation under the implemented Solvency II framework.

Specifically, the Policy outlines the principles to assess the fit & proper requirements of the following bodies and persons:

(i) Bodies with Administrative, Management and Control functions:
- Members of the Board of Directors;
- Members of the Board of the Statutory Auditors;

(ii) Holders of Primary Functions included in the governance system, identified as Primary Functions: Internal Audit Function, Compliance Function, Risk Management Function;

(iii) Holders of outsourced Primary Functions;

(iv) Relevant Staff with reference to: Senior Management, Risk Takers, higher level staff both internally and of the supplier (in case of outsourcing) of the Primary Functions, holders and staff of essential or important activities or functions, Internal Control Managers, as well as staff of the supplier or subcontractor, of outsourced essential or important activities or functions;

(v) Bodies with Administrative, Management and Control Functions, as well as Primary Functions and Relevant Staff of the Group Subsidiaries;

These persons and bodies are required to have the fit & proper requirements in terms of integrity, professionalism, no impediments and interlocking situations and, where required by law, to be independent.

<u>Requirements of the bodies with administrative and control function</u>

For the proper performance of their tasks, as established in abovementioned Fit & Proper Policy, it is necessary that the bodies and persons responsible for the administrative, management and control functions are fully aware of the powers and obligations relating to the task entrusted to them.

They also must have the requirements provided for by the primary, secondary and industry pro tempore existing regulations.

In relation to the role of the Parent Company of the Insurance Group, in order to ensure a proper management of the activities and an efficient supervision of the adequacy of the organizational structure of the Company and the Group, in addition to the fit & proper requirements under the existing regulation, Directors and Statutory Auditors of Yafa S.p.A. must have adequate requirements of professionalism, as outlined in the relevant Policy and described below.

With reference to the requirements of professionalism, Directors and Statutory Auditors of Yafa S.p.A. must be chosen according to criteria of professionalism and expertise from among persons having accrued an overall experience of at least three years in performing qualified professional activities, such as:

a) administration, management or control in companies and entities of the insurance, credit or financial sectors;
b) administration, management or control in public entities or public administrations related to the insurance, credit or financial sector, or also to other sectors if the Functions performed had implied the management or the control of the management

of financial and economic resources;

c) administration, management or control in large public and private undertakings;

d) professional activities in fields relating to the insurance, credit or financial sector, or university teaching activities in legal, economic or actuarial topics being relevant for the insurance sector.

As for the above requirements, it should be noted that already on the occasion of the request, filed in April 2017, for the authorization to enrolment on the IVASS Register of Insurance Groups, the Board of Directors held on 28 March 2017 checked that the requirements of integrity, professionalism and independence, as provided for by IVASS Regulation no. 22/2016, were met by the members of the Board of Directors, the Board of Statutory Auditors and holders of the Primary Functions.

As for the above Requirements, it should also be noted that on 24 May 2017, the Board of Yafa S.p.A., on the occasion of the new mandate, acquired the documentation relating to the directors, acknowledging that they all met the requirements and had accrued, in compliance with provisions under the Ministerial Decree 220/2011 and with reference to those holding special offices, 3 to 5 years of experience in the professional activities listed.

In addition to above requirements, the Statutory Auditors must meet the requirement of enrolment on the register of auditors.

With reference to the requirement of integrity, this is met if the persons concerned are not in one of the following situations, as referred to in Article 5 of the Ministerial Decree no. 220 of 11 November 2011:

a) legal disqualification or temporary debarment from managing offices of legal persons and companies and, anyway, all situations under Article 2382 of the Civil Code;

b) liability to preventive measures taken by the judicial authorities pursuant to law no. 1423 of 27 December 1956, or law no. 575 of 31 May 1965, and law no. 646 of 13 September 1982, and subsequent amendments and additions, without prejudice to the effects of rehabilitation;

c) conviction by final judgement, without prejudice to the effects of rehabilitation;

   1. a sentence of imprisonment for one of the offences provided for by the legislation governing the insurance, financial, credit, securities and equity market sectors, as well as by the legislative decree no. 231 of 21 November 2007, and subsequent amendments and additions;
   2. imprisonment for one of the crimes described under Section XI, Book V of the Civil Code and in Royal Decree 267 of 16 March 1942;
   3. imprisonment for a term not less than one year for a crime against government, against public faith, against property, against public order, against the public economy or for a crime relating to tax issues;
   4. imprisonment for a term not less than two years for any crime committed without criminal intent;
   5. furthermore, the office cannot be held by persons to which, on request by the parties, one of the penalties of imprisonment set forth under letter c) apply, except for prescription of the crime. If applied on request by the parties, the penalties set forth under letter c), number 1 and 2 do not specify whether lower than one year.

With reference to the cases governed in full or in part by foreign regulations, verification of the existence of above conditions is carried out on the basis of an assessment of substantial equivalence.

For the purposes of assessing the fit and proper requirement for Directors and Statutory Auditors, it is also considered whether any impediments exist. Directors and Statutory Auditors of Yafa S.p.A., indeed, cannot hold the office if they were directors, general managers, statutory auditors or liquidators of undertakings subject to procedures of

extraordinary administration, bankruptcy or winding-up or similar procedures three years before the adoption of relevant provisions.
This prohibition is in place for the three-year period starting from the adoption of these provisions. This ban is reduced to one year if the order to initiate the procedure was given on the request of the business owner, the boards of directors of the undertaking or as a result of the report made by the person concerned.
The impediment does not occur in the event that the Board of Directors of Yafa assesses, based on adequate elements and according to reasonableness and proportionality, that the person concerned was not involved in the facts that led to the crisis of the undertaking.
To this end, evidence include, inter alia, the duration of the period of performance of the Functions of the person concerned at the undertaking itself and the absence of related disciplinary measures, convictions with even provisionally enforceable judgement with compensation for damage as a result of the liability action pursuant to the Civil Code, replacement resolutions by the relevant body and other related measures.
If above situations occur, the persons concerned are required to notify this to the undertaking, eventually, highlighting with appropriate elements, for the purposes of said assessment, that they are not involved in the facts that caused the crisis of the undertaking.
The Board members take the related decisions on the existence of impediments in no case later than thirty days after communication of the elements by the person concerned.
The assessment must be repeated if there are new facts or measures that may be relevant to this end and the person concerned is required to timely notify.
Given that Yafa S.p.A. is the Parent Company of the insurance group to which Vittoria Assicurazioni belongs, pursuant to Article 36 of the Legislative Decree no. 201/2011, holders of offices in the management, supervisory and control bodies, and top-level managers of the Company are not allowed to hold or exercise similar offices in undertakings or groups of undertakings operating in the credit, insurance and financial markets that are competitors, operating in the same product and geographical markets, of Vittoria Assicurazioni. The prohibition of the accumulation of offices does not apply to undertakings that belong to the same group. Offices held in foreign companies do not fall within this prohibition.
Finally, for the purposes of independence, in accordance to provisions under Article 2399 of the Civil Code, the following persons cannot hold the office of Statutory Auditor:
a) those in the conditions envisaged by Article 2382 of the Civil Code;
b) the spouse, relations and in-laws up to the fourth degree of kinship of the company's directors, and the directors, spouse, relations and in-laws up to the fourth degree of kinship of the companies controlled by it, its controlling companies and companies subject to joint control;
c) those who are linked to the company or its subsidiaries or controlling companies or companies subject to joint control or to directors of the company and the parties specified in paragraph b) by a relationship of employment or self-employment or other monetary or professional relationship which undermines their independence.

Furthermore, given that Yafa S.p.A. is parent company of the insurance group to which Vittoria Assicurazioni, insurance undertaking issuing listed securities, belogs, it is deemed to be appropriate that at least one third of the directors of Yafa S.p.A. are independent on the basis of the criteria set forth by the Corporate Governance Code of listed companies approved by the Corporate Governance Committee and promoted by Borsa Italiana S.p.A., to the extent applicable.
Therefore, a Director of Yafa S.p.A. is normally not independent in the following situations:
a) if he/she controls the company, directly or indirectly, including through subsidiaries, trustees or a third party, or is able to exercise significant influence over the company, or

participates in a shareholders' agreement through which one or more persons may exercise control or considerable influence over the company;

b) if he/she is, or has been, in the preceding three financial years, an executive director of the company, of one of its subsidiaries, having strategic relevance or of a company under joint control with the company, or of a company or entity that, also jointly with others through a shareholder's agreement, controls the company or is able to exercise a significant influence over it;

c) if he/she has or had in the preceding financial year, directly or indirectly (e.g. through subsidiaries or companies of which he/she is a leading representative, or as partner of a professional firm or consulting company), a significant commercial, financial or professional relationship:

- with the company, one of its subsidiaries, or with any of the relevant leading representatives;
- with a party that, even jointly with others through a shareholders' agreement, controls the company, or in the case of a company or entity, with the relevant significant representatives;
- or he/she is, or has been, in the preceding three financial years, an employee of one of above parties;

d) if he/she receives, or has received, in the preceding three fiscal years, from the company or a subsidiary or parent company, a significant additional remuneration compared to the "fixed" remuneration of non-executive director;

e) if he/she holds the office of executive director in another company in which the executive director of the company holds the office of director;

f) if he/she is shareholder or director of a company or an entity belonging to the same network as the company appointed to perform the audit of the issuer;

g) if he/she is close relative of a person who is in any of the above situations.

If a director has been on the Board of Directors of Yafa S.p.A. for more than 9 years, this is not considered as an obstacle to the independence.

In order to check the independence requirement according to the Corporate Governance Code that, albeit not applicable to Yafa S.p.A., is referred to in the Fit & Proper Policy according to abovementioned terms, a dedicated declaration is proposed to be submitted to the Board members of Yafa S.p.A. upon appointment.

Requirements of the Heads of the Primary Functions

For the office of Holder of one of the Primary Functions of Yafa S.p.A. (Risk Management, Internal Audit, Compliance), even in case of outsourcing, specific expertise is required in relation to the position held (by way of example, having accrued a specific experience through the exercise of qualified professional activities in Companies operating in the insurance, credit or financial sector, having held similar positions in other Companies, having a qualification in subjects associated to the position, such as degree in law, or anyway in legal subjects, degree in economics and business or anyway in economic sciences, degree in engineering, degree in mathematics or in actuarial sciences). The supplier's person in charge of the outsourced primary function is required to have the same requirements as those needed for the internal holder of the primary function. Those performing the primary functions, both with reference to the internal staff and the supplier or sub-supplier of the outsourced service are included within the scope of Relevant staff.

The requirement of the integrity is met if the persons concerned are not in one of the situations indicated with reference to the bodies with Administration and Control function set forth in previous paragraph.

Holders of the Primary Functions must also meet, for the purposes of the independence requirement under said Policy, the above requirements for Directors. In order to ensure the independence of the Primary Functions, the Internal Audit, Compliance and Risk Management Functions do not report hierarchically to any managers of the operational areas. Moreover, the persons in charge of the Internal Audit function shall not be entrusted with operational responsibilities or tasks of auditing activities for which they previously had authority or responsibility if a reasonable time period has not elapsed.

Relevant staff

The category of relevant staff of Yafa S.p.A. includes the following persons:

- Senior Management
- Risk Takers, if not yet included in Senior Management
- Internal staff of the primary functions, with particular reference to the higher-level personnel
- Staff of the supplier or sub-supplier of the outsourced primary functions
- Holder and staff of essential or important activities or functions (i.e. Function for the production of data and information relevant for the purposes of Group supervision)
- Internal persons responsible for controls, as well as supplier's or sub-supplier's staff, over outsourced essential or important activities or functions.

As for the requirement of professionalism of the relevant staff identified by the Company, the qualifications, the knowledge and experience required depend on the position held and the responsibilities assigned.

Senior Management and Risk Takers must have accrued executive and managerial experiences, respectively, of at least three years within a company operating in the insurance or financial or credit sector or must have held similar positions of responsibility in companies as complex as Yafa S.p.A.

Those performing primary functions, both with reference to the internal staff and at the supplier or sub-supplier of the outsourced service must have suitable professional expertise, accrued for a reasonable period of time, in a similar position, or must have undertaken an appropriate academic path in related fields.

The holder of the function for the production of data and information relevant for the Group supervision is required to meet the requirements of professionalism characterized by specific expertise in administrative and accounting fields, accrued by way of working experiences in positions of appropriate responsibility for a reasonable period of time. The holder of this function must also have the qualification, experience and knowledge necessary to provide reliable financial information to the Board of Directors, the Regulator and the public by drawing up quarterly and annual reports, plans and related updates as well as Solvency II reports.

As for the staff, it shall be assessed that qualifications in administration and accounting, knowledge and experience are suitable to hold the position and take the responsibilities from the activities assigned.

The requirement of the integrity is met if the persons concerned are not in one of the situations under the paragraph relating to the Corporate Bodies with Administration and Control Function.

Members of Senior Management of the Company are not allowed to hold or exercise similar offices in undertakings or groups of undertakings operating in the credit, insurance and financial markets that are competitors, operating in the same product and geographical markets, of Vittoria Assicurazioni. The prohibition of the accumulation of offices does not apply to undertakings that belong to the same group. Offices held in foreign companies do not fall within this prohibition.

Subsidiaries

The Fit & Proper requirements of the Administrative, Management and Control Bodies, of the Primary Functions and Relevant Staff of the subsidiaries are referred to the professionalism, integrity and impediments as described below.

For the holders of the Administrative, Management and Control Bodies of the subsidiaries, for the purposes of the Policy, the professionalism is assessed with reference to the activity performed by the subsidiary where the person is called upon to hold the office. Theoretical, professional and management expertise and experience is required in the specific sector of activity or in administration or management. For the office of Heads of Primary Functions (Risk Management, Internal Audit, Compliance, Actuarial Function), with reference to the holders and internal staff and, in case of outsourcing, to the supplier's manager and related staff, specific professional expertise is required, connected to the position held and commensurate to the responsibilities assigned, similar to that provided for the counter-party primary functions of Yafa S.p.A.

Relevant staff – including, but not limited to, Senior Management, Risk Takers, Financial Reporting Officer – are required to have accrued an executive or managerial experience for a reasonable period of time within a company operating in a sector similar to that of the subsidiary or to have held similar positions of responsibility in companies as complex as the company in which the person is called upon to hold the office.

It is the individual subsidiary's responsibility to identify the cases where the necessary professional experience may be acquired in operational positions or by participating to high-level training activities.

For the members of the Administrative, Management and Control Bodies of the subsidiaries please refer to the cases envisaged for the Bodies with administrative, management and control functions.

The requirement of integrity is met if the persons concerned are not in one of the situations previously mentioned. With reference to the cases governed in full or in part by foreign regulations, verification of the existence of above conditions is carried out on the basis of an assessment of substantial equivalence.

Assessment of the fit & proper requirements

The professionalism and integrity of a person is assessed individually upon appointment, both for an external person, and for a person already within the company organization, as well as on a continuous basis, within the scope of annual regular reviews. The assessment is also carried out in situations involving a new assessment of the requirements of professionalism and integrity.

Corporate Bodies with administrative, management and control functions:

Checks of above requirements are performed by means of the following documentation to be provided by the persons concerned on request by the Administration, Corporate Governance and Data Quality Function:

- General certificate of criminal records and Certificate of outstanding criminal proceedings or self-certification by the person concerned pursuant to Article 46 of the Decree of the President of the Republic no. 445/2000, certifying that the requirements of integrity set forth by different applicable regulations are met, there are no impediments for holdings the office, as well as, if applicable, that there are no situations under Article 6 of the Ministerial Decree no. 220/2001 and Article 36 of the Legislative Decree no. 201 of 6 December 2011;
- Curriculum Vitae, including all positions held as director and statutory auditor and, where applicable, declaration pursuant to Articles 46 and 47 of the Decree of the President of the

Republic no. 445/2000, certifying the requirements of professionalism provided for by the different applicable regulations are met;

- Self-certification of the corporate offices held in Italian undertakings, in order to assess that there are no causes of incompatibility pursuant to Article 36 of the Legislative Decree no. 201 of 6 December 2011 (so-called "Interlocking prohibition").

According to the person they are referred to, above declarations shall include:

- for the requirement of integrity:
  - declaration concerning the absence of impediments, with detailed information on applicable regulation;
  - information on any ongoing proceedings that may affect the existence of the requirement in question;
  - declaration on the absence of convictions, even in foreign countries, of criminal offences or other disciplinary measures for cases corresponding to those that may lead, under the Italian law, to the loss of the requirement of integrity;
- for the requirements of professionalism: information on the specific activities performed by the person concerned that are deemed to be suitable for the purposes of verification and related periods of performance;
- the commitment of the person concerned to produce, on request by the Company, the documentation suitable to confirm that data submitted are truthful;
- the commitment of the person concerned to timely notify the Company of any circumstances that may entail forfeiture or suspension of the office;
- the authorization to process the personal data and the authorization for the Company to check, with the relevant administrations, the truthfulness of what has been declared.

Documentation relating to verification of the requirements is lodged in original and kept for 10 years by the Administration, Corporate Governance and Data Quality Function.

On the occasion of the dedicated meeting, the Board of Directors checks that the requirements of integrity, professionalism and independence are met by all persons responsible for the administration and control functions. The minutes drafted on the occasion of the Board meetings showed that the verification of the requirements was fulfilled.

The operational support activities for the assessment by the Board of Directors of the fit & proper requirements under this Policy are performed by the Compliance Function. Support activities mean:

- planning of fulfilment within the terms provided for by the existing pro tempore regulation or by this policy;
- drafting and/or acquisition of the documentation provided for by the existing regulation or by this policy in order to proceed with the assessments;
- any subsequent fulfilment towards the regulators.

The knowledge of the fields of expertise of the person to be appointed and related qualifications are essential for the assignment of the office. Should any shortcomings relating to the fit & proper requirements in terms of professional background arise during the assessment process, the person to be appointed may make for this shortcoming by participating to specific training courses in order to overcome the professional shortcomings found.

<u>Primary Functions</u>

The holders of the primary functions shall have, as envisaged by the Policy, suitably extensive knowledge and experiences and properly high skills to hold related office and ensure its efficiency. Particularly, the holders of these functions must have a curriculum with studies relating, preferably, to the following subjects: law, economics, mathematics, statistics. Furthermore, they must have accrued working experience inside an organization whose

business is linked to insurance, finance or related activities. The assessment of the fit & proper requirements of the holders of the Primary Functions is carried out by the Board of Directors on the occasion of their appointment by way of requesting the necessary documentation by the Administration, Corporate Governance and Data Quality Function. The successful outcome of the assessment is required for the Board of Directors to resolve on the appointment. The holders of the Primary Functions must have the fit & proper requirements provide for the members of the administrative and control bodies. The successful outcome of the assessment is required for the Board of Directors to resolve on the appointment.
In case of outsourced primary function, the assessment of fit & proper requirements of the supplier's manager in charge of the outsourced primary function is performed by the holder of the primary function who checks that, by way of the necessary documentation requested by the Administration, Corporate Governance and Data Quality Function, the supplier's manager meets the requirements of professionalism and integrity similar to those provided for the holder. The outcome of the assessment is brought to the attention of the Board of Directors and is required for the outsourcing of the primary function. Documentation relating to verification of the requirements is lodged in original and kept for 10 years by the Administration, Corporate Governance and Data Quality Function.

<u>Relevant staff</u>
The assessment of the fit & proper requirements:
- of the Senior Management, the Risk Takers and the function for the production of data and information relevant for the purposes of Group supervision is performed by the Board of Directors on the occasion of their appointment by way of request of necessary documentation by the Administration, Corporate Governance and Data Quality Function;
- of those who, at higher level, perform the primary function, both with reference to the internal staff and at the supplier or sub-supplier, in case of outsourced service, is checked by the holder of the primary function who considers the complexity and relevance of the tasks assigned to the staff and the documentation gathered by the Administration, Corporate Governance and Data Quality Function.
  In case of outsourcing, the requirements of professionalism for the staff of the supplier are properly subject to contracts, checked and submitted to formal information by the supplier's manager in charge of the outsourced primary function.

The successful outcome of the assessment is required for the assignment of the office. Documentation relating to verification of the requirements is lodged in original and kept for 10 years by the Administration, Corporate Governance and Data Quality Function.

<u>Subsidiaries</u>
Persons holding administration, management and control positions in the companies of the Group must have suitable requirements of integrity and professionalism.
The assessment of eligibility for persons subject to this Policy is performed by the relevant Board of Directors, mainly based on proper documentation provided by the persons involved, as well as on any other information available to the Company.
Professionalism is assessed with reference to the activity performed by the subsidiary where the person is called upon to hold the office. Theoretical, professional and management expertise and experience is required in the specific sector of activity or in administration or management.
For the requirements of integrity, reference is made to the requirements provided for the persons in charge of the Administration and Control Functions in Yafa S.p.A. previously outlined.

The Company, that since November 2001, has been part of the STAR Segment of the electronic share market (MTA) managed by Borsa Italiana S.p.A., adopted self-regulatory rules provided for by the Corporate Governance Code approved by the Corporate Governance Committee promoted by Borsa Italiana and will therefore customize its Fit & Proper Policy in compliance with applicable current regulation.
For the holders of Primary Functions, where established, the requirements for the holders of the same Functions of Yafa S.p.A. do apply, in addition to the specific regulatory requirements. The assessment of the fit & proper requirements of the Primary Functions is performed by the Board of Directors of the Company concerned on the occasion of their appointment. The successful outcome of the assessment is required for the Board of Directors to resolve on the appointment.
Within its Policy, the Company will also regulate the fit & proper requirements, and the related assessment process, with respect to top-level subjects, Risk Takers, any further relevant staff, including those performing a primary function and the Financial Reporting Officer, identified by the Company itself and to persons holding offices of administration, management and control in its subsidiaries.

<u>Periodic verification</u>
At least once per calendar year, the Board of Directors of Yafa renews its assessment and verifies the existence of the fit & proper requirements of the persons in charge of the Administration and Control Functions, the holders of the primary functions and the function for the production of data and information relevant for the Group supervision under this Policy and already checked upon appointment.
The verification of the existence of the requirements of those performing primary functions, both with reference to the internal staff and the supplier's or sub-supplier's staff, in case of outsourced service, is performed once per calendar year by the holder of the primary function according to procedures similar to those adopted for the assignment of the task.

<u>Outcomes of the assessments</u>
Upon assessment outcome, each Board of Directors declares collectively confirmed the existence of the requirements or the suspension or forfeiture of the office, should the conditions apply.

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

The Risk Management System promotes the creation of a internal culture oriented to the risk selection and aware retention, by nature and significance, to which the Group and all entities are exposed. The Risk Management System consists of the set of rules, processes, resources and instruments used to support the risk management strategy of Yafa and the Group, enabling the Parent Company to have an overall picture and a holistic approach to the risk management, as integral part of the business management.
The structure of the Risk Management System entails that the essential guidelines be set forth in the "Policy on Risk Management", the principles of which are provided in the additional specific policies or guidelines. By outlining purposes, scope, roles and responsibilities, implementation processes, and coordination procedures, the policies enable to define, in line with the approach and detailed methods:

- the specific risk categories,
- risks within the specific processes and risk mitigation techniques,
- methods of analysis and measure of individual risk factors, their relations and underlying principles and monitoring instruments.

The processes of risk identification and assessment are performed on an ongoing basis, in order to consider both the changes to the nature and size of the business and market environment, and in the occurrence of new risks or change in the existing ones.

B.3.1 Group Risk Management Process

Within the Risk Management System, the management process is defined, and consists of the following phases: risk identification, assessment of exposure to risks, risk monitoring and risk treatment.

Risk identification

The risk identification process consists of defining existing and emerging risks, which the Parent Company and the Group may be exposed to. The identification phase is carried out by giving particular attention to risks that are deemed to be relevant by the Board of Directors, i.e. risks whose consequences would compromise the solvency or reputation of the Parent Company or hinder the attainment of the strategic objectives. The identification is carried out by implementing the structured analyses of the risks arising from the external environment (e.g. regulatory framework) and internal environment (e.g. entrance in new markets, strategic planning, etc.), and from the formalized analysis of the activities underlying the macro-processes and processes within relevant purview, which is defined by the corporate organizational chart.

The analyses are directly carried out and/or overseen by the Risk Management and Compliance functions, each one in relation to the specific area of competence.

Risk assessment

The assessment phase is aimed at measuring the risks through quantitative methods, where possible, and/or qualitative methods for their assessment, as well as at analyzing the impact of the probability of risk occurrence. The quantitative measuring of risks is performed using several procedures used on a current and forward-looking basis (medium-long term).

Furthermore, in order to assess its vulnerability to extreme but plausible events, the Group makes use of specific measure techniques. In particular, stress tests and scenario analyses are used, which enable to assess the effects on the economic, capital and financial conditions of specific events or a set of events.

Quantitative methods used by the Group determine the risk profile, i.e. the extent of risks it is willing to accept according to Policies and Guidelines that define principles and/or limits which guide risk taking.

The Parent Company, always through quantitative models, also assesses the contribution of any risk, effectively taken and detected, to the determination of the regulatory capital requirement. This enables to detect to which extent each risk is covered by ad adequate capital amount, suitable to absorb potential losses, should the risks materialize.

Risk monitoring

Risk monitoring is based on controlling, on an ongoing basis, exposure to different types of risk. The control is carried out through the verification of compliance with principles/guidelines defined in the policies approved by the Board, the consistency with risk and operational limits of the risk categories identified, and the analysis of the performance of specific indicators, such as capital, value and liquidity.

Limits and indicators allow to measure the level of achievement of objectives in terms of business and risk. In particular, in checking the alignment between the profile detected and the risk appetite, any tolerance thresholds are also taken into account (maximum deviation from risk appetite).

The Risk Management is responsible for monitoring, on a regular basis, the implementation of the measures defined and the fulfilment of deadlines set. The findings of the monitoring activity are outlined within the report that the Risk Management prepares for the Board of Director.
In order to check, on a continuous basis, the potential in relation to the requirements provided for by the Solvency II Directive on capital requirement and composition of own funds, the Parent Company adopts specific control and monitoring methods detailed in the relevant policy of Own Risk and Solvency Assessment.

Risk treatment
Such phase consists in assessing the possible options that are deemed to be more appropriate to be implemented according to the type and severity of the risk taken. Options include: acceptance, avoidance or attenuation and mitigation. The acceptance option can result in the revision of risk targets, while avoidance can lead to review of the objectives and business strategies. Any violations of the risk profile, operating limits or tolerances are managed through the process of definition of recovery actions.

Reporting
The internal reporting system of the Group comes from the need of the creation of an information chain that is able to timely and comprehensively disclose the information that are relevant to determine fast and efficient measures, even in critical situations. The reporting pursues the objective of disseminating, to appropriate hierarchical levels, all risks referred to the different business segments, by highlighting, with an integrated approach, also the links among risks and interrelations with the external context.
On an annual basis, the heads of the control functions (Risk Management, Compliance and Internal Audit) prepare and submit to the Board of Directors the annual plan of the activities, which includes the actions aimed at addressing the deficiencies previously found and improvements to enhance the risk management system and internal control system.
Planning of the activities reflects the risk appetite defined by the Board, defines the ordinary activities (identification, analysis, monitoring, treatment and reporting) and extraordinary activities for risk management, and considers any requests by the Supervisory Authorities.
The processes of risk identification, assessment and monitoring are carried out on a continuous basis to take into account any possible change in the nature and size of business and in the market, but also any changes in the considered/emerging risks.

B.3.2 Own Risk and Solvency Assessment

The process of current and forward-looking risk assessment of the Group is outlined in the relevant Risk and Solvency Assessment Policy, which lays down principles and guidelines aimed at defining methods supporting the evaluation identification and development of methods, patterns and scenarios of Solvency assessment.
The Parent Company, thanks to processes of own risk and solvency assessment, ensures compliance of operations with agreed corporate objectives, understands and governs the risks, which the Group is or may be exposed to, and the current and forward-looking solvency position.
With reference to the current assessment, objectives are pursued by measuring the capital requirement and evaluating its adequacy. As for the current-looking assessment, objectives are pursued by ORSA which is prepared and documented on an annual basis by the Risk Management Function. The process enables the analysis of the Group's risk profile according to strategy, business development and market scenarios.
Methods adopted by the Company and the Group entail the following analyses:

- Current and forward-looking risk and solvency assessment, with reference to quantitative analyses and Solvency II metrics, usage of stress tests and scenario analyses, qualitative analysis of risks that are difficult to quantify, and monitoring of risks by using Key Indicators, including Solvency Ratio;
- Ongoing assessment of capital requirements and adequacy of technical provisions;
- The analysis of deviation of the risk profile from basic assumptions of the Standard Formula.

The system of risk targets adopted by the Company is aimed at managing the main potential risk, identified in the cases in which the Parent Group would not be able to meet the contractual obligations, within the deadlines and with proper profit. The risk appetite, for the significant risks, results operationally in Key Indicators. Monitoring the indicators adopted is performed on established schedules, by following an “evolution” and progressive “refinement” approach also in relation to the development of the calculations and the instruments which the Company avails itself of.

B.4 Internal control system

B.4.1 Overall description of internal control system

The internal control and risk management system is implemented by the Parent Company, through a management and coordination process operated under Article 2497 et seq. of the Civil Code and in accordance with industry-specific rules (IVASS Regulation no. 22/2008 and Regulation no. 20/2008 Article 27 et seq.).

The internal control system of the Parent Company consists of a set of rules, procedures and organizational structures aimed at ensuring the proper functioning and good performance of the undertaking and at providing, with a reasonable safety margin:

- efficiency and effectiveness of the operational activities,
- the adequate control of current and forward-looking risks,
- a timely reporting system of corporate information,
- reliable, complete and accurate accounting and operational information,
- the safeguard of company assets even in the medium-long term,
- compliance of the corporate business with existing rules and regulations, directives and corporate procedures.

The Parent Company ensures that the internal control and risk management system and the reporting procedures are implemented consistently in all undertakings belonging to the Group, by way of:

- integration mechanisms of the accounting systems, even to ensure reliable findings on a consolidated basis by the Parent Company;
- provision of reporting and accounting procedures to identify, quantify, monitor and control the operations among the entities of the Group, in order to ensure a sound and prudent management, avoid the implementation of operations that may produce negative effects for the Group solvency. The definition of the intra-group operativeness and types of intra-group operations characterizing such operativeness, provides the Parent Company with a further instrument. In the performance of this operativeness, particular attention is therefore given to avoid that a contagion risk may occur, also thanks to the risk monitoring and management system implemented by the Parent Group, according to limits and assessment criteria of the conditions of operations through which the Group operativeness is in place.

Particular attention is also given to the related-party operations to define the operational procedures and information flows among the administrative and control bodies in order to monitor the existence of the related-party operations.
The internal control system of the undertaking, as integral and essential part of the corporate governance, adopts a multi-level protection model as outlined in the following schematic description.
The bodies of the internal control system are:
• The Board of Directors, operating pursuant to Article 5 of IVASS Regulation no. 20/2008 on strategic, managing, organizational and internal control guidelines, addressing the main issues arising from the corporate operativeness brought to its attention.
• The Managing Director is called upon to implement the guidance of the Board itself through planning, management and monitoring of the internal control system and risk management system, by suggesting any corrective measures.
• The control body (Board of Statutory Auditors) which performs the checks, meetings and any insights of the Group reality based on the regulatory framework.
They are integral part of the daily business and must be identified with the purpose of mitigating the risks within the corporate processes and ensure, as a result, the proper performance of the corporate operativeness.
The relevant structure of the internal control system, outlined by the Board of Directors and adopted at Group level, is made up of three different levels of operativeness and control responsibility:
• *first line controls* (I level), i.e. systematic controls made by each business unit within the corporate processes under their competence; these control activities are entrusted to the primary responsibility of the management and are considered as integral part of any corporate process;
• *risk management controls* (II level), i.e. Controls assigned to the organizational units other than the operational units. The organizational units in charge of the systemic control of the corporate risks (II level) are:

- the Risk Management Function oversees the activities relating to identification, assessment and monitoring of risks to which the Undertaking, helping to define the policies of risk management and the criteria for the assessment, management, measure, monitoring and communication of all risks;
- the Compliance Function, having the objective of overseeing the corporate activities that entail a risk of non-compliance with rules, regulations and self-regulatory rules, with particular focus to the profiles of pre-contractual transparency and fairness in consumer protection and reputation impact;

• *internal audit controls* (III level): controls assigned to the Internal Audit Function, in order to monitor and assess the efficiency and effectiveness of the System of internal controls and the need for its adjustment, also through the activities of support and advice to other corporate functions.
In addition to above structure, a function for the production of data and information relevant for the group supervision has also been established, as provided for by Article 215-bis of the Code of Private Insurance Companies.
The rules of the Internal Control System, determined by the Board of Directors, are defined below:

- ensuring the identification, evaluation, management and monitoring of the corporate current and forward-looking risk profile and the compliance with rules and regulations;
- respecting the competences for each corporate role;
- ensuring a proper training;

- defining the workloads over time;
- defining and formalizing clear objectives, roles and activities and responsibilities
- ensuring that the staff at every level is informed on related roles and responsibilities and the activities to be borne also in compliance with the control activities;
- ensuring compliance with the system of powers and delegations conferred;
- ensuring the segregation of roles and the proper management of the conflicts of interests;
- ensuring suitability, availability, traceability and certification of the information.

When defining, implementing and daily managing the organizational structure, such rules must be adopted by the Managing Director, the Management, and, therefore, by the whole company staff operating at the three levels of the Internal Control System.

B.4.2 Compliance Function

The Board of Directors of the Company has established the Compliance Function as integral part of the system of internal control and risk management, whereby it performs second level controls.

The Board of Directors of Yafa S.p.A. approved the Compliance Policy with resolution of 29 March 2017.

The Policy outlines the requirements of the Compliance Function within the Parent Company, in terms of organizational position, requirements, targets, tasks and powers, relations with other corporate functions and reporting, as well as the methods of analysis, monitoring and control aimed at controlling the risk of non-compliance with the law, as described hereunder.

The Compliance Function of Yafa consists of one resource having adequate requirements of independence and is apart from the operational functions, the Internal Audit function and the other Control Functions.

The Head of Compliance, who does not depend on nor runs any operational function, hierarchically reports to the Managing Director of Yafa and functionally to the Board of Directors, to which he/she reports on issues relating to contents and organization of compliance activities.

The Policy provides that the Head of Compliance is appointed and revoked by the Board of Directors of Yafa and must satisfy the fit & proper requirements as set forth by the relevant Policy of the Parent Company.

<u>Objectives and responsibilities</u>

Based on the tasks assigned by the primary legislation (see Article 30-quater of the Code of Private Insurance Companies) and in compliance with Article 23, paragraph 3 of ISVAP Regulation no. 20, within the risk management system and the internal control system, the Head of Compliance is responsible, as outlined in the Policy, for:

- identifying, on an ongoing basis, the laws and regulations that are applicable to the Group, assessing their impact and preparing, to this end, periodic reports for the Managing Director, and functions involved;
- providing advice to the Board of Directors in relation to compliance with primary and secondary rules directly applicable to Yafa, even within the scope of development of significant corporate projects;
- identifying the potential sources and making qualitative and quantitative evaluations relating to the risk of non-compliance with laws with particular reference to Yafa;
- assessing the adequacy and effectiveness of the organizational measures adopted to prevent the risk of non-compliance with the law, by proposing organizational and procedural changes aimed at ensuring an adequate control of the risk;

- assessing the efficiency of the organizational adjustments after suggested changes;
- providing adequate information flows to the corporate bodies of Yafa and the other departments involved and vice versa to the Compliance Function of Yafa;
- providing adequate information flows to the Compliance Function established within the Insurance Company and to the other departments involved;
- providing operational support to the Board of Directors on the checks relating to the existence of adequate technical expertise and the fit & proper requirements in terms of integrity, professionalism and independence of the Board as a whole, with respect to the persons in charge of the administration, management and control functions, the holders of the Control Functions as formalized in the Policy paper pursuant to ISVAP Regulation no. 20;
- conveying and spreading the culture of corporate reputation throughout the organisation, also through training on Compliance and on the internal control system, in order to ensure employees of all levels are adequately informed on the risk of non-compliance;
- ensuring the process of updating and drafting policies with respect to Solvency II, and contributing to update the contents for the parts falling under competence.

Moreover, based on the provisions under the Fit & Proper Policy, the Compliance Function provides operational support to the assessment by the Board of Directors of the fit & proper requirements in relation to the members of the Board of Directors and the Board of Statutory Auditors and the persons in charge of the control functions of Yafa. The Compliance Function also performs an ex post formal control on the documentation provided for further regular checks for the direct subsidiaries of Yafa.

The Compliance Function of Yafa is also entrusted with the role of internal contact person of the Anti-Money Laundering Function, established in the Insurance Company to prevent and fight the violation of rules, regulations and self-regulatory rules on money-laundering and terrorism financing, whose delegation was conferred pursuant to Article 13 of ISVAP Regulation 41/2010, in the person of the Head of Anti-Money Laundering and the Head of suspicious transactions reporting in Vittoria Assicurazione.

Furthermore, with reference to the data protection legislation under Regulation UE 679/2016, the Board of Yafa S.p.A. resolved to entrust the Compliance Function of Yafa S.p.A. with the position as recipient of the regular reporting prepared by the data protection officer and the Privacy Function of Vittoria Assicurazioni S.p.A. in order to prevent and fight any violation of rules, regulations and self-regulatory rules on privacy; in this context, the Head of Privacy (Data Protection Officer) will submit, on a regular basis, to the Compliance Function of Yafa S.p.A. the reporting relating to controls carried out in compliance with the European Regulation, implementing regulations and guidelines issued by the Italian Data Protection Authority (Garante Privacy).

The Compliance Function of Yafa is entrusted with checking, any time there is an outsourcing project, the characteristics of the activities to be outsourced and with overseeing the proper performance of the obligations provided for by the regulatory provisions and internal procedures.

In particular, it is responsible for:

- ensuring the proper identification of the outsourced activities;
- assessing the fairness and completeness of the regulatory aspects of the outsourcing agreements;
- carrying out a census of the outsourced activities by type, as well as of the changes in the agreements.

The Compliance Function of the Parent Company, in relation to the subsidiaries of Yafa, reserves the right, on an annual basis, to check the adequacy of any lists of essential or important outsourced activities and of the details provided.

The Compliance Function of Yafa, as described in IVASS Reporting Policy, is responsible for identifying, on a continuous basis, the rules applicable to the Parent Company and assess their impact on corporate processes and procedures and identify new formalities.

Implementation

In an overall (macro) view, the process of managing the risk of non-compliance is cyclical and the operativeness of the Compliance Function is made up of the macro-phases set forth below:

- Recognition of rules and regulations: aimed at identifying and analyzing the relevant internal and external regulations, including the case law, in relation to the features of the Group's operation and the scope of responsibilities of the Function, also with a forward-looking approach to the expected regulatory changes;
- Risk Assessment: performed starting with the annual Risk Assessment Plan, used to define the scope and ways of controls, in order to operationally assess the potential exposure to the risks of non-compliance, analyze the existing control tools, measure any gaps and evaluate the residual risk;
- Implementation of corrective action: aimed at identifying the organizational and procedural action (measures, procedures and controls) and the mitigation actions that may be necessary to ensure that the level of exposure to risk of non-compliance is in line with the risk appetite defined by the Board of Directors.
  The identified actions are formalized in a plan with details of the implementation methods (methodology, timing, departments involved, departments impacted, roles and responsibilities);
- Monitoring and reporting:
  - Continuing evaluation of the good performance of the Compliance controls, aimed at promptly identifying risks of non-compliance and quantify the significance and sustainability;
  - Follow up of the effective and efficient transposition of the organizational and procedural corrective measures, whose adoption is proposed inside the Action Plan;
  - Identification of information and training needs on compliance and/or on specific regulations, and reporting to management bodies and company departments involved.

The control activities performed by the Compliance Function, within the internal control system and the risk management system, with respect to the control of the risk of non-compliance with laws are drafted, as described in the Policy, in an annual plan and are consistent with provisions under the Risk Management Policy.

In relation to the targets and tasks assigned, the Compliance Function is called upon controlling the following regulatory scope as defined by the Board of Directors and outlined in the Policy:

- national and international supervisory standards,
- privacy,
- outsourcing arrangements,
- public agreements, misleading advertising and antitrust,
- remuneration and incentive policies and practices,
- corporate governance arrangements.

B 5 - Internal Audit Function

The Board of Directors of Yafa S.p.A. has established the Internal Audit Function as integral part of the system of internal control and risk management, whereby it performs third-level controls. In particular, the Board of Directors resolved on the outsourcing of the Internal Audit

Function, appointing a non-executive Director as Person responsible for control over the outsourced activity.
The responsibilities of the Internal Audit Function, objectives, powers and main activity of the Internal Audit Function are defined in the Internal Audit Policy, approved by the Board of Directors of the Company, outlining the methodological principles of the audit activity and relations with corporate bodies and other functions.
The Head of Internal Audit proposes a review of the Policy at least on an annual basis, in order to reflect any changes in the applicable regulation, market practices, internal organization and strategies of the Group. The proposals for change/update to the Policy are submitted to the Director responsible for control over the outsourced activity and proposed to the Managing Director and, then, subject to the Board of Directors of the Company for approval.
Main objectives of the Internal Audit Function are:

- monitoring and assessing the functioning, efficiency and effectiveness of the system of internal control and risk management, as well as the other elements of the governance system;
- identifying the areas of improvement of the internal control system, also through activities of support and advice to the company functions.

In compliance with Article 47 of the Solvency II Directive, the Internal Audit Function is responsible for:

- establishing, applying and maintaining an audit plan indicating the audit procedures to be carried out in the Company in order to check operation and suitability of the internal control and risk management system;
- preparing regular reports for the Board of Directors based on the outcome of work performed within the audit plan, including any findings and recommendations needed to solve the discrepancies. These reports include also an assessment on the suitability of the system of the internal control and risk management;
- promptly drafting reports on particularly relevant events;
- checking compliance with resolutions adopted by the Board of Directors and based on the recommendations included in the report under letter b;
- establishing a program of quality assurance and improvement by which its audit activities can be assessed, and professional growth is fostered, by notifying the Board of Directors of elements that enable to evaluate future performance;
- ensuring, in coordination with the other control functions, an adequate approach of management of risks and controls and a systematic evaluation process of the internal control system. This task shall not impair the independence of the Function.

The Internal Audit Function has the power to freely access, without limitations, all corporate functions, relevant documentation, information systems and recordings relating to the area audited, as well as to all information relevant for checking the adequacy of the controls performed on any outsourced corporate functions. In the performance of its duties, it is also ensured the full collaboration of the heads of the different units.
The Internal Audit Function must be informed of any directive and decision of the Management that may be relevant for its activities. It must also be informed of any significant changes in the processes of risk management, control and governance.
Internal Audit staff adheres to the International Professional Practice Framework issued by the Institute of Internal Auditors. The staff applies and promotes the Code of Ethics of the category and adheres to the principles of integrity, objectivity, confidentiality established by said Code of Ethics.
The Internal Audit Function defines and formalizes the planning of its activities through a group annual plan of activities The Plan is defined through a method of risk assessment that includes emerging trends and risks, significant organizational changes and the main services,

processes, operations, findings of the activities performed recently and the areas of focus on risks or controls.
The audit plan, previously subject to the assessment of the Director responsible for the outsourcing, is approved by the Board of Directors. The approved plan, containing all actions, is brought to the attention of the Managing Director and the Board of Statutory Auditors.
Planned activities are performed in accordance with above plan and may be changed and supplemented by measures required for new needs (at the discretion of the Head of the Function). The plan is then updated by giving the Board of Directors due justification, at the first meeting.
The Internal Audit Functions performs activities of assurance, aimed at assessing whether the processes of risk identification, assessment, management and control and the Company's governance, as designed and implemented by the Management, are adequate and work properly. In the performance of this task, the Function also evaluates the activities of Compliance and Risk Management.
In particular, the assurance actions, as provided for by Article 15, paragraph 3 of ISVAP Regulation no. 20 include at least the verification of:

- the management processes and organizational procedures;
- the regularity and functionality of the information flows among company sectors;
- the adequacy of the information systems and their reliability so that information quality on which the senior management relies its decisions is not impaired;
- the adherence of the accounting administrative processes to correct and regular accounting procedures;
- the efficiency of the controls performed on the outsourced activities.

The Head of Internal Audit submits, at least on an annual basis, the summary report on the audit activity to the Board of Directors and the Board of Statutory Auditors, as well as to the Director responsible for control over the outsourced activity.
Furthermore, the Head of Internal Audit keeps information exchanges with any other body or function to which a specific control function is assigned and can perform advice services.
The advice services performed by the Function provide added value to the Company by advising on the design, functioning and improvement of the Internal Control System. Advice services are performed in an independent and objective manner, without taking any management responsibilities.
The advice services may be provided by the Function in different forms such as participation to projects, advice on new processes, policies, and procedures.
These advice services are formalized and documented, when accepted they shall be included in the audit plan and the recommendations shall be traced and monitored.
In order to ensure autonomy and independence to the Internal Audit Function, the Head of Internal Audit is subject to the Board of Directors that, after favourable opinion by the Board of Statutory Auditors, resolves on the following items:

- approval of the Internal Audit Policy;
- approval of the plan of activities of the Internal Audit Function;

The Head and the staff of Internal Audit adhere to provisions established within the Fit & Proper Policy.
The Director responsible for control over the outsourced activity must meet the same requirements as those provided for the Head of the Function.
In order to ensure the objectivity in the performance of the activities, the Function is free from conditions that may compromise its activity, as it:

- does not have direct responsibility or authority over the areas subject to audit;
- is not involved in any operational activities that might be subject to audit;

- carries out audit activity on an autonomous initiative and is free to allocate the resources available and
- and to apply the most appropriate techniques for the attainment of the targets required;
- is free to formulate and disclose results and evaluations with regard to its specific purposes;
- has access and reports to the Managing Director and the Board of Directors without restrictions.

The Internal Audit Function provides its assessments by means of thorough analyses, impartially and without bias. It also avoids any conflict of interest.

B.6 Actuarial Function

Yafa S.p.A. has deemed to derogate the establishment of an actuarial function, given the presence of one undertaking carrying out the insurance activity and having the actuarial function within the group.

B.7 Outsourcing

The Policy objective is to rule the guidelines to be adopted in relation to the outsourcing of activities and/or functions, by identifying the general principles and criteria used to qualify the activities to be outsourced and to select and assess the provider; the assignment of roles and responsibilities on outsourcing and; the definition of the frequency relating to assessments of the provider performance level and the Service Level Agreement; the statement of willingness not to outsource control functions. The *Service Level Agreements* ("SLA") are agreements whereby the parties define the service conditions the provider must comply with and the performance level that should be granted. Therefore, upon definition of the agreements with the provider of the activity to be outsourced, methods and parameters to assess the performance level are agreed upon, based on shared, objectives and measurable indicators.

The Board of Directors of Yafa S.p.A. invites, by way of the Policy, the Board of Directors of Vittoria Assicurazioni, also acting on the delegation for the exercise of Management and Coordination on its subsidiaries under the Group Regulation, to implement and adopt the guidelines herein by drafting, in compliance with existing rules and regulations for insurance companies and companies issuing listed securities, its own Policy which defines the guidelines and strategies that Vittoria Assicurazioni and its direct subsidiaries adhere to in the outsourcing process of activities and in the relevant identification of the most suitable supplier for them.

Given that the applicability of the Policy is directly assigned to the Parent Company, in order to ensure that its subsidiaries constantly adhere to the existing regulatory framework and contents of the outsourcing policy, as well as for the continuous monitoring of risks linked to outsourcing, Yafa submits the document to the Boards of Directors of the subsidiaries.

The Parent Company, in accordance with provisions under the Policy, can make use of an outsourced activity that must satisfies the general principles of cost-saving, efficiency and effectiveness of the organizational and/or operational and/or production structure of the undertaking also with the aim of improving the corporate processes at group level.

Outsourcing can relate to those corporate activities, processes, functions, services or acts (hereinafter also "activities") normally performed within the Parent Company, that can be autonomously identified and once outsourced do not result in an operational clearing out of the undertaking.

Each Function of the Parent Company are responsible for identifying the specific procedures for managing the outsourcing processes.

The outsourcing of Internal Audit, Risk Management, Compliance is granted to the competence of the Board of Directors and can be performed only by using suppliers with headquarters in the European Economic Area.
In order to ensure the necessary efficiency of the service and the performance of the supervisory tasks of the Authority, the Parent Company defines:

- objectives, methods and frequency of controls,
- means and frequency of the relationships with the Board of Directors and the Managing Director,
- possibility to re-consider the service condition upon occurrence of significant changes in the operativeness and organization of the insurance undertaking.

The outsourcing does not relieve the corporate bodies and senior management of the undertaking of their relevant responsibilities.
The Parent Company identifies within its organization one or more persons responsible for control over the outsourced activities and formalizes tasks and responsibilities. The number of above persons must be commensurate with the nature and quantity of the outsourced activities.
In case of outsourced Primary Functions, both within and outside the insurance group, above persons must have adequate fit & proper requirements as defined by existing legislation.
The Parent Company must appoint a person within the undertaking who is entrusted with the overall responsibility of the outsourced primary function, meets the requirements of professionalism and integrity, and has, with respect to the outsourced primary function, knowledge and experiences so as to enable him/her to critically assess the services and results of the provider. The person appointed must be considered as responsible for the primary function according to the existing legislation, and the name must be notified to the Regulator.

The Policy defines specific qualitative and quantitative criteria to identify the essential or important activities.

The selection of the provider is essential to guarantee good quality levels of the outsourced activity and to pursue cost-effective objectives. Selection criteria identified are mandatory in case of outsourcing of essential or important activities. It is also required that the staff of the supplier participating to the performance of the outsourced activities is qualified and reliable enough.
In case of activities outsourced to Group companies, the verification of the requirements of integrity and economic standing is optional, provided that principles included in the corporate documentation on Related-Party Operations and what is already laid down by this Policy on the Primary Functions are met.

All agreements must also contain clauses/appendices pursuant to ISVAP Regulator no. 20 of 26 March 2008 and the Delegated Regulation (EU) no. 2015/35 of 10 October 2014. The Policy defines also the minimum contents of outsourcing agreements, which must be drawn up in written form, ad hoc, whose content is defined upon their conclusion, according to temporary needs.

The Parent Company ensures that there are contingency or emergency plans within the outsourced projects, i.e. acts to guarantee the business continuity, and that these plans are properly regulated in the contractual relationship with each provider.

In case of early termination of the agreement, according to the nature, scale and complexity of the risks relating to the outsourced activity, some contractual clauses may be provided for,

whereby the supplier is required to ensure its service in relation to the outsourced activities for a definite time so as to enable the Parent Company to have an appropriate period of time to transfer the activities or to identify the internal structures that may manage the previously outsourced activities. These exit plans are concluded to ensure the business continuity and control excessive costs.
The functions of the Parent Company that require an outsourcing service must abide by the guidelines under the Policy and timely notify the Managing Director of the activities that need to be outsourced.
If the activity falls within the activities that can be outsourced, the Compliance Function, in cooperation with the Head of Risk Management, assesses whether the activity is to be classified as “essential or important”.
If the activity is classified as essential or important, the function that needs an outsourced activity informs the Managing Director of that and involves the Compliance function of the Parent Company and the Risk Management function if necessary, for support in the Report on the outsourcing project containing the essential information and the assessment on the outsourcing of the activity in which the organizational, managerial (including the description of emergency plans and exit strategies) and economic aspects leading to this proposal and explain it are outlined. Furthermore, this Report includes the general terms and conditions of the outsourcing agreement.
During the selection, the Function is required to carry out a detailed examination to ensure that the potential supplier has the ability, the capacity and any authorization required by law to perform the activities needed in a satisfactory way, in light of the objectives and needs of the Company.
The Function chooses the most suitable one, ensuring that the service provider meets the requirements of integrity and professionalism and financial strength.

The function that needs to outsource an activity draws up the outsourcing agreement with the support of the Compliance function.
At the end of the process of identification of the essential or important outsourced activities and selection of the supplier, the function submits, in agreement with the Compliance Function, a copy of the Report on the outsourcing project, previously shared also with the Risk Management Function, along with a definitive copy of the contract, to the Managing Director to share it beforehand.
Then, this Report is submitted to the Board of Directors, which is empowered to approve the outsourcing project and authorize the general terms and conditions of the outsourcing agreement. The authorization takes place also upon renewal or subsequent renegotiation of the contract.
The Parent Company remains responsible for the proper execution of the outsourced activities. Furthermore, also after outsourcing the activities, it has the duty to monitor and control the quality of the service provided and the suitability of the service provider.
Detection and periodic assessment of the level of performance of the suppliers is made through the internal officer for controls over the outsourced activity that is the head of the function responsible for the outsourced activity/organizational unit responsible for the outsourced functions.

The Policy establishes then specific provisions on disclosure to the Regulator, Early Termination and Emergencies and dedicated disclosure flows provided for between the Parent Company and the Insurance Company and between them and their direct subsidiaries.

B.8 Other information

There is no information to be reported.

C. Risk profile

The types of risk, to which the Group is exposed, are ascribable to the size of the Group itself, the activities performed, the specific regulations to which each entity is subject and the overall strategies of the Group. The Group's exposure to risk, including any exposure arising from off-balance sheet, is measured with the Standard Formula envisaged by Solvency II regulation.
It should be noted that the risks arising from the specific features and characteristics of the activities of the insurance business fall within the scope of Vittoria Assicurazioni S.p.A., while the rest of risks concern the scope of the whole Group.
As at 31 December 2017, there are no cases of risk transfer through securitization or other Special Purpose Vehicles at Group level.
The risk profile of Vittoria Assicurazioni Group as at 31 December 2017 is well represented by the modular structure of SCR, which enables to understand the significance of risks, as well as the benefits of diversification between modules and sub-modules of risk: this diagram is shown under chapter E.2 Capital Management - Solvency Capital Requirement and Minimum Capital Requirement.

C.1 Underwriting risk

Underwriting risks come from the insurance activity performed by Vittoria Assicurazioni S.p.A. Capital absorption for the underwriting risk is referred to the possible unexpected losses both on the covered risks, and on processes used in the conduct of business.

Non-life health underwriting

Non-life health underwriting risks may depend on an improper structure of pricing and reserving processes (pricing and reserving risk), for example, an inadequate estimate of the frequency and/or severity of claims; they may also depend on the occurrence of extreme or exceptional events (catastrophe risk) or on the particular inflow of lapses by the policyholders (lapse risk).
The pricing risk comes from the possibility that premiums generated by existing contracts do not cover claims and expenses incurred or to be incurred, also in relation to very volatile and particularly expensive events.
The reserving risk arises from the uncertainty of the stochastic nature of claim payment. The lapse risk comes from changes in the renewal rates, in case of contracts with unilateral renewal options available for the contracting party; in other words, it quantifies the fluctuation linked to the possible inadequacy of the estimates on assumptions of discontinuance of the portfolio or changes in the policyholders' behaviours.
Finally, the Catastrophe Risk identifies the risk of losses or increase in technical reserves linked to possible extreme or exceptional events such as natural catastrophes (storm, flood,

pandemic, etc.) or artificial catastrophes (fire, terrorism, other events involving a place where there are many insured parties etc.).

The capital absorbtion is quantified by aggregating the three sub-modules Pricing and Reserving, Lapse and Catastrophe for Non-Life and Health.

Losses determined at sub-module take into account the mitigation provided by the passive reinsurance, where provided for by the Standard Formula.

Life underwriting

Underwriting risks are divided into biometric risks and operational risks. Biometric risks are linked to uncertainty of assumptions on mortality, longevity, morbidity and disability rates used in the process of valuation of insurance liabilities. Operational risks come from the uncertainty linked to expenses and contractual options by the policyholders to reduce, suspend or partially lapse the insurance coverage.

The mortality risk is defined as the risk of loss or adverse changes (increase of technical provisions and the payment of benefits to the recipients) arising from a positive change in the mortality rates. This risk relates to insurance policies subject to mortality risk.

The longevity risk is defined as the risk arising from the decrease in the mortality rates. This change produces an increase in the technical provisions and the payment of the benefits to the recipients for the insurance policies subject to the longevity risk.

Similarly, the disability/morbidity risk is defined as the risk of loss or adverse changes linked to a possible increase in the disability and morbidity rates.

The lapse risk is the risk of loss or adverse changes arising from options offered to the insured parties, whose exercise can change the future cash flows and therefore the technical provisions (termination, surrender, decrease, restriction or suspension of insurance covers, annuity appetite etc.).

The expense risk is related to the risk linked to the change in expenses resulting from the contract management, and aims at covering the risk that the management costs received upon premium collection cannot be sufficient to cover a future expense increase.

Even the Life business provides for the Catastrophe Risk. Particularly, this risk reflects a scenario in which the mortality is subject to one-off increase due to extreme and irregular events.

The capital absorbtion is quantified by aggregating the seven sub-modules Mortality, Longevity, Disability/Morbidity, Lapse, Expense, Revision[1] and Catastrophe.

Losses determined at sub-module take into account the mitigation provided by the passive reinsurance, where provided for by the Standard Formula.

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[1]The revision risk sub-module quantifies the capital necessary against an instantaneous permanent increase of the annuity benefits paid by the Company where the benefits may increase as a result of changes in the legal framework or state of health of the person insured (contractual clause not included in the insurance policies issued by Vittoria Assicurazioni).

Reinsurance

As the only insurance company of the Group, Vittoria Assicurazioni has adopted a reinsurance policy, with the aim of preserving the balance as a whole and for each line of business.

Proportional or non-proportional reinsurance treaties are used according to the retention objectives set forth by relevant policy. Furthermore, the Company uses specific facultative reinsurance contracts to underwrite risks without quantitative and qualitative features falling within the reinsurance treaties.

The Reinsurance Policy of the subsidiary outlines the best criteria for the selection of the counterparties, by previously verifying the credit worthiness and checking any restrictions to procedures of balances settlement, as well as the maximum exposure to a single counterparty or group.

The verification of the efficiency of the risk mitigation performed through reinsurance is carried out when the annual plan of outward reinsurance and half-year changes is defined.

C.2 Market Risk

The main market risks to which the Group is exposed are: interest rate risk, equity risk, real-estate risk, spread risk, currency risk, maturity mismatch risk.

Interest rate risk

The interest rate risk arises from adverse changes and volatility of the interest rates. The Group is exposed to the interest rate risk with regard to the bond portfolio and insurance currency liabilities with Best Estimate methods. After quantifying the basic BOF value as difference between Assets and Liabilities that are sensitive to the spreads, the capital absorbtion corresponds to the worst of the two changes in BOF occurring in two scenarios, where the value of Assets and Liabilities is re-calculated with a spread curve altered with upwards and downwards shocks.

Equity risk

The equity risk reflects possible adverse changes in the level and volatility of the market value of the financial and capital instruments adjusted for the asymmetry of equity prices. The Group is exposed to the equity risk relating to the equities and interests in listed and non-listed companies, OICR units and mutual funds.

In the calculation of the capital absorbtion for the equity risk, the Group considers the “Transitional Measures” provided for by the EU regulation to limit increases in the volatility of the equity markets. These measures enabled to submit all investments in capital instruments, including those present in the Funds, to the capital absorbtion of 22%. This facilitation, which only relates to investments already held as at 1 January 2016, will be phased out in in seven years, re-aligning the capital absorbtion of these investments.

Real-estate risk

The real-estate risk represents the possible adverse changes in the level and volatility of market prices of real estate. The Group is exposed to the real-estate risk with respect to land, property, property rights, held directly and direct or indirect investments in real-estate companies. The real-estate property owned by the Group are included in this type of risk. The volatility of the real-estate markets, within the Standard Formula, determines a capital absorbtion that is 25% of the market value (in this case identified in the appraisal values) of the real-estate investments, regardless of destination and nature.

Spread risk

The spread risk reflects the possible adverse changes in the level and volatility of the credit spreads. The Group is exposed to the spread risk with respect to the bonds, financing, debt funds, non-residential mortgages, and loans. Financing to subsidiaries or associates is included in this type of risk. Government bonds, or anyway connected to them, are not included in this risk. The amount of the capital absorbtion is sensitive to the rating class of the debt and the duration of the securities concerned.

Exchange rate risk

The exchange rate risk arises from the adverse changes in the level and volatility of the exchange rates of the currencies, which affects the value of assets and liabilities of the Group. The exposure to the exchange rate risk is referred to the financial instruments and accounts in foreign currencies.

Concentration risk

The concentration risk measures the additional risks arising from investment portfolios that are particularly focused on some counterparties, by taking into account the significant exposures to the same counterparty or Group to which the counterparty belongs. To this end, activities considered in the spread, equity and real-estate risk sub-modules are examined, with exclusion of the investments in government bonds or in subsidiaries. In the light of the foregoing, the positions on which the capital absorbtion as at 31 December 2017 was calculated, are made up of the investments in Yam Ivest N.V. and Yura International S.p.A., which is part of the equity investments.

Additional information

The “prudent person principle”, set forth by Article 132 of the Directive no. 138/2009 was implemented at governance level by adopting the specific policy for the management of the investments of the Group. Consistently with the overall Risk Management System and with the Risk Appetite, the specific objectives of the investments policy are:

- Ensuring the capital solidity of the Company and the Group with particular focus on safety, quality, liquidity and profitability of the portfolio as a whole;
- Giving preference to continuity of returns over time and in addition, in case of acquisition of investments, the Company can also consider any operational synergies it may benefit at Group level;
- Defining the criteria for selecting the investments and related limits.

The Group's investments portfolio is mainly made up of the investment in Vittoria Assicurazione. As a result, the relevant sources of investment risk to which the Company and the Group are exposed essentially coincide with those reported to the Company. Guidelines are therefore outlined for the Company with information of the investment limit for the sources considered relevant.

In the pursuit of the objectives of an efficient and effective management of investments, the Group assesses the main external and internal factors that may impact on the capital stability and defines limits and instruments for monitoring the risks on the management of liquidity, integrated assets and liabilities management (ALM) and investments activities. Furthermore, given the nature of the investments of the Group, in order to manage and monitor the level of each source of risk deemed relevant, the Group defines specific limits to the concentration risk.

The risk absorbtion relating to the market risk is calculated by aggregating the sub-modules Equity, Real-Estate, Spread, Currency, Interest Rate and Concentration.

C.3 Credit risk

The credit or default risk reflects the possible losses generated by an unexpected default or deterioration of the creditworthiness (rating), of the counterparties and Group's debtors.
The credit risk in the insurance sector is generated by different sources, i.e. events that may concern the specific management, insurance in narrow sense, and the financial management.
The capital absorbtion relating to the credit risk

- *Type 1*: counterparties, aggregated per Group, having a rating that enables to assess the probability of default (credits to insurance or reinsurance companies and balances on bank or post accounts).
- *Type 2*: exposures in which the counterparty is without (policyholders, intermediaries, residential mortgage lending etc.).

The capital requirement considers the default probability of the counterparty (Type 1) and the credit seniority (Type 2).

C.4 Liquidity risk

The liquidity risk reflects possible losses arising from the difficulty of fulfilling the cash commitments, expected or unexpected, owed to counterparties. The risk arises mainly from the "Liquidity Mismatch Risk" (i.e. the mismatch between cash-flows in and the cash-flows out) or by the "Market Mismatch Risk" (the mismatch among flows may arise from an inadequate treasury management, such as the sale of assets at economic conditions and with timing that are not fair).

Specifically, the liquidity risk of the Group arises from:

- Management of insurance and reinsurance assets, in particular linked to the risk that the reinsurance contractual counterparty to which the Company is exposed cannot fulfil obligations entered into;
- Management of the debt financing, with the risk that the Company cannot fulfil existing obligations because of insufficient resources;
- Management of investments, including the liquidity risks connected to those assets that may potentially become illiquid and lead to unexpected losses from disinvestment.

The Standard Formula of Solvency II does not provide for a capital absorbtion for the liquidity risk.

C.5 Operational risk

The Operational Risk is defined as the risk of losses due to the inadequacy or dysfunction (shortcomings or errors) of internal processes, human errors or of systems or external events. Operational risks, inevitably included in the business, may arise from internal factors (inefficiency, inadequacy, internal fraud, etc.) or external factors (external fraud, outsourcer's activity, etc.).

Similarly, this sector includes the risks relating to non-compliance with law, reputational risks and contagion risk.

In compliance with the EU regulation, the Group determines the capital absorbtion relating to the operational risk according to the Standard Formula. Furthermore, analyses of potentially significant scenarios for the Group are performed.

C.6 Other material risks

Concentration Risk of the Group

The Concentration Risk is defined as the risk arising from exposures to the same party, groups of parties interconnected and parties of the same economic sector or performing the same business or belonging to the same geographical area (so-called "geo-sectorial" Concentration Risk).

The Group assesses and manages the risk concentration by considering:

- direct and indirect risk exposures of each company of the Group towards external counterparties that may cause losses so as to endanger the solvency and financial condition of the Group or substantially change the risk profile;
- the exposures are analyzed within the context of individual risk factors or factors of risk closely connected to be included in the overall assessment of the risk profile of the Group;
- concentrations may arise in the assets, liabilities or off-balance sheet items of the Group.

The Parent Group identifies the significant risk concentrations, as under IVASS Regulation no. 30, in 5% of the Solvency Capital Requirement.

C.7 Other information

Both the Group and the Company carry out periodic assessments of stress tests by quantifying possible impacts due to the occurrence of adverse scenarios, caused by external phenomena or regulatory changes. Below is the list of scenarios used in the Group ORSA:

- Persistency of very low interest rates (“Low Yield”);
- Consistent increases of the credit spreads on the financial activities, with significant impact also on the equity and real-estate market (“Double Hit”);
- Assumption of increase in the frequency of MTPL claims for the next following financial years;
- Assumption of catastrophic event accompanied by default of the main reinsurer of the reinsurance program;
- Assumption of deterioration of Group reputation, which may lead to a decrease in the premium income and increase in the operational risks.

For each scenario, the Group assesses its impact and checks compliance with the limits set forth by the *Risk Appetite Framework* adopted.

D. Valuation for solvency purposes

General principles

For the purposes of preparing the Solvency II financial statements, assets and liabilities are accounted for in compliance with Article 75 of the Directive, whereby:

a) assets shall be valued at the amount for which they could be traded between knowledgeable willing parties in an arm's length transaction;

b) liabilities shall be valued at the amount for which they could be transferred, or settled, between knowledgeable willing parties in an arm's length transaction.

In particular, these items were assessed according to the international accounting standards adopted by the Commission under Regulation (EC) no. 1606/2002, where compatible with Solvency II regulation.

The Company has not used criteria of valuation that are not allowed by Article 16 of the Delegated Acts.

As better described under paragraph A1.6 herein, consolidated assets and liabilities valued according to Solvency II criteria, differ from corresponding IAS/IFRS values as at 31 December 2017, for the different valuation criteria, and for the different area of consolidations considered for the purpose of calculating the Group solvency, compared to the one for the purposes of consolidated financial statements.

Fair value hierarchy

In identifying the fair value levels, the following hierarchy was taken into account:

1. assets and liabilities are valued with listed prices in active markets for the same assets and liabilities, if any;
2. when the use of listed prices in active markets for the same assets and liabilities is not possible, assets and liabilities are valued using prices that are listed in active markets for similar assets and liabilities with adjustments to reflect the differences;
3. where the two previous methods cannot be applied, the Company avails itself of alternative valuation methods.

Factors for determining an active market are, in order:

a. Trading volume;
b. Trading frequency;
c. Market participants' willingness to trade the asset at market prices.

When using alternative valuation methods, the Group relies on valuation techniques that are consistent with one or more of the following approaches:

- **Market approach**, which uses prices and other relevant information generated by market transactions involving identical or similar assets, liabilities or a group of assets and liabilities;
- **Income approach**, which converts future amounts, such as cash flows or income and expenses, to a single current amount. The fair value reflects current market expectations about these future amounts;
- **Cost approach or current replacement cost approach**, which reflects the amount that would be required currently to replace the service capacity of an asset. From the perspective of a market participant seller, the price that would be received for the asset is based on the cost to a market participant buyer to acquire or construct a substitute asset of comparable quality adjusted for obsolescence.

When using alternative valuation methods, the Company defines, chooses and makes the maximum use of relevant market inputs, including:

- quoted prices for identical or similar assets or liabilities in markets that are not active;
- inputs other than quoted prices that are observable for the asset or liability, including interest rates and yield curves observable at commonly quoted intervals, implied volatilities and credit spreads;
- market-corroborated inputs, which may not be directly observable, but are based on or supported by observable market data.

Insofar as relevant observable inputs are not available, including situations of low activity of the market for the asset or liability as at the date of valuation, non-observable inputs are used that reflect the assumptions that the market operators would use to set the price of the asset or liability, including the assumptions on the risk.

The valuation can be performed internally or by relying on appraisals drawn up by external independent experts.

When making valuation of assets and liabilities, **separately for each class,** the Company applies the principle of **materiality** and **proportionality** of data, as set forth by the Delegated Acts.

The valuation is performed as a **going concern**.

Assets and liabilities of the group were aggregated in the different classifications provided for the Solvency II Regulation, given the nature and risks relating to each item. In particular, the plan of the consolidated financial statements, drawn up according to IAS/IFRS standards, was reviewed in order to identify the homogenous indicators based on the features of each item.

D.1 Assets

(€/000)

Assets	Consolidated value IAS/IFRS accounting standards	Consolidation differences	Reclassifications	Accounting policy differences	Consolidated value Solvency II
Goodwill	21,862	-	-	(21,862)	-
Intangible assets	15,901	(1,795)	-	(14,106)	-
Deferred tax assets	91,865	(296)	-	21,158	112,727
Property	660,804	(42,044)	-	75,556	694,316
Participations	162,022	70,574	-	(285)	232,312
Equities, Bonds and Other investments	2,591,196	(41,542)	-	6,940	2,556,595
Assets held for index-linked and unit-linked contracts	76,238	-	-	(13)	76,225
Reinsurance recoverables	63,263	-	-	(15,827)	47,436
Receivables and other assets	429,888	11,626	(173,939)	315	267,890
Cash and cash equivalents	119,288	(938)	-	-	118,350
Total assets	**4,232,327**	**(4,414)**	**(173,939)**	**51,878**	**4,105,852**

Valuation method

A. Intangible assets

For the purposes of Solvency II, the value of the intangible assets, including goodwill, deferred acquisition costs, as well as other intangible assets not tradeable in active markets, is set to zero, as not tradeable on an active market. When an item of the other intangible assets is tradeable on active markets, this is valued on Fair Value.

In the IAS/IFRS consolidated financial statements, the goodwill is subject, on an annual basis, or more frequently if specific events or changed circumstances may require this, to checks to identify any impairment in the value, as provided for by IAS 36 "Impairment of assets". After initial recognition, the goodwill is valued at cost less any accumulated impairment losses. Deferred acquisition costs are accounted for by adopting the provisions set forth by the local accounting standards, as established by IFRS 4. The other intangible assets are recorded under assets, according to IAS 38.

B. Deferred tax assets

The item refers to tax assets detected in the balance sheet, supplemented with the differences arising from Solvency II valuations.

Differed taxes are due to:

- Temporary differences, i.e. mismatch between the moment when a component of expenses or income is entered in the balance sheet and the related taxability or deductibility;
- Differences between the values recognized for tax purposes and the book values ascribed to assets or liabilities in the balance sheet or the statement of assets and liabilities prepared with Solvency II accounting standards;
- Any benefits on previous tax losses.

Differed taxes are calculated according to tax rates in force in the financial year in which the reversal of differences is provided for, given the rules issued as at the date of drafting of the financial statements, by taking into account the specific tax regime applicable to the different items of the balance sheet.

The deferred tax assets are recorded to the extent that there is the reasonable assurance of adequate future taxable income in the years in which the deductible temporary differences come due.

In particular, it is expected that deferred tax assets, net of the DTL transfers, are recovered as follows:

- Within 1 year: 28%;
- from 2 to 5 years: 56%;
- over 5 years: 16%.

There are no unused tax losses or tax credits for which no deferred tax asset is found.

In the consolidated financial statements, this item includes assets relating to differed taxes, as defined and regulated by IAS 12.

C. Property

Assets included in this category are valued to fair value, according to alternative methods under the above fair value hierarchy. The valuation is based on opinions drawn up by external independent experts, which according to the real estate breakdown are based on:

- Owner-occupied property: comparative method and income method of direct capitalization;
- Investment property: income methods of real estate appraisal and valuation and discounted cash flow. In particular, the discount rate is the weighted average capital cost (WACC) which takes into account a debt ratio of 50%, assumptions of future inflation and return on government bonds.

For the purposes of the consolidated financial statements, the capital property, in accordance with IAS 16, is carried at its cost of purchase or production less any accumulated depreciation and any accumulated impairment losses. Costs are included where directly attributable to making the asset fit for use, according to company requirements.

As provided for by IAS 36, at least once a year the existence of any impairment of assets is verified, by identifying as impaired the asset whereby the carrying amount exceeds the recoverable amount.

Investment property is measured at cost in accordance with IAS 40, using the criterion of the depreciation as under IAS 16.

The useful life for the purpose of depreciation is thirty to fifty years.

Plants and equipment classified under these items have been valued in compliance with Article 75 of the Directive.

D. Investments

The item includes the investments in subsidiaries, associates and joint ventures, i.e. holding directly or by way of control, 20% or more of the voting rights or the share capital or a dominant or significant influence.

The classification between subsidiaries and associates reflects the presence of control or significant influence on the investee companies, respectively.
As these investments are not listed, the value for Solvency II was determined by using the adjusted equity method (pursuant to Article 13 of the Delegated Acts), whereby the undertaking is required to value its investments based on the share of the excess of assets over liabilities of the investee company, by valuing each asset and liability recorded in the financial statements of the investee companies with Solvency II criteria.
For non-significant investments in associates, the valuations were performed under consideration of the proportionality principle.

In the consolidated financial statements, the item includes the equity investments other than those fully consolidated, valued at equity or at cost.
In determining the investment relationship, the definitions of control, significant influence and joint control were used.

E. Equities, bonds and other investments

Equities, bonds and investment funds **listed** are valued to the market price traded on active markets, of the last available trading day.
With particular reference to the Investment Funds, the Fair Value is represented by the value of the equity published and, if not available, valued using the last value of the equity available, including instalments or reimbursements issued in the reference period.

Valuation applied to **unlisted** shares and bonds was carried out as follows:

- Unlisted equities: for unlisted capital equities, but for which transactions in liquid markets take place, the Fair Value is measured on the basis of prices of recent transactions;
- Unlisted bonds: in case of bonds unlisted on regulated markets, the Fair Value is measured alternatively as follows:

  1) on the basis of prices of recent transactions, if transactions are carried out in liquid markets;
  2) on the basis of the observation of the market prices of similar instruments;
  3) using the cost net of any impairments cumulated for bonds of non-significant value.

In order to mitigate the impact of the main uncertainties, Yafa S.p.A. checked that the securities available in the portfolio are traded in an active and liquid market.
Unlisted equity investments are mainly referred to shares held in the company Yam Invest N.V. and in the company Nuove Partecipazioni S.p.A. for which an opinion drawn up by independent experts was used, which determined a maximum and minimum range of value, inside which the fair value was placed, that was 65,655 thousand euro for Yam Invest N.V., and 39,673 thousand euro for Nuove Partecipazioni S.p.A. as at 31 December 2017.
Valuation methods applied are:

- The Sum-of-the-Parts Method (“SOP”), whereby the economic value of a company is determined by estimating the value of the individual assets making up the share capital and deducting the related liabilities and the so-called holding costs;
- The Simple Equity Method based essentially on the principle of the statement, at current values, of individual assets which make up the share capital of the company and update of liabilities.

As for the stress tests adopted by the Company, please refer to the following chapters: “*B.3 Management risk system, including Own Risk and Solvency Assessment (ORSA*)”.

For the purposes of the consolidated financial statements, bonds are valued at fair value or at depreciated cost according to relevant classification. The undertakings of collective investments (UCIs) are entered at fair value, represented by the value of share. Capital instruments are valued with the same criterion used for Solvency II purposes.

F. Assets held for index-linked and unit-linked contracts

These investments are related to insurance policies with risk borne by the Life policyholders and are valued at the price and exchange rate of the last trading day of the year, both for Solvency II purposes and for the individual balance sheet.

G. Amounts recoverable from reinsurance

Similarly to what happens to the technical provisions of direct and indirect business, reinsurers' and retrocessionaires' shares are redrafted, against the balance sheet, with the Solvency II criteria, that take into account the expected financial flows related to the recoveries on the obligations of the direct and indirect business, discounted on the basis of the Volatility Adjustment curve.

H. Receivables and other assets

This item is valued according to provisions under the Article 75 of the Directive.
In the consolidated financial statements, financing is valued at depreciated cost by using the criterion of the effective interest. Receivables are entered at their nominal value and, as at each reporting date, aligned with their estimated realizable value. This item includes the amounts to be recovered by Policyholders and third parties for claims payments on policies with "no claims bonus" clause, deductibles and subrogations, which for Solvency II purposes are reversed from the assets, as already included in the Best Estimate calculation. In the consolidated financial statements, the item includes also the offsetting item of the obligations of the Parent Company and Vittoria Assicurazioni S.p.A. for payments destined for financing alternative investments in transactions of private equity, private debt and infrastructure funds of 149,826 thousand euro. Related obligations are entered among the other liabilities.

The other assets of the consolidated financial statements include mainly accrued income and prepayments, referred to miscellaneous revenues and general expenses.

I. Cash and cash-equivalent

Available balances are recorded, both for Solvency II purposes and for the consolidated financial statements, at the nominal value. Balances of currency accounts are calculated at the exchange rates at the end of the period.

There are no financial or operating leases.

D.2 Technical provisions

D.2.1 Technical provisions: value for material asset area

Please refer to quantitative models S.12.01.02 and S.17.01.02, attached hereto, which show the value of Life and Non-Life technical provisions, respectively, for each area of asset separately.

D.2.2 Technical provisions: main bases, methods and assumptions used for the solvency assessment

Composition

Solvency II regulation provides that all items are reported on the balance sheet at the fair value.
In this case, the Technical Provisions can be calculated **as a Whole** according to the market value of financial instruments used.
For all other technical provisions, the Solvency II regulation provides that the market value is determined as the sum of Best Estimate and Risk Margin.
The **Best Estimate** is determined by the discounting of all expected cash outflows (net of cash inflows), without prudent elements provided for by the current local GAAP and supervisory regulation: ultimate cost (Claims Provision), premium linear deferral (Premium Provision) and usage of prudential technical bases (Mathematical Provision).
Discounting is carried out using risk-free rates and **Volatility Adjustment**.
The Best Estimate is not the market price to which obligations to policyholders could be transferred, insofar as, just because of the lack of prudency required for its calculation, the potential acquirer of the liabilities would have the same probabilities (50%) to yield a profit or a loss from the settlement of acquired obligations.
For this reason, the Best Estimate is integrated by the **Risk Margin** that, in the context of transferring insurance liabilities, represents the “risk remuneration” required by the acquirer in order to take the risk that the Best Estimate is insufficient.
The Risk Margin is equal to the remuneration of the Own Funds that the acquirer of insurance liabilities must hold to cover the SCR needed till complete payment of the liabilities. The quantification method is defined as “Cost of Capital Cost” and the rate of return on capital is defined by supervisory regulation.
The method applies also consistently with the provisions and reinsurance Recoverables.

Best Estimate

Financial flows provided for in relation to the settlement of Technical Provisions (payments for claims, expenses, etc. gross of premium receipts, recoveries etc.) are calculated gross and net of the reinsurance recoveries and discounted with the EIOPA curve.

Non-Life Best Estimate: Claims and Recoveries, Direct and Indirect business, gross of the reinsurance:

<u>Claims provision Direct Business (claims reported and IBNR):</u> for all Homogeneous Risk Groups (HRG) the Run Off triangles as at the observation date they are analyzed. For the HRG with higher historical background, the model was subject to the right calibration, and therefore it is used to evaluate the Claims Best Estimate (both in terms of amounts, and of years, in which payments are expected to be made).
For the HRG for which the Chain Ladder outcome provides an unreliable estimate as the evolution ratios have an unstable trend, the simplified method is used by approximating the Claims Best Estimate directly with the balance sheet provision, that is changed in the financial flows expected for the following years using the related settlement speed observed in the recent years. This simplification was used for the LoB 9 and 12.

Sums to be recovered from policyholders or others – direct business: for the more significant HRG, the estimate was made applying a percentage vector to the future payment flows estimated for the Claims Best Estimate and IBNR; the percentage, on each HRG, was chosen by comparing the historical arrays of payments with those of the recoveries carried out.
Open claims – Indirect Business: the amount is estimated for each HRG using the balance sheet amounts, developed in the future years with the related settlement speed observed in the recent years.

Non-Life Best Estimate: Claims and Recoveries, Direct and Indirect business, recoveries borne by Reinsurers:

Open claims (retroceded business): this component is estimated by applying to the Best Estimate "Claims provision Direct Business (claims reported and IBNR)" the same proportion available, for each HRG, between direct and ceded business available on the sums paid and budgetary provisions.
Sums to be recovered (ceded business): this component is estimated by applying to the Best Estimate "Sums to be recovered from policyholders or others – direct business" the same proportion available, for each HRG, between direct and ceded business available on the balance sheet sums to be recovered.
Open claims (retroceded business): currently this item refers only to claims on guarantees on "Aviation hulls", included in the LoB 6 (Maritime, aeronautics and transport insurance), and is estimated by using the balance sheet data.

Non-Life Best Estimate: Premium Provision, Direct and Indirect Business, gross of reinsurance:

Premium provision – direct business: the Premium Best Estimate is calculated by valuating separately the cash inflows ("IN") and outflows ("OUT"):

Cash IN:

- Instalments: consisting of the infra-annual premium instalments that will be issued after the reporting date on the contracts in force as at the observation date;
- Receipts on existing multi-year contracts as at the observation date. The related estimate is made by calculating the premium that is expected to be received from the following year till the maturity year, disaggregated for each specific guarantee (and hence per line of business) as well as per collection year.

  Future projections are eliminated in order to consider the probability of contract termination by the policyholders after the first 5 years of the contract itself, also according the relevant regulations ("Bersani Law").

Cash OUT:

- Claims and related expenses estimated for the year(s) following to that of observation, for the contracts in force as at the date, covered by premiums already issued by the Company: the amount is approximated starting from the amount "Provision for unearned premiums" of the balance sheet, gross of the acquisition costs, to which the historical Loss Ratios observed for each HRG is applied.

  The flow is developed in the future years using, for each HRG the settlement speed found in the historical trends and already used for the calculation of flows of the Claims Best Estimate.
- Claims and related expenses estimated for the year(s) following that one of the observation for the contracts in force as at the date and related above mentioned Instalments: the amount is approximated, for each HRG applying the historical Loss Ratios observed for the "Instalments". The flow of resulting amounts is developed in the future years, for each HRG the settlement speed found in the historical trends and already used for the calculation of flows of the Claims Best Estimate.
- Acquisition costs on the instalments: it is the acquisition costs provided for the year following the one of observation for contracts in force as at the date and related above mentioned Instalments.

- Claims and expenses (including acquisition costs) linked to receipts on multi-year contracts, in force as at the date of observation, that the Company estimates to collect from the year following the one of observation. Expected claims are estimated applying to the cash flows expected in the future years, the budget Combined Ratio for each HRG.

Premium provision – ceded business: the Premium Best Estimate of the direct ceded business is calculated applying to the Best Estimate of each component calculated on the direct business the ceded percentage observed in the balance sheet for the related HRG.

Premium provision – indirect business and retroceded indirect business: for the indirect business, the estimate of the Cash Flows is made by considering only the claims component arising from the Unearned Provision in the balance sheet. The flow of resulting amounts is developed in the future years using the settlement speed found in the historical trends and already used for the calculation of flows of the Claims Best Estimate.

Life Best Estimate: Technical Provisions, Direct and Indirect Business, gross of reinsurance:

For the calculation of the gross Best Estimates the actual value of future inflows and outflows produced by the contracts is used, by separately elaborating the flows gross of the reinsurance from the flows arising only from the reinsurance.
The future cash flows of the Life contracts are projected till complete extinction of the portfolio, assumed to be in 30 years, by a calculation tool that uses reliable, realistic and entity-specific information and assumptions on the behaviours of the policyholders (surrender appetite, decrease, annuity conversion, maturity extension, increase or decrease of premiums etc.), on the demographic trends (mortality) and on the other significant factors (expenses, reinsurance, forward-looking expected returns on the Separate Management Accounts, guaranteed minimum returns, etc.).
Cash inflows include:

- premiums;
- recoveries arising from the reinsurance.

Cash outflows include:

- benefits payable for death;
- payable for disability;
- payable for redemption;
- payable for surrender;
- payment for annuities;
- administrative costs (commissions and costs directly linked to the management of the policies);
- payments to reinsurers.

Linked policies

As for the so-called Linked policies, whose benefits are linked to indexes or other financial instruments and the financial risk is borne by the policyholders, the Company has evaluated that the contractual forecast of cost application in case of surrender, the presence of management commissions commensurate to the share value, along with the management expenses, ensure that, for these types of policies, the valuation with the As a Whole method is not enough accurate.
The Best Estimates of said policies benefits are calculated using the rates of the risk-free curve provided by EIOPA as expected annual returns of the underlying assets, also for the discounting of the projected cash flows.
This projection method is subject to back-testing in order to check that the processing of cash flows in a scenario without surrender costs, commissions and management costs, leads to values that are in line with the As a Whole provisions.

Counterparty default adjustment

Technical specifications require that the overall amount of the Best Estimate of the technical provisions borne by the Reinsurers is adjusted to take into account the possibility of default by the counterparty.
As for the Non-life component, the adjustment was calculated using the simplified approach proposed by the regulation (Article 61 of the Delegated Regulation (EU) 2015/35) which considers the exposure to each counterparty according to the related Credit Quality Step.

Risk Margin

The Risk Margin is the part of technical provisions that quantifies the amount that is to be added to Best Estimate of the Technical Provisions to determine the overall amount that the Company should pay to another Company to transfer all existing contractual obligations.
The calculation method for the Risk Margin is the Cost of Capital (COC), that is calculated taking into account that who takes over in the obligations of a company transferring its technical provisions (in run-off events) must have a determined supervisory capital (destined for being gradually freed based on the technical provisions run-off), and that the availability of this capital is to be remunerated.
The COC is valued separately for the Life and Non-life technical provisions.

<u>Calculation of Non-life Risk Margin</u>

The regulation requires that the calculation is made by estimating the SCRs of all future years till the complete run-off of the portfolio and assuming an annual cost, resulting from the figurative remuneration at 6% (rate set by EIOPA); the Risk Margin is equal to the sum of all annual costs, discounted at the date of observation.
As it is not possible to make directly the calculation of the SCRs of the future years, one of the simplified method proposed by EIOPA was used, namely to approximate the future SCR by using a constant proportion against the Best Estimates.

Starting from the Best Estimate at the relevant date, the applicable SCRs (Non-life, Health, Default Type 1 and Non-life component of the Operational Risk) were calculated and the projected Best Estimates for the following 16 were discounted, by assuming that future SCRs decrease compared to the original SCR at the same rate as the Best Estimates decrease.
Future SCRs obtained have been discounted and, on the capital total used overall for the run-off of technical provisions, the 6% of COC was calculated, by getting the overall Risk Margin, that was given to the LOBs as a proportion of the related contribution to Non-Life and Health SCR.

<u>Calculation of the Life Risk Margin</u>

The Life Risk Margin is calculated by adopting, among the different simplified methods proposed by EIOPA, the one that implies the constancy in the years to come of the ratio between SCRs (Life SCR and Life component of the Operational Risk) and the Best Estimate.
Based on this assumption, the SCR amount relating to the current portfolio at the end of each year of projection is estimated by applying said ratio to the Best Estimate calculated at that time.
The sequence of future SCRs so set is therefore discounted with curve of risk-free rates and without volatility adjustment. The application of the capital cost of 6% to this amount results in the Risk Margin, which was assigned to the LOBs as a proportion of the related contribution to the Life SCR.

D.2.3 Uncertainty level associated to the value of the technical provisions

Non-Life

The uncertainty degree of the assessment of technical provisions is associated to the "model risk", i.e. that the method of calculation, albeit appropriate, includes a deterministic method having predictive nature.
The main factors influencing the estimates (and the related recoveries from reinsurers) are the frequency of claims, the settlement speed, the growth and mix of portfolio, the reinsurance policy and the discounting rate curve.

Life

The most significant uncertainty factors in setting the technical provisions include the accuracy of statistics on the trends of the insurance policies in portfolio both demographically and with respect to the behaviour of the policyholders (tendency to surrender, annuity conversion etc.), the financial variables (i.e. the discounting rates of the future cash flows), and the possible interactions between the market trends and the behaviors of the policyholders.

D.2.4 Difference between Solvency II valuation and consolidated financial statements

Main bases, methods and assumptions used for the valuation for the purposes of consolidated financial statements – Qualitative differences

Technical provisions in the consolidated financial statements consist of:

Non-Life Business:

Items	Valuation
Premium provisions	The premium provisions consist of: • Pro-rata temporis provisions, determined by calculating, for each contract, based on recognized gross premiums net of direct acquisition costs, the part of relevant premium of the period after the end of the financial year; • Provisions for ongoing risks, calculated by estimating the amount of any risk surplus provided for on the insurance policies in portfolio compared to the provision for part of premium with future premiums, net of acquisition expenses;
Claims provisions	The claims provisions represent the prudent valuation of compensations and settlement expenses estimated for claims occurred and not yet paid, wholly or partially, as of the date of the balance sheet date, based on all components forming the requirement for coverage of the claim's ultimate cost. "Ultimate cost" means the estimate of all foreseeable costs based on a prudent assessment of factual evidence (document examination) and forecasts (expected claims settlement time frame and related inflation rates), not discounted.
Other non-life technical provisions	The other technical provisions include the ageing provision for health insurance that, in setting premiums, do not take into account changes in the policyholder's age and contain clauses that limit the Company's ability to withdraw.

The estimate is based on a comparison between estimated cash inflows (premiums) connected to contracts and estimated cash outflows (claims and expenses), by setting aside 10% of gross premiums written on these contracts. The LAT provision (Non-Life Business) refers to provisions for liability adequacy test.

Life Business:

Items	Valuation
Mathematical provisions	The life business technical provisions are calculated on the basis of the pure premiums and actuarial assumptions deemed to be appropriate as at the date of contract conclusion. For the revaluable insurance policies, the calculation of mathematical provision is based on the revaluation obtained through the rate of return determined on the basis of the related investments for the provisions themselves. The premiums-carried-forward component of mathematical provisions is calculated on a pure-premium basis. The mathematical provision is never lower than surrender value.
Complementary insurance premium provisions	The premium provision for complementary accident insurance is calculated analytically by applying the premiums-brought-forward criterion to the related pure premiums.
Profit participation and reversal provisions	Profit participation includes all amounts pertaining to the year, paid and to be paid to policyholders or other beneficiaries, including amounts used to increase technical provisions or reduce future premiums, provided that they result in the allocation of technical profits arising from both Life and Non-Life insurance management activity. Reversals consist of the amounts that are partial rebates of premiums made on the basis of each contract’s performance.
Other technical provisions	The other technical provisions include the provision for management expenses, calculated on loading for management expenses and on the other technical bases of the insurance pricing applied. They include the deferred liability provision to Policyholders (Life business) which specifies the share of unrealized profits and losses attributable to the Policyholders “Shadow Accounting”. The LAT provision (Life Business) refers to provisions for liability adequacy test.
Provisions relating to contracts whose performance is connected with investment funds or and market units and resulting from the management of pension funds	The provisions relating to unit-linked contracts and pension funds were calculated based on the contractual obligations, both of the financial assets linked to these contracts and cover the commitments from Life Business insurance whose return is determined based on the investments for which the policyholder bears the risk or based on a unit.

Additional provisions for financial risk	Provision for guaranteed interest rate risk: the valuation of the creation of this provision was performed for the separate managements deemed as significant and, starting from the determination of foreseeable returns of each of them, through ALM methodology. In relation to the contracts with guarantees not associated to separately managed accounts, the valuation was carried out by applying an actual and foreseeable return, calculated as weighted average of the returns of the different separately managed accounts, to the flows of liabilities. Provision for time-lag: said provisions is created when there is time-lag between the period in which the return reached maturity under the contract, and the time when the same return was acknowledged to the insured; this comes from contractual conditions providing for the use of certified rates in time before the time of acknowledgement.
Additional provisions other than the provisions for financial risk	Provision for demographic risk: the valuation of this amount was made by re-calculating for each contract some technical provisions using the demographic base IPS55 and considering the difference compared to the level 1 technical provisions. The additional provision for each contract was therefore measured by applying the ratios of contract settlement in form of annuity to the annuity tariffs, and the ratios of conversion of capital into annuity to the capital tariffs. For the forms of annuities existing in the portfolio as at the date of this report, an additional provision was considered to adjust said mathematical provisions to the level 2 demographic base.

Quantitative differences between valuation for Solvency II purposes and values of consolidated financial statements

Technical provisions – Non Life (€/000)

Item	Solvency II value	Statutory accounts value	Change
Technical provisions - non-life	**1,464,016**	**1,546,277**	**-82,261**
Technical provisions - non-life (excluding health)	**1,409,295**	**1,462,452**	**-53,157**
Technical provisions calculated as a whole	-	-	-
Best Estimate	1,322,546	1,462,452	-139,906
Risk margin	86,749	-	86,749
Technical provisions - health (similar to non-life)	**54,721**	**83,824**	**-29,103**
Technical provisions calculated as a whole	-	-	-
Best Estimate	48,27	83,824	-35,554
Risk margin	6,45	-	6,45

The difference between the Solvency II valuation and the individual balance sheet values of non-life technical provisions is not due to the different nature of valuations.
In particular:

- As for the premium component, the provision, valued according to the Best Estimate, represents an estimate of the financial flows expected for the future years on existing contracts. This estimate is made by separately assessing claims and premiums expected on these contracts starting from the year after the valuation date. But the premium provision in the consolidated financial statements is calculated starting from the linear rediscount of the premium portion of these contracts.

- As for the claim component, the Best Estimate valuation is without prudential rules that are considered in IAS/IFRS valuations.

Moreover, for both components the expected future flows are discounted using the Risk-Free curve plus the Volatility Adjustment.

(€/000)

Technical provisions - non-life	Solvency II value	Statutory accounts value	Change
Premium reserve:pro-rata temporis basis and additional reserves Premium best Estimate	308,299	398,151	-89,85
Claims reserve * Claims best Estimate	1,062,518	1,123,604	-61,09
Other technical reserves (aging reserve)		409	-409
Equalisation reserves		-	-
Risk Margin	93,199		93,199

(*) This item is shown net of "Receivables due from policyholders and third parties for recoverables" amounting to 24.090 thousand euro.

The Best Estimate of the Premium provision is lower than 22.6% compared to balance sheet data; similar change in the Claim Provision is -5.4%. The Risk Margin is 6.8% of the Best Estimate.

(€/000)

Item	Solvency II value	Statutory accounts value	Change
Technical provisions - life	**1,269,390**	**1,279,127**	**-9,737**
Technical provisions - health (similar to life)	**3,088**	**3,281**	**-194**
Technical provisions calculated as a whole	-	-	-
Best Estimate	3,088	3,281	-194
Risk margin	-	-	-
Technical provisions — life (excluding health and index-linked and unit-linked)	**1,198,793**	**1,199,270**	**-477**
Technical provisions calculated as a whole	-	-	-
Best Estimate	1,184,538	1,199,270	-14,732
Risk margin	14,255	-	14,255
Technical provisions — index-linked and unit-linked	**67,51**	**76,576**	**-9,067**
Technical provisions calculated as a whole	-	-	-
Best Estimate	67,123	76,576	-9,453
Risk margin	386	-	386

The difference between the Solvency II valuation and the balance sheet values of the technical provisions is mainly due to the methods of estimate, projection and discount of the expected financial flows, as further specified:

- Projection of revaluations of benefits of the revaluable policies based on the vector of “risk neutral” expected rates, that do not include the extra-return arising from holding financial instruments with expected returns that are higher than the risk-free curve, rather than being based on a vector of “real world” expected rates;

- Usage, in Solvency II, of technical bases of second level instead of first level (demographic tables, assumptions of behaviors of policyholders, costs of portfolio management etc.);

- Discounting of future benefits as calculated with Volatility Adjustment curve, significantly lower than the technical rates used for the related discounting for balance sheet purposes.

Within the valuation of Life technical provisions, the Company determined future returns based on existing portfolio as of the valuation date giving to assets of future acquisition, a profitability in line with the risk-free interest rate curve notified by EIOPA. No operations aimed at sharing theoretical risk market losses among Life policyholders have been assumed.

Using the Risk-Free curve without the Volatility Adjustment, the values would be the following:

Life technical provisions: 1,272,678 thousand euro
Non-life technical provisions: 1,465,904 thousand euro
Net differed tax assets: 10,280 thousand euro

D.3 Other liabilities

(€/000)

Other Liabilities	Consolidated value IAS/IFRS accounting standards	Consolidation differences	Reclassifications	Accounting policy differences	Consolidated value Solvency II
Provisions other than technical provisions	16,585	-	-	(641)	15,944
Pension benefit obligations	7,913	-	-	-	7,913
Deposits from reinsurers	6,418	-	-	-	6,418
Deferred tax liabilities	47,113	(426)	-	56,997	103,683
Insurance & intermediaries payables	33,471	-	-	-	33,471
Reinsurance payables	8,676	-	-	-	8,676
Debts owed to credit institutions	13,164	(3,250)	-	-	9,914
Financial liabilities other than debts owed to credit institutions	177,252	-	(149,826)	0	27,426
Payables trade - not insurance and other liabilities	96,979	(835)	-	(383)	95,761
Total Other liabilities	**407,572**	**(4,511)**	**(149,826)**	**55,972**	**309,207**

A. Provisions other than technical provisions

The item includes the funds for future risks and expenses set aside to cover expenses arising from potential actions to void in bankruptcy, penalties and ongoing legal actions, relating to normal business operations. The valuation is performed in compliance with Article 75 of the decree. In the consolidated financial statements, the item is entered in accordance with IAS 37.

B. Pension liabilities

The item refers to the amounts due to the employees, that consist of the Supplementary Pension at the nominal value in the balance sheet, and of the following items, valued with actuarial techniques for Solvency II purposes:

- Supplementary Pension
- Post-employment benefits
- Other long-term benefits

The main assumptions adopted for actuarial assessment were the following:

Demographic assumptions

- probability of death: assumptions determined by the General Accounting Office of Italy and identified as RG48, for males and females;
- probability of disability: separate assumptions by sex adopted by INPS (Italian social security institute) for projections in 2010;

- retiring age: for the generic active individual, the first opportunity as per the mandatory state national insurance conditions was assumed;
- probability of abandoning active work for causes other than death: annual frequency of 2.50%;
- 3.50% year after year

Economic and financial assumptions

- Annual inflation rate:	1.50%
- Annual technical discounting rate	1.30%
- Annual rate of severance payment increase	2.63%
- Annual rate of growth of remuneration (for the purpose of calculating seniority services)	2.50%
- Annual rate of growth of the average reimbursement (for the purpose of calculating health services)	1.50%

Sensitivity analysis of some input has been carried out (discounting rate, inflation rate and turnover rate). These analyses show that no significant criticalities have been reported.

C. Payables

Payables (to insurers, to reinsurers, tax due, payables to employees, social security payables and trade payables) and the other liabilities (commissions to be paid on the bonus being collected and provisions for agency awards and balance of the liaison account between Life and Non-life business) are valued in compliance with 75 of the Decree, and their value coincides with the value of the consolidated financial statements. The financial liabilities include the bond loans of the Parent Company of 27,426 thousand euro, and payables due to credit institutions include the financing provided to real-estate companies of the group of 9,914 thousand euro.
In the consolidated financial statements, the item includes also the financial liabilities under IAS 39 entailing the offsetting item of the obligations of the Parent Company and Vittoria Assicurazioni S.p.A. for payments destined for financing alternative investments in transactions of private equity, private debt and infrastructure funds of 149,826 thousand euro. Related obligations are entered among the other liabilities.

D. Deferred tax liabilities

The item refers to tax assets detected in the balance sheet, supplemented with the differences arising from Solvency II valuations. The method is the same outlined above, in relation to deferred tax assets.

E. Potential liabilities

There are no potential relevant liabilities, nor financial or operating leases.

D.4 Alternative methods for valuation

No alternative methods for valuation have been used in addition to what is outlined in the previous paragraphs.

D.5 Other information

There are no information to be reported.

E. Capital Management

E.1 Own funds

E 1.1 Eligible own funds as at 31 December 2017

As these are the first consolidated data provided within the scope of Solvency II regulation, statements under this paragraph do not include corresponding figures for a comparison with the previous period.

Vittoria Assicurazioni Group does not identify limits to the transferability and fungibility of the own funds eligible to cover the solvency capital requirement of the group.

The following table sums up, separately for each level, the information on the structure, amount and quality of the Group's own funds at the end of the first relevant period ended as at 31 December 2017.

Own Funds Solvency II	(€/000)
	31/12/2017
Ordinary share capital	15
Share premium	22,183
Surplus funds	-
Reconciliation reserve before dividends	557,481
Minority interests	459,53
Net deferred tax assets	9,044
Solvency II excess of assets over liabilities	**1,063,239**
Foreseeable dividends, distributions and charges	-10,282
Non-available minority interests at group level	-228,752
Solvency II eligible own funds	**824,205**

As at 31 December 2017, the Share Capital totally paid up consists of no. 15,000,000 ordinary shares with a par value of Euro 1.00 each, authorized, issued and fully paid-in.

The share premium reserve refers to the excess of the issue price of the shares compared to their nominal value.

The reconciliation reserve is given by the amount of the assets exceeding the Solvency II liabilities, including the minority stakes, not allocated to share capital, share premium reserve and net deferred tax assets, less of the dividends resolved.
The table below shows the Tier breakdown of the Own Funds aimed at covering the Solvency Capital Requirement and the Minimum Capital Requirement, calculated by using the Volatility Adjustment curve:

Eligible own funds to meet S.C.R - Volatility Adjustment curve	(€/000)
	31/12/2017
Tier 1- unrestricted	815,161
Tier 2	
Tier 3	9,044
Total eligible own funds to meet SCR	**824,205**
Total eligible own funds to meet MCR	**815,161**

The eligible amount to cover the MCR is made up of only Tier 1 funds, as envisaged by the regulation.
Tier 3 amounts are made up of the balance between deferred tax assets and liabilities.

Reconciliation Solvency II Own Funds with Net Assets statutory consolidated financial statements

Items referring to the difference between the Local GAAP Net Assets and Solvency II Own Funds, are as follows:

	(€/000)
Difference between IAS / IFRS Consolidated Net Assets an	**31/12/2017**
Shareholders' Equity IAS IFRS	**999,351**
Unrealised capital gains on financial Investments and properties	82,199
Intangible assets valued at zero	-35,968
Technical provisions non-life valued at a lower value	58,147
Technical provisions life valued at a higher value	9,737
Reinsurance recoverables valued at a lower value	-15,827
Other	1,34
Tax effect	-35,839
Consolidation differences	98
Solvency II excess of assets over liabilities	**1,063,239**
Foreseeable dividends, distributions and charges	-10,282
Non-available minority interests at group level	-228,752
Solvency II eligible own funds (C+D)	**824,205**

Reference is made to the chapter: “D. Valuation for solvency purposes”, which outlines the differences in the valuation between the standards adopted for the solvency valuation and those used for the balance sheet valuation, specifically for each class of assets or liabilities.

E 1.2 Objectives pursued, policies and processes applied for managing the own funds and time horizon used for business planning

The Parent Company Yafa S.p.A. handles the capital resources so as to ensure a higher available (current and forward-looking) capital, consistently with the economic capital requirements and to keep a Solvency II Ratio in line with the Group's risk appetite, also on a forward-looking basis.

The Capital Management consists of activities and procedures aimed at:

- Complying with growth strategies for the internal lines through self-financing of the economic capital needs, consistently with the objectives established in the strategic plan and in the Risk Appetite Framework;
- Keeping an adequate financial solidity to ensure that current and forward-looking solvency requirements are in line with the risk appetite and with provisions under the strategic plan;
- Ensuring that the Own Fund elements meet, on a continuous basis, the applicable capital requirements and are properly classified;
- Ensuring that terms and conditions of each element of the Own Funds are clear and unmistakable;
- Keeping an adequate level of return on investments;
- Identifying and documenting the situations whereby the distributions of an element of the Own Funds may be reduced or cancelled;
- Ensuring that any policy or statement relating to the dividends due for the ordinary shares is taken into account in terms of capital position;
- Ruling the issuance of the elements of the Own Funds according to a Capital Management Plan, if there is the opportunity, albeit not provided for, to rely on the increase of the Own Funds.

As required by the provisions issued by IVASS by means of the IVASS letter to the market of 15 April 2014, given that the capital management is particularly important in the guidelines established by EIOPA, Yafa S.p.A., as Parent Company of Vittoria Assicurazioni Group, performs the activities outlined below in order to pursue the preset objectives within the relevant Policy, adopted on Capital management.
In particular, the Parent Company defined the capital planning process, with the aim of achieving the objectives while keeping the ability to face adverse scenarios, by formalizing methods and instruments, including monitoring and reporting.
The outcome of the capital planning process consists of the Group's Capital Management Plan, formalized through specific information flow, including a reliable forecast of the available Own Funds and any new funds, based on the performance of the planned activity, on the future expected profits, the dividend policy and the measures of capital management provided for by the Senior Management of Yafa S.p.A.

Verification and classification of the Own Funds

Yafa S.p.A. adopts assessment procedures aimed at ensuring that the elements of the Own Funds, both upon issuance and later, meet the regulatory requirements and that these are properly classified, in order to get a clear and mistakable definition of the Own Funds in terms of subordination, availability, duration, convertibility, constraints etc.

Capital monitoring

In making assessments of the risk profile of the Group on a forward-looking basis and its possible changes, Yafa S.p.A. identifies the link between the risk profile and the overall solvency requirements, both in terms of quality and of quantity, and as a result detects any capital shortcomings in relation to the risk level that it aims to take in the medium-long period.

The Capital Management Plan outlines the capital resources through which Yafa S.p.A. aims to support the development of the assets of the Group, by planning the quantity and the future composition of the Own Funds of the Group consistently with the strategic medium-long term approach.

Planning is performed with a three-year time horizon.

The Plan encompasses the forward-looking indicators relating to the Balance Sheet in order to outline the future trend of the available Own Funds net of any dividends provided for various years, and the future economic flows generated in relation to the activities that will be carried out and the risk objectives defined in the Risk Appetite Framework, by checking that limits and tolerance levels set also on a forward-looking basis are met.

The monitoring outcome of these metrics is formalized in the dedicated information flows of "Monitoring of the Risk Appetite indicators".

For the preparation of the Capital Management Plan of the Group, Yafa S.p.A. makes use of methods and tools that enable to project the capital requirement and the own funds in the future years, taken the strategic decisions implemented through the Business Plan data.

If the future data showed a capital requirement that is not covered by the self-regulation, the Capital Management Plan would outline any operations of issuance of capital instruments (timing, amounts, types, requests).

Whether the Capital Management Plan is adequate is checked when significant changes occur to the risk profile of the Group, in line with the circumstances defined in the Risk and Solvency Assessment Policy, such as extraordinary operations (i.e. acquisition/sale of a line of business, or a portfolio of contracts or entering new markets), substantial change of the types of risks insured, events in the economic/financial/real-estate market or macroeconomic scenarios that may have a significant impact on the level of current and/or forward-looking solvency requirements.

Within the scope of the capital monitoring process, the Parent Company Yafa S.p.A. performs also continuous monitoring activities aimed at checking compliance of the composition of the Group's Own Funds. In fact, the composition of the Own Funds is monitored on a quarterly basis according to the quantitative disclosures to be submitted to the Regulator (Quantitative Reporting Templates - QRT).

In particular, in order to comply with provisions under existing Regulation, Yafa S.p.A. carries out the following monitoring activities in terms of level and quality of the own funds:

- Reconciliation between Solvency II data and Solvency I data, and analyses of change compared to the annual data and eventually previously quarterly data;
- Analysis of the composition of the reconciliation reserve, in terms of difference between the capital calculated with Solvency II criteria and the balance sheet capital, and analysis of related change compared to the annual data and eventually previously quarterly data;
- Comparison of the Balance Sheet with corresponding Solvency I values of the previous end of the year;
- Tiering of the Own Funds and verification of the adherence of the eligibility percentages defined by law.

These assessments are carried out on a quarterly basis and are reported to the Board Committees and the Board of Directors also as supplementary information for the purposes of the approval of the QRTs (Quantitative Report Templates).

Management and preservation of adequate capital levels

As outlined above, the Company handles the capital resources so as to ensure an available (current and forward-looking) capital, that is higher than economic capital requirements and to keep a Solvency II ratio consistently with the risk appetite, also on a forward-looking basis, and under any stress conditions.

If, even after forward-looking assessments made, an inadequacy of the available capital funds is to be found, in relation to the limits of risk or the preset performance objectives, the Company shall review the Capital Management Plan and/or Business Plan so as to align the capitalization level to the expected needs.

In particular, if a solvency level that is not in line with the preset objectives is to be found, the Managing Director, with the support of the Risk Management and Administration and Corporate Governance Functions, identifies the areas are less efficient in terms of capital absorbtion and take any corrective actions such as the mitigation and the de-risking (asset allocation, selection of the counterparties with high credit standing) in order to optimize the capital absorbed.

If the Company wants to take direct action on the capitalization level owned, it can avail itself of the following measures:

- reduction or deletion of the distribution of dividends;
- Issuance of subordinated loans;
- capital increases;
- limits to the purchase of own shares.

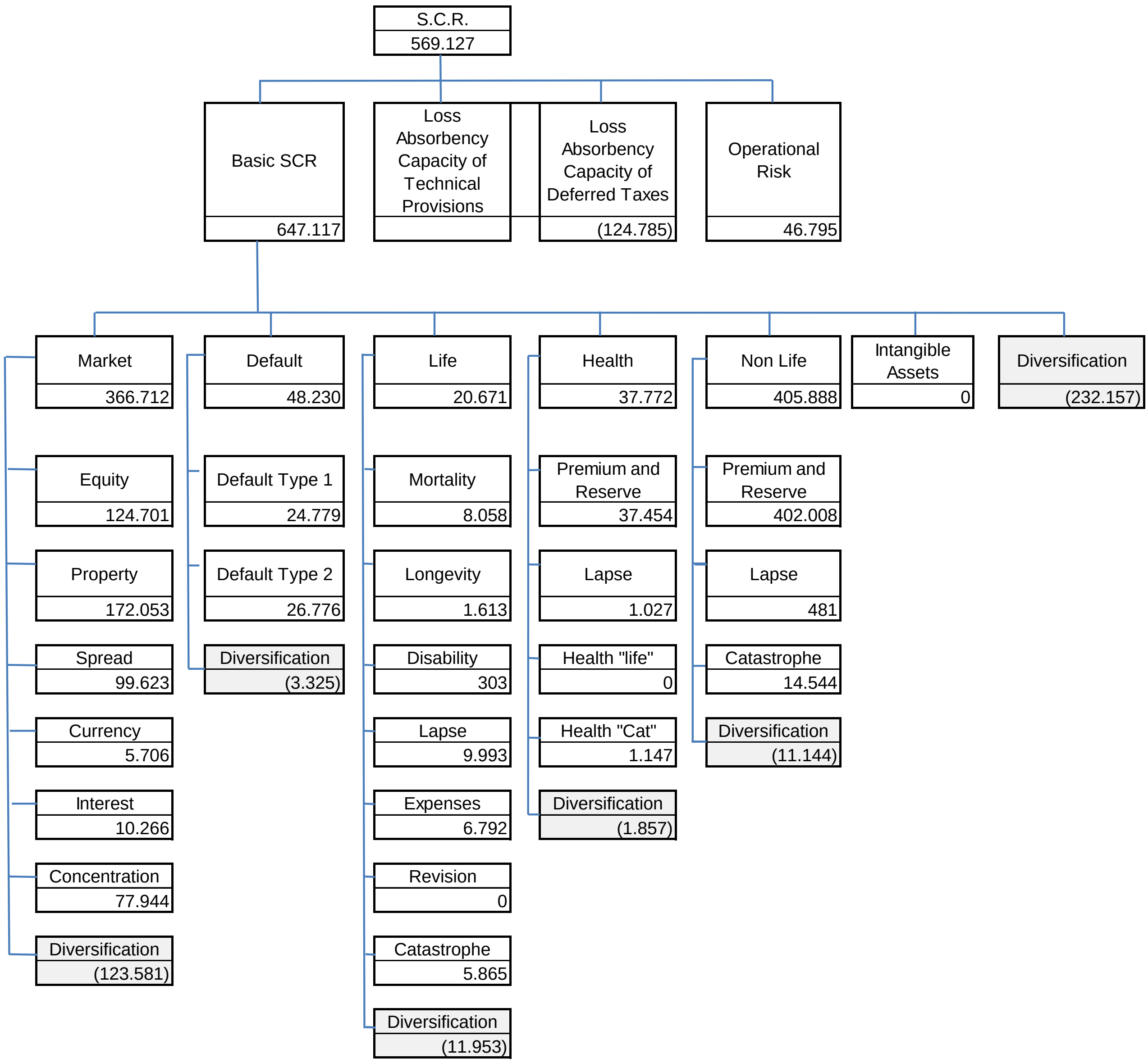
Any issuances of capital or hybrid capital investments are planned by defining the maturities and any other opportunities of refund or redemption, and clearly stating all features determining the level of chargeability.

E.2 Solvency Capital Requirement and Minimum Capital Requirement

As at 31.12.2017, the Solvency Capital Requirement (SCR) of the Group accounts for 569,127, thousand euro, while the Minimum Capital Requirement (MCR) accounts for 227,869 thousand euro.

Related composition is as follows:

Yafa S.p.A. - S.C.R. 31.21.2017 - Volatility Adjustment scenario **(€/000)**



As required by law, it should be noted that:

- there are no assessments on the amount of SCR by the Supervisory Body;
- sub-modules of the Life Business SCR, as well as the sub-modules Premiums and Provisions of the module Health and Non-Life have, among the inputs, the calculations of the technical provisions, for which some simplified methods were used (as detailed in the QRTs S.12.01 and S.17.01);
- Yafa S.p.A., unlike the calculation made by the Company, does not use the Undertaking-specific Parameters (USP) to measure the Premium Risk and Reserve Risk of the segments as still not authorized by IVASS to use them;
- the Supervisory Body has not required a Capital Add-On to the Company;
- inputs used for the MCR calculation, as provided for by the Standard Formula, consist of the preserved Technical Reserves, the gross Premiums recorded in the year's accounts, retained Life risk capitals, considering that the MCR must anyway be between the floor, accounting for 25% of the SCR, and the cap, accounting for 45% of the SCR.

Using the Risk Free curve without adjusting the Volatility Adjustment, the eligible assets a coverage of the SCR would amount to 822,734 thousand euro.

Details relating to impact on the own funds are outlined in the chapter: “D.2 Technical provisions”.

E.3 Usage of the equity risk sub-module based on the duration of the calculation of the solvency capital requirement

Not applicable.

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

Not applicable.

E.5 Non-compliance with the minimum capital requirement and non-compliance with the solvency capital requirement

In the relevant period, the minimum capital requirement and the solvency capital requirement of the Company have been widely covered by the Own Funds available.

E.6 Other information

There is no information to be reported.

Annexes: Quantitative reporting templates

(data in euro units)

Vittoria Assicurazioni Group - S.02.01.02 – Balance Sheet

Assets		Solvency II value
		C0010
Goodwill	R0010	
Deferred acquisition costs	R0020	
Intangible assets	R0030	0
Deferred tax assets	R0040	112.727.251
Pension benefit surplus	R0050	0
Property, plant & equipment held for own use	R0060	123.865.762
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	3.359.357.228
Property (other than for own use)	R0080	570.450.628
Holdings in related undertakings, including participations	R0090	232.311.912
Equities	R0100	62.336.959
Equities - listed	R0110	11.591.811
Equities - unlisted	R0120	50.745.148
Bonds	R0130	2.074.590.584
Government Bonds	R0140	1.829.572.337
Corporate Bonds	R0150	241.711.462
Structured notes	R0160	3.306.785
Collateralised securities	R0170	0
Collective Investments Undertakings	R0180	416.667.145
Derivatives	R0190	0
Deposits other than cash equivalents	R0200	3.000.000
Other investments	R0210	0
Assets held for index-linked and unit-linked contracts	R0220	76.225.257
Loans and mortgages	R0230	32.964.496
Loans on policies	R0240	596.007
Loans and mortgages to individuals	R0250	4.913.178
Other loans and mortgages	R0260	27.455.311
Reinsurance recoverables from:	R0270	47.436.337
Non-life and health similar to non-life	R0280	48.241.233
Non-life excluding health	R0290	47.229.249
Health similar to non-life	R0300	1.011.984
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	-804.896
Health similar to life	R0320	279.130
Life excluding health and index-linked and unit-linked	R0330	-1.084.026
Life index-linked and unit-linked	R0340	0
Deposits to cedants	R0350	148.734
Insurance and intermediaries receivables	R0360	152.238.488
Reinsurance receivables	R0370	3.044.642
Receivables (trade, not insurance)	R0380	66.394.459
Own shares (held directly)	R0390	0
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400	0
Cash and cash equivalents	R0410	118.350.045
Any other assets, not elsewhere shown	R0420	13.099.207
Total assets	R0500	4.105.851.906

Vittoria Assicurazioni Group - S.02.01.02 – Balance Sheet - *continued*

		Solvency II value
Liabilities		**C0010**
Technical provisions – non-life	**R0510**	1.464.015.918
Technical provisions – non-life (excluding health)	**R0520**	1.409.295.052
Technical provisions calculated as a whole	**R0530**	0
Best Estimate	**R0540**	1.322.546.194
Risk margin	**R0550**	86.748.858
Technical provisions - health (similar to non-life)	**R0560**	54.720.866
Technical provisions calculated as a whole	**R0570**	0
Best Estimate	**R0580**	48.270.475
Risk margin	**R0590**	6.450.391
Technical provisions - life (excluding index-linked and unit-linked)	**R0600**	1.201.880.220
Technical provisions - health (similar to life)	**R0610**	3.087.565
Technical provisions calculated as a whole	**R0620**	0
Best Estimate	**R0630**	3.087.565
Risk margin	**R0640**	0
Technical provisions – life (excluding health and index-linked and unit-linked)	**R0650**	1.198.792.655
Technical provisions calculated as a whole	**R0660**	0
Best Estimate	**R0670**	1.184.537.780
Risk margin	**R0680**	14.254.875
Technical provisions – index-linked and unit-linked	**R0690**	67.509.554
Technical provisions calculated as a whole	**R0700**	0
Best Estimate	**R0710**	67.123.187
Risk margin	**R0720**	386.367
Other technical provisions	**R0730**	
Contingent liabilities	**R0740**	0
Provisions other than technical provisions	**R0750**	15.944.042
Pension benefit obligations	**R0760**	7.913.235
Deposits from reinsurers	**R0770**	6.418.408
Deferred tax liabilities	**R0780**	103.683.252
Derivatives	**R0790**	0
Debts owed to credit institutions	**R0800**	9.913.826
Financial liabilities other than debts owed to credit institutions	**R0810**	27.426.041
Insurance & intermediaries payables	**R0820**	33.471.339
Reinsurance payables	**R0830**	8.676.275
Payables (trade, not insurance)	**R0840**	65.636.339
Subordinated liabilities	**R0850**	0
Subordinated liabilities not in Basic Own Funds	**R0860**	0
Subordinated liabilities in Basic Own Funds	**R0870**	0
Any other liabilities, not elsewhere shown	**R0880**	30.124.701
Total liabilities	**R0900**	3.042.613.150
Excess of assets over liabilities	**R1000**	1.063.238.756

Vittoria Assicurazioni Group - 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**	17.407.320	87.250.342	0	666.699.971	125.329.219	3.973.589	105.562.862	57.826.854	3.925.443	5.481.406	26.389.381	48.225.670					1.148.072.058
Gross - Proportional reinsurance accepted	**R0120**	293	523	0	18	0	178	1.862	81.306	0	0	17.064	0					101.245
Gross - Non-proportional reinsurance accepted	**R0130**																	
Reinsurers' share	**R0140**	75.683	428.869	0	1.176.423	3.204.149	167.955	14.172.740	680.078	2.261.307	3.900.348	10.608.457	53.009					36.729.017
Net	**R0200**	17.331.930	86.821.996	0	665.523.567	122.125.070	3.805.811	91.391.984	57.228.083	1.664.136	1.581.058	15.797.988	48.172.661	0	0	0		1.111.444.285
Premiums earned																		
Gross - Direct Business	**R0210**	16.620.124	85.071.484	0	653.898.978	120.425.193	3.769.603	104.105.181	55.412.290	16.748.338	5.250.757	25.647.486	50.805.104					1.137.754.538
Gross - Proportional reinsurance accepted	**R0220**	293	523	0	23	0	178	1.819	87.750	0	0	17.141	0					107.726
Gross - Non-proportional reinsurance accepted	**R0230**																	
Reinsurers' share	**R0240**	82.573	467.913	0	1.177.425	3.208.332	168.043	14.264.395	740.405	5.757.286	3.806.655	10.782.679	59.972					40.515.680
Net	**R0300**	16.537.844	84.604.094	0	652.721.576	117.216.860	3.601.737	89.842.605	54.759.634	10.991.052	1.444.102	14.881.947	50.745.132	0	0	0		1.097.346.585
Claims incurred																		
Gross - Direct Business	**R0310**	7.709.110	28.514.179	0	490.817.129	65.709.467	1.938.661	69.330.257	27.368.579	14.569.597	329.180	7.411.131	1.122.326					714.819.616
Gross - Proportional reinsurance accepted	**R0320**	0	0	0	0	0	0	0	0	0	0	0	0					0
Gross - Non-proportional reinsurance accepted	**R0330**																	
Reinsurers' share	**R0340**	78.744	446.219	0	0	5.687.099	0	20.436.194	45.791	5.736.461	172.239	8.205.563	39.409					40.847.718
Net	**R0400**	7.630.365	28.067.961	0	490.817.129	60.022.368	1.938.661	48.894.064	27.322.788	8.833.136	156.941	(794.431)	1.082.918	0	0	0		673.971.898
Changes in other technical provisions																		
Gross - Direct Business	**R0410**	0	0	0	0	375.990	5.177	233.194	0	0	0	0	0					614.361
Gross - Proportional reinsurance accepted	**R0420**	0	0	0	0	0	0	0	0	0	0	0	0					0
Gross - Non- proportional reinsurance accepted	**R0430**													0	0	0		0
Reinsurers' share	**R0440**																	
Net	**R0500**	0	0	0	0	375.990	5.177	233.194	0	0	0	0	0	0	0	0		614.361
Expenses incurred	**R0550**	6.249.109	33.199.906	0	173.735.565	43.005.908	1.326.176	40.546.770	22.066.366	2.549.799	(795.699)	11.783.155	14.715.170	0	0	0		348.382.225
Other expenses	**R1200**																	9.380.702
Total expenses	**R1300**																	357.762.927

Vittoria Assicurazioni Group - S.05.01.02 Premiums, claims and expenses by line of business – *continued*

		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**	985.773	160.980.281	17.965.299	11.212.771	0	0	0	0	191.144.124
Reinsurers' share	**R1420**	649.065	0	0	507.646	0	0	0	0	1.156.711
Net	**R1500**	336.708	160.980.281	17.965.299	10.705.125	0	0	0	0	189.987.413
Premiums earned										
Gross	**R1510**	0	0	0	0	0	0	0	0	0
Reinsurers' share	**R1520**	0	0	0	0	0	0	0	0	0
Net	**R1600**	0	0	0	0	0	0	0	0	0
Claims incurred										
Gross	**R1610**	32.194	98.984.995	2.069.326	13.729.914					114.816.429
Reinsurers' share	**R1620**	10.717	5.330.163	0	2.304.211	0	0	0	0	7.645.091
Net	**R1700**	21.477	93.654.832	2.069.326	11.425.703	0	0	0	0	107.171.338
Changes in other technical provisions										
Gross	**R1710**	0	0	0	0	0	0	0	0	0
Reinsurers' share	**R1720**									
Net	**R1800**	0	0	0	0	0	0	0	0	0
Expenses incurred	**R1900**	(111.534)	14.130.578	631.611	395.321	0	0	0	0	15.045.976
Other expenses	**R2500**									718.568
Total expenses	**R2600**									15.764.544

Vittoria Assicurazioni Group - S.05.02.01 Premiums, claims and expenses by country

		Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations
		C0010	C0070
	R0010		
		C0080	C0140
Premiums written			
Gross - Direct Business	R0110	1.148.072.058	1.148.072.058
Gross - Proportional reinsurance accepted	R0120	101.245	101.245
Gross - Non-proportional reinsurance accepted	R0130		
Reinsurers' share	R0140	36.729.017	36.729.017
Net	R0200	1.111.444.285	1.111.444.285
Premiums earned			
Gross - Direct Business	R0210	1.137.754.538	1.137.754.538
Gross - Proportional reinsurance accepted	R0220	107.726	107.726
Gross - Non-proportional reinsurance accepted	R0230		
Reinsurers' share	R0240	40.515.680	40.515.680
Net	R0300	1.097.346.585	1.097.346.585
Claims incurred			
Gross - Direct Business	R0310	714.819.616	714.819.616
Gross - Proportional reinsurance accepted	R0320	0	0
Gross - Non-proportional reinsurance accepted	R0330		
Reinsurers' share	R0340	40.847.718	40.847.718
Net	R0400	673.971.898	673.971.898
Changes in other technical provisions			
Gross - Direct Business	R0410	614.361	614.361
Gross - Proportional reinsurance accepted	R0420		
Gross - Non- proportional reinsurance accepted	R0430		
Reinsurers' share	R0440		
Net	R0500	614.361	614.361
Expenses incurred	R0550	348.382.225	348.382.225
Other expenses	R1200		9.380.702
Total expenses	R1300		357.762.927

		Home Country	Top 5 countries (by amount of gross premiums written)
			C0210
	R1400		
			C0280
Premiums written			
Gross	R1410	191.144.124	191.144.124
Reinsurers' share	R1420	1.156.711	1.156.711
Net	R1500	189.987.413	189.987.413
Premiums earned			
Gross	R1510	0	0
Reinsurers' share	R1520		
Net	R1600	0	0
Claims incurred			
Gross	R1610	114.816.429	114.816.429
Reinsurers' share	R1620	7.645.091	7.645.091
Net	R1700	107.171.338	107.171.338
Changes in other technical provisions			
Gross	R1710	0	0
Reinsurers' share	R1720		
Net	R1800	0	0
Expenses incurred	R1900	15.045.976	15.045.976
Other expenses	R2500	718.568	718.568
Total expenses	R2600	15.764.544	15.764.544

Vittoria Assicurazioni Group - S.22.01.22 Impact of long term guarantees measures and transitionals.

		Amount with Long Term Guarantee measures and transitional	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	2.702.755.762			(5.175.745)	
Basic own funds	R0020	824.204.589			(1.470.279)	
Eligible own funds to meet Solvency Capital Requirement	R0050	824.204.589			(1.470.279)	
Solvency Capital Requirement	R0090	569.126.685			603.562	

Vittoria Assicurazioni Group - S.23.01.22 Own Funds

		Total	Class 1 illimited	Class 1 limited	Class 2	Class 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**	15.000.000	15.000.000			
Share premium account related to ordinary share capital	**R0030**	22.183.468	22.183.468			
Iinitial 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**	547.199.321	547.199.321			
Subordinated liabilities	**R0140**					
An amount equal to the value of net deferred tax assets	**R0160**	9.043.999				9.043.999
Other own fund items approved by the supervisory authority as basic own funds not specified above	**R0180**	0	0			
Minority (if not indicated as part of a specific element of own funds)	**R0200**	459.530.122	459.530.122			
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 other financial undertakings, including non-regulated undertakings carrying out financial activities	**R0230**					
whereof deducted according to art 228 of the Directive 2009/138/EC	**R0240**					
Deductions for participations where there is non-availability of information (Article 229)	**R0250**					
Deduction for participations included by using D&A when a combination of methods is used	**R0260**					
Total of non-available own fund items	**R0270**					
Total deductions	**R0280**					
Total basic own funds after deductions	**R0290**	824.204.589	815.160.590	0	0	9.043.999
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**					
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**					
Ancillary own funds not eligible at the Group level	**R0380**	0				
Other ancillary own funds	**R0390**	0				

Vittoria Assicurazioni Group - S.23.01.22 Own Funds – continued

		Total	Class 1 illimited	Class 1 limited	Class 2	Class 3
		C0010	C0020	C0030	C0040	C0050
Total ancillary own funds	**R0400**				0	0
Own funds of other financial sectors						
Reconciliation reserve	**R0410**					
Institutions for occupational retirement provision	**R0420**					
Non regulated entities carrying out financial activities	**R0430**					
Total own funds of other financial sectors	**R0440**					
Own funds when using the D&A, exclusively or in combination of method 1						
Own funds aggregated when using the D&A and combination of method	**R0450**					
Own funds aggregated when using the D&A and a combination of method net of IGT	**R0460**					
Total available own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)	**R0520**	824.204.589	815.160.590	0	0	9.043.999
Total available own funds to meet the minimum consolidated group SCR	**R0530**	815.160.590	815.160.590	0	0	
Total eligible own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)	**R0560**	824.204.589	815.160.590	0	0	9.043.999
Total eligible own funds to meet the minimum consolidated group SCR	**R0570**	815.160.590	815.160.590	0	0	
Consolidated Group SCR	**R0610**	256.107.008				
Ratio of Eligible own funds to Minimum Consolidated Group SCR	**R0650**	318,3%				
Total eligible own funds to meet the group SCR (including own funds from other financial sector and from the undertakings included via D&A)	**R0660**	824.204.589	815.160.590	0	0	9.043.999
Group SCR	**R0680**	569.126.685				
Ratio of Eligible own funds to group SCR including other financial sectors and the undertakings included via D&A	**R0690**	144,8%				

		C0060
Reconciliation reserve		
Excess of assets over liabilities	**R0700**	1.063.238.756
Own shares (held directly and indirectly)	**R0710**	
Foreseeable dividends, distributions and charges	**R0720**	10.281.846
Other basic own fund items	**R0730**	505.757.589
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	**R0740**	
Other non available own funds	**R0750**	
Reconciliation reserve	**R0760**	547.199.321
Expected profits		
Expected profits included in future premiums (EPIFP) - Life business	**R0770**	11.360.321
Expected profits included in future premiums (EPIFP) - Non- life business	**R0780**	24.531.512
Total Expected profits included in future premiums (EPIFP)	**R0790**	35.891.833

Vittoria Assicurazioni Group - S.25.01.22 Solvency Capital Requirement - for undertakings on Standard Formula

		Net solvency capital requirement	Gross solvency capital requirement	Allocation from adjustments due to RFF and Matching adjustments portfolios
		C0110	C0090	C0100
Market risk	R0010	366.712.232		
Counterparty default risk	R0020	48.230.260		
Life underwriting risk	R0030	20.671.242		
Health underwriting risk	R0040	37.771.761		
Non-life underwriting risk	R0050	405.888.164		
Diversification	R0060	(232.156.710)		
Intangible asset risk	R0070	0		
Basic Solvency Capital Requirement	R0100	647.116.949		

Calculation of Solvency Capital Requirement		C0100
Operational risk	R0130	46.795.208
Loss-absorbing capacity of technical provisions	R0140	0
Loss-absorbing capacity of deferred taxes	R0150	(124.785.472)
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	0
Solvency Capital Requirement excluding capital add-on	R0200	569.126.685
Capital add-on already set	R0210	0
Solvency capital requirement	R0220	569.126.685
Other information on SCR		
Capital requirement for duration-based equity risk sub-module	R0400	0
Total amount of Notional Solvency Capital Requirements for remaining part	R0410	0
Total amount of Notional Solvency Capital Requirements for ring fenced funds	R0420	0
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	R0430	0
Diversification effects due to RFF nSCR aggregation for article 304	R0440	0

		Net solvency capital requirement	Gross solvency capital requirement	Allocation from adjustments due to RFF and Matching adjustments portfolios
		C0110	C0090	C0100
Minimum consolidated group solvency capital requirement	R0470	256.107.008		
Information on other entities				
Capital requirement for other financial sectors (Non-insurance capital requirements)	R0500			
Capital requirement for other financial sectors (Non-insurance capital requirements) - Credit institutions, investment firms and financial institutions, alternative investment funds managers, UCITS management companies	R0510			
Capital requirement for other financial sectors (Non-insurance capital requirements) - Institutions for occupational retirement provisions	R0520			
Capital requirement for other financial sectors (Non-insurance capital requirements) - Capital requirement for non--regulated entities carrying out financial activities	R0530			
Capital requirement for non-controlled participation requirements	R0540			
Capital requirement for residual undertakings	R0550			
Overall SCR				
SCR for undertakings included via D and A	R0560			
Solvency capital requirement	R0570	569.126.685		

Vittoria Assicurazioni Group - S.32.01.22 Undertakings in the scope of the group

								Criteria of influence						Inclusion in the scope of Group supervision		Group solvency calculation
Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Legal Name of the undertaking	Type of undertaking	Legal form	Category (mutual/ non mutual)	Supervisory Authority	% capital share	% used for the establishment of consolidated accounts	% voting rights	Other criteria	Level of influence	Proportional share used for group solvency calculation	Yes/No	Date of decision if art. 214 is applied	Method used and under method 1, treatment of the undertaking
C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0180	C0190	C0200	C0210	C0220	C0230	C0240	C0250	C0260
IT	LEI/81560065DEB84AAEE07	1	Yafa S:p.A.	5	Società per Azioni	0	IVASS							1		1
IT	LEI/815600F8E90820CF6442	1	Yafa Holding S.p.A.	5	Società per Azioni	0	IVASS	100,00%	100,00%	100,00%		1	100,00%	1		1
IT	LEI/81560078834CD78DF89	1	Vittoria Capital S.p.A.	5	Società per Azioni	0	IVASS	82,00%	100,00%	82,00%		1	100,00%	1		1
IT	LEI/8156003E4A94A3C8406	1	Vittoria Assicurazioni S.p.a.	4	Società per Azioni	0	IVASS	51,15%	100,00%	51,15%		1	100,00%	1		1
IT	IT0003673313	2	Vittoria Immobiliare S.p.A.	10	Società per Azioni	0	IVASS	100,00%	100,00%	100,00%		1	100,00%	1		1
IT	2404	2	Acacia 2000 S.r.l.	10	Società a responsabilità limitata	0	IVASS	71,60%	100,00%	71,60%		1	100,00%	1		1
IT	1261	2	Immobiliare Bilancia S.r.l.	10	Società a responsabilità limitata	0	IVASS	100,00%	100,00%	100,00%		1	100,00%	1		1
IT	1366	2	Immobiliare Bilancia Prima S.r.l.	10	Società a responsabilità limitata	0	IVASS	100,00%	100,00%	100,00%		1	100,00%	1		1
IT	2472	2	Vaimm Sviluppo S.r.l.	10	Società a responsabilità limitata	0	IVASS	100,00%	100,00%	100,00%		1	100,00%	1		1
IT	2473	2	VP Sviluppo 2015 S.r.l.	10	Società a responsabilità limitata	0	IVASS	100,00%	100,00%	100,00%		1	100,00%	1		1
IT	1338	2	Vittoria Properties S.r.l.	10	Società a responsabilità limitata	0	IVASS	100,00%	100,00%	100,00%		1	100,00%	1		1
IT	2841	2	Interimmobili S.r.l.	10	Società a responsabilità limitata	0	IVASS	100,00%	100,00%	100,00%		1	100,00%	1		1
IT	2842	2	Gestimmobili S.r.l.	10	Società a responsabilità limitata	0	IVASS	100,00%	100,00%	100,00%		1	100,00%	1		1
IT	2843	2	VRG Domus S.r.l.	10	Società a responsabilità limitata	0	IVASS	100,00%	100,00%	100,00%		1	100,00%	1		1
IT	2844	2	Valsalaria S.r.l.	10	Società a responsabilità limitata	0	IVASS	51,00%	100,00%	51,00%		1	100,00%	1		1
IT	956	2	Interbilancia S.r.l.	10	Società a responsabilità limitata	0	IVASS	100,00%	100,00%	100,00%		1	100,00%	1		1
IT	2845	2	Aspevi Firenze S.r.l.	10	Società a responsabilità limitata	0	IVASS	60,00%	100,00%	60,00%		1	100,00%	1		1
IT	2846	2	Plurico S.r.l.	10	Società a responsabilità limitata	0	IVASS	70,00%	100,00%	70,00%		1	100,00%	1		1
IT	2847	2	Assiorvieto Servizi S.r.l.	10	Società a responsabilità limitata	0	IVASS	60,00%	100,00%	60,00%		1	100,00%	1		1
IT	2848	2	Touring Vacanze S.r.l.	99	Società a responsabilità limitata	0	IVASS	46,00%	46,00%	46,00%		2	46,00%	1		3
IT	2849	2	Yarpa S.p.A.	99	Società a responsabilità limitata	0	IVASS	27,31%	27,31%	27,31%		2	27,31%	1		3
IT	2850	2	Touring Digital S.r.l.	99	Società a responsabilità limitata	0	IVASS	45,00%	45,00%	45,00%		2	45,00%	1		3
IT	2851	2	VZ Real Estate S.r.l.	99	Società a responsabilità limitata	0	IVASS	49,00%	49,00%	49,00%		2	49,00%	1		3
IT	2852	2	Mosaico S.p.a.	99	Società a responsabilità limitata	0	IVASS	45,00%	45,00%	45,00%		2	45,00%	1		3
IT	2853	2	Fiori di San Bovio S.r.l.	99	Società a responsabilità limitata	0	IVASS	40,00%	40,00%	40,00%		2	40,00%	1		3
IT	2854	2	Pama & Partners S.r.l.	99	Società a responsabilità limitata	0	IVASS	25,00%	25,00%	25,00%		2	25,00%	1		3
IT	2855	2	Valsalaria A11 S.r.l.	99	Società a responsabilità limitata	0	IVASS	40,00%	40,00%	40,00%		2	40,00%	1		3
IT	2856	2	Aspevi Milano S.r.l.	99	Società a responsabilità limitata	0	IVASS	49,00%	49,00%	49,00%		2	49,00%	1		3
IT	2857	2	Aspevi Roma S.r.l.	99	Società a responsabilità limitata	0	IVASS	49,00%	49,00%	49,00%		2	49,00%	1		3
NL	2858	2	Yam Invest NV	99	Naamloze Vennootschap	0	IVASS	37,50%	37,50%	37,50%		2	37,50%	1		3
IT	2859	2	Porta Romana 4 S.r.l.	99	Società a responsabilità limitata	0	IVASS	26,78%	26,78%	26,78%		2	26,78%	1		3
IT	2860	2	Yura International S.p.A.	99	Società per Azioni	0	IVASS	100,00%	100,00%	100,00%		1	100,00%	1		3
NL	2861	2	Yareal B.V.	99	Besloten Vennotschap	0	IVASS	100,00%	100,00%	100,00%		1	100,00%	1		3
UK	2862	2	Yareal UK Ltd	99	Limited	0	IVASS	98,50%	98,50%	98,50%		1	98,50%	1		3
UK	2863	2	Yareal Humby Ltd	99	Limited	0	IVASS	100,00%	100,00%	100,00%		1	100,00%	1		3
UK	2864	2	Yareal Llanforda Ltd	99	Limited	0	IVASS	100,00%	100,00%	100,00%		1	100,00%	1		3

Report of the auditing firm

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INDEPENDENT AUDITORS' REPORT
PURSUANT TO ARTICLE 47-SEPTIES, n°7 OF LEGISLATIVE DECREE No. 209 OF SEPTEMBER 7, 2005 AND TO ARTICLE 10 OF THE LETTER TO THE MARKET OF DECEMBER 7, 2016

To the Board of Directors of
Yafa S.p.A.

Opinion

We have audited the following elements of the Solvency and Financial Condition Report (the "SFCR") of Vittoria Assicurazioni Group which comprises Yafa S.p.A. and its subsidiaries (the "Group") as of December 31, 2017 prepared according to the article 47-septies of Legislative Decree No. 209 of September 7, 2005:

- quantitative reporting templates "S.02.01.02 Balance Sheet" and "S.23.01.22 Own funds" ("QRTs");
- sections "D. Valuation for solvency purposes" and "E1. Own Funds" ("notes").

According to the paragraphs n°9 and n°10 of the Letter to the Market of December 7, 2016 we have not audited:

- the items of the technical reserves relating to the risk margin (items R0550, R0590, R0640, R0680 e R0720) included in the QRT "S.02.01.02 Balance Sheet";
- the Solvency Capital Requirement (item R0680) and the Minimum Consolidated Group Capital Requirement (item R0610) included in the QRT "S.23.01.22 Own funds";

which are therefore excluded from our opinion.

The QRTs and the notes, with the above exclusions, as a whole constitute the "QRTs and the related notes".

In our opinion, the QRTs and the related notes included in the SFCR of the Group for the year ended December 31, 2017 are prepared, in all material respects, in accordance with the requirements of the European Directive directly applicable and the national regulations.

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 Audit of the QRTs and the related notes* section of our report. We are independent of the Parent Company Yafa S.p.A. in accordance with the ethical and independence requirements of the *Code of Ethics for Professional Accountants (IESBA Code)* issued by the *International Ethics Standards Board of Accountants* that are relevant to our audit of the QRTs and the related notes. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – Basis of Accounting and Restriction on Distribution

We draw attention to section "D. Valuation for solvency purposes" which describes the basis of accounting. For the purpose of solvency supervision, the QRTs and the related notes are prepared in complying with the requirements of the European Directive directly applicable and the national regulations, which is a regulatory framework with specific purposes. As a result, they may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Other matters

The Parent Company Yafa S.p.A. prepared the consolidated financial statements as at December 31, 2017 in accordance with International Financial Reporting Standards as adopted by the European Union and the regulation issued pursuant to art. 90 of Legislative Decree no.209 of September 7, 2005 which have been audited by us and on which we issued our report on May 24, 2018.

Other information included in the SFCR

The Directors are responsible for the other information included in the SFCR in accordance with the requirements of the European Directive directly applicable and the national regulations.

The other information included in the SFCR are the following:

- the QRTs "S.05.01.02 Premiums, claims and expenses by line of business", "S.05.02.01 Premiums, claims and expenses by country", "S.22.01.21 Impact of long term guarantees measures and transitionals", "S.25.01.22 Solvency Capital Requirement for undertakings on Standard Formula" and "S.32.01.22 Undertakings in the scope of the group";
- the sections "A. Business and performance", "B. System of Governance", "C. Risk Profile", "E2. Solvency Capital Requirement and Minimum Capital Requirement", "E3. Usage of the equity risk submodule based on the duration of the calculation of the solvency capital requirement", "E4. Differences between the standard formula and the internal model used", "E5. Non-compliance with the minimum capital requirement and non-compliance with the solvency capital requirement" and "E6. Other information".

Our opinion on the QRTs and the related notes does not cover this other information and we do not express any form of assurance conclusion thereon.

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

Responsibilities of the Directors and the Board of Statutory Auditors for the QRTs and the related notes

The Directors are responsible for the preparation of QRTs and the related notes in accordance with the requirements of the European Directive directly applicable and the national regulations, and, within the terms established by law, for such internal control as the Directors determine is necessary to enable the preparation of QRTs and the related notes that are free from material misstatement, whether due to fraud or error.

In preparing the QRTs and the related notes, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have identified the existence of the conditions for the liquidation of the Parent Company Yafa S.p.A. or for the termination of the operations or have no realistic alternative to such choices.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the Parent Company's financial reporting process.

Auditor’s Responsibilities for the Audit of the QRTs and the related notes

Our objectives are to obtain reasonable assurance about whether QRTs and the related notes as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 these QRTs and related notes.

As part of an audit in accordance with International Standards on Auditing (ISAs), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the QRTs and the related notes, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain 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.
- Obtain an understanding of internal control relevant to the audit of the QRTs and the related notes 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude 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 Group’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 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 Parent Company Yafa S.p.A. to cease to continue as a going concern.

We communicate 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 identify during our audit.

DELOITTE & TOUCHE S.p.A.

Signed by
Vittorio Frigerio
Partner

Milano, Italy
June 15, 2018

This report has been translated into the English language solely for the convenience of international readers.