Financial Statements for the Year 2018

Eurovita S.p.A.

Eurovita S.p.A.

Registered Address and Headquarters:

20141 Milan, Italy

Via Pampuri 13

Fully paid-in share capital €90,498,908

Company authorized to provide life insurance under Ministerial Decree dated 6 April 1992 (Italian OJ No. 85 of 10 April 1992)

Company under management and coordination of Eurovita Holding

EUROVITA
Valore alle tue prospettive

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Composition of Corporate Bodies

BOARD OF DIRECTORS	
Chairman	Davide CROFF
Chief Executive Officer	Erik STATTIN
Directors	Heinz-Peter ROSS Caspar BERENDSEN Eugenio PREVE Andrea BERTOLINI Mario CUCCIA

BOARD OF STATUTORY AUDITORS	
Chairman	Claudio MAUGERI
Standing auditors	Marcello ROMANO Antonio Carlo DOGLIOTTI Giuseppe TARANTINO

INDEPENDENT AUDITOR	
	KPMG S.p.A.

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The composition of the Board of Directors was that in place at the date of presentation of this document.

Eurovita S.p.A.

Report on Operations

Shareholders,

The financial statements of Eurovita S.p.A. at 31 December 2018, which we submit for your approval, show a net profit of €30.9 million. The comparability of the income statement with the previous fiscal year is not easily achieved due to the merger, with effect from 31.12.2017, of the former company Old Mutual Wealth Italy (hereinafter OMWI) and of the former company Eurovita Assicurazioni (hereinafter EVA) into the former company Ergo Previdenza S.p.A. (hereinafter EP), which at the same time changed its business name to Eurovita S.p.A.

The 2017 income statement shows the results of the former company Ergo Previdenza alone. The 2018 income statement also includes the contribution of the former companies OMWI and EVA, in addition to the effects deriving from the partial posting of the Purchase Price Allocation (hereinafter PPA) to the Income Statement, recognized in the separate financial statements of Eurovita S.p.A. following the aforementioned merger and simultaneous decision to use accounting standards suitable for ensuring the continuity of the values with the consolidated financial statements, thus reflecting the impacts also within the separate financial statements. The PPA produced significant impacts such as the amortization of VIF of the merged companies (positive for around €13.6m), the negative impact deriving from the different amortized cost and different gains / losses from realization of the securities portfolio, partially offset by the shadow accounting effect (€22.2 million). Adjusted for the tax effect, the overall economic impact of the PPA is a negative €5.9 million.

With the aim of examining the Company's economic performance as accurately as possible, without the impact of extraordinary acquisition transactions, the PPA effect was excluded from the 2018 income statement while the contribution of the companies merged in 2017 was included. The net result would in this case be equal to €36.8 m in 2018 against €47.6 million in 2017. The contraction in the result is essentially attributable to the reduction in Class III assets. The reduction in Class C income was largely offset by a smaller retrocession to policyholders.

The most significant data that emerge from the end of financial year 2018, without the PPA effect, are shown in the following table in comparison with the 2017 pro-forma:

Amounts in Euro million

	31 December 2018 proforma	31 December 2017 proforma	Variazione	Var. %
Gross earned premiums	1252,2	965,4	286,8	29,7%
Ceded premiums	53,2	62,9	-9,7	
Acquisition costs and admin. exp.	105,3	117,8	-12,5	
Impact on premiums	8,4%	12,2%		
Net insurance benefits and claims	1291,8	1020,5	271,3	
Total financial income	221,7	251,9	-30,3	
Total financial charges	68,8	75,6	-6,8	
Investments	16.273,3	17.698,7		
Capital and reserves	317,5	426,2		
Net profit	36,8	47,6		
No. of shares	90.498.908	90.498.908		
net profit per share	0,41	0,53		
Number of employees	213	277		
Average number of employees	252	308		

1. Overview of the Economic Situation

The growth of the world economy has continued in recent months, but there have been signs of cyclical deterioration in many advanced and emerging economies; the prospects for world trade continue to worsen after the slowdown in the first part of last year. Uncertainties regarding the economic situation have had repercussions on the international financial markets, with a decline in long-term yields and a drop in share prices. Global prospects are affected by risks related to a negative outcome of the commercial negotiations between the United States and China, the possible recurrence of financial tensions in emerging countries and the manner in which Brexit will play out.

Growth in the euro area has weakened; in November industrial production decreased significantly in Germany, France and Italy. Inflation, although remaining on largely positive values, fell due to the slowdown in energy prices. The Governing Council of the ECB reiterated its intention to maintain a significant monetary stimulus for an extended period.

In Italy, after growth had stopped in the third quarter, the available economic indicators suggest that activities may have declined further in the fourth quarter. The reduction in domestic demand contributed to the weakening in the summer months, in particular investments and, to a lesser extent, household spending. According to the regular business survey conducted by the Bank of Italy in collaboration with *Il Sole 24 Ore*, in 2019 the investment plans of industrial companies and service providers are likely to be more contained following the political and economic uncertainty and commercial tensions.

The trend of Italian exports was still favorable in the second half of the year; the slowdown in global trade, however, affected the companies' forward-looking assessments of foreign orders. The current account balance remains largely positive; the country's net foreign debt position continues to improve, falling to just over 3 percent of GDP at the end of September.

In the summer quarter, the number of hours worked increased, while the number of employees fell slightly; according to the first available data, in autumn employment may have remained substantially stationary. The increase in contractual remuneration continued in all sectors.

Overall inflation declined to 1.2 per cent in December, mainly due to energy prices slowing down; the trend in the underlying component remained weak (0.5 per cent). Business expectations on price trends have been slightly revised downwards.

Risk premiums on sovereign securities fell, due to the agreement between the Italian Government and the European Commission on financial programs; the spread between Italian and German government bond yields in mid-January was around 260 basis points, 65 less than the November peak. However, the overall conditions of the financial markets remain tenser than those observed before the summer.

Share prices of credit companies have decreased on average by 14 percent since the end of September, reflecting worsening growth prospects, as in the entire euro area. However, since the end of last year, premiums on bond risk in the banking sector have been reduced due to the easing of tensions on sovereign bonds. In mid-January, the CDS premiums of the major banks were 40 basis points lower than in mid-November.

Credit supply conditions remain generally good; interest rates on loans are only slightly higher than in May, before tensions appeared on the government bond market. Looking ahead, however, the persistence of a high level of sovereign yields and bank funding costs may continue to push the cost of credit upwards. In recent surveys, companies indicate less favorable credit access conditions.

The reduction in the impact of non-performing loans on total loans continued, reaching 4.5 percent in the third quarter, net of adjustments, 1.8 points less than a year earlier. The flow of new non-performing loans on total loans remains limited (1.7 percent in the quarter, correcting for seasonal factors and on an annual basis).

The Italian government's financial plan will increase the deficit in the years 2019-2021 with respect to its trend value; according to official assessments, net borrowing may represent 2.0 percent of GDP in the current year, interrupting the decline underway since 2014. In consideration of the changes made to such financial plan, which in the version submitted initially was consistent with a 2019 deficit target of 2.4 percent of GDP, the European Commission decided not to start an Excessive Deficit Procedure against Italy at this stage.

The central projection of GDP growth is 0.6 percent this year, 0.4 points less than previously assessed. The following have contributed to the review: more unfavorable data on business operations observed in late 2018, which reduced the growth already acquired by an average 0.2 points this year; downscaling of business investment plans resulting from the latest surveys; downward world trade forecasts. On the other hand, the effects on growth brought by the agreement reached by the (Italian) Government with the European Commission are moderately positive: the favorable impact of the reduction in long-term interest rates largely compensates for the corrections to the Italian government's financial plan. Central growth projections for 2020 and 2021 are 0.9 and 1.0 percent, respectively. The dispersion of the probability distribution around these central values is particularly wide.
Inflation may gradually increase, from 1.0 per cent this year to 1.5 on average in the following two years, as a result of the increase in private remuneration and of the gradual alignment of inflationary expectations.

In addition to the global factors of uncertainty mentioned above, downside risks to growth are linked to the possibility of a new rise in sovereign yields, a more rapid deterioration in the financing conditions of the private sector and a further slowdown in the companies' propensity to invest. A more accentuated return of tensions on government bond yields may instead cause higher growth rates.

(*Source: Bank of Italy Economic Bulletin No. 1/2019*).

2. Situation of the Italian Life Insurance Market

In 2018, the new production of individual and collective life policies of Italian and non-EU companies, including additional single premiums, reached €85.5 billion in premiums, a 3.8% growth compared to the previous year, when the contraction was 5.2%. New premiums for individual policies alone amounted to €82.3 billion, 96% of total new business, up 3.5% compared to 2017, when a decline of 5.6% was recorded.

Considering new life premiums of the sample of EU companies, equal to €13.7 billion, down 24.2% compared to the amount earned in 2017, new total life business amounted to €99.2 billion, i.e. 1.2% less than the previous year.

Analyzing the trend by Class type, it should be noted that Class I maintained the leading role in the life segment in 2018, with an impact on total new business that rose to 65%, i.e. 3 percentage points more than in 2017. Against a premium amount of €55.6 billion, after a gradual contraction in volumes issued since 2015 (down 5.3% in 2015, down 4.0% in 2016 and down 18.2 % in 2017), Class I reported an increase of 8.4% compared to the previous fiscal year. However, this result was partly offset by lower funding in Class III, especially concentrated in the second half of the year, both for individual policies and collective policies, reporting a general drop of 4.5% at year end, for a volume of new premiums of €26.8 billion. The impact of Class III on the entire new premium income fell to 31%, from 34% in 2017. With regard to Class V, in 2018 there was a slight increase (up 1.4% compared to 2017) of new premium income, due solely to the growth of collective policies, which offset the decline reported by individual policies. New business relating to the management of pension funds (Class VI) amounted to €892 million in 2018, 4.9 % higher than in 2017.

With regard to new life business by distribution channel, in relation to the activities of Italian and non-EU companies, over two-thirds thereof was brokered through bank and post office branches, with a premium volume of €57.8 billion and an increase of 4.1% compared to 2017, solely due to the good performance of individual policies. On the other hand, the income performance of new policies through the channel of qualified financial advisers was negative. Against a premium amount of €12.5 billion, there was a contraction of 2.4% compared to 2017 and a market share that dropped by one point and stood at 15% of overall new business. The volume of new business distributed by the agents' channel in 2018 was €9.1 billion (11% of total new business), which deceased for the third consecutive year (by 1.0%) compared to previous year, while the channel of directly operated agencies reported an opposite trend, growing further by 15.5%, representing new premiums of €4.7 billion (6% of the total).

Adding individual and collective policies of subsequent years, in relation to policies subscribed in previous years, to new business premiums, it is estimated that total life premiums (gross amounts) should reach approximately €102 billion in 2018, i.e. an increase of 3% compared to 2017. This result is, as already noted for new business in the current year, due to the increase (5%) of premium income relating to Class I, i.e. €66 billion (65% of total life premiums), offset by the drop in Class III policies (unit-linked), which in 2018 should touch €30 billion (29% of total income), i.e. a drop of 5% compared to 2017.

New annual business by distribution channel

Italian and non-EU enterprises (Euro million)

(individual and collective)	2016		2017		2018	
DISTRIBUTION CHANNEL	Premiums	16/15 (%) change	Premiums	17/16 (%) change	Premiums	18/17 (%) change
Bank and post office branches	60.047	-12,0%	55.516	-7,5%	57.790	4,1%
Agents	9.593	-1,2%	9.229	-3,8%	9.133	-1,0%
Directly Operated Agencies	3.844	1,5%	4.072	5,9%	4.702	15,5%
Qualified Financial Advisers	12.667	-24,7%	12.848	1,4%	12.535	-2,4%
Other forms (including Brokers)	679	18,1%	637	-6,3%	1.303	104,7%
Italian and non-EU enterprises	86.830	-12,4%	82.302	-5,2%	85.462	3,8%

Breakdown of premiums by type and distribution channel

(individual and collective)		BREAKDOWN OF PREMIUMS BY CHANNEL					
TYPE OF PREMIUMS	No. Of policies / adhesions	Bank and post office branches	Agents	Directly operated agencies	Qualified Financial Advisers	Other forms (including Brokers)	Total
Annual	15,8%	0,4%	2,4%	3,2%	0,2%	0,7%	0,6%
Single	61,6%	94,0%	87,1%	82,9%	98,7%	82,8%	93,5%
Recurring	22,6%	5,6%	10,5%	13,8%	1,2%	16,5%	5,9%
Total	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%

(Source: ANIA – Trends - February 2019)

3. The Company's Performance

The financial statements of Eurovita S.p.A. at 31 December 2018 show a net profit of €36.8 million, on a like-for-like basis and without the PPA effect, compared to a profit of €47.6 million earned at the end of financial year 2017. The profit contraction is essentially due to the reduction in Class III assets and related margins. The reduction in Class C income was instead largely offset by a smaller retrocession to policyholders.

The most significant data that emerge from the end of financial year 2018 can be summarized as follows:

- Premium income, in relation to products classified as insurance contracts or as investment contracts with profit sharing, was €1,252.2 million, against €965.4 million in 2017, an increase of 29.7%;

  New business, amounting to €1,056.68 million, showed an increase of 43.3% compared to the previous financial year, originating from an increase in single premiums, which went from €668.95 million to €923.22 million, and annual premiums which stood at €132.82 million in 2018 against €67.58 million in 2017.

- Premium income of financial products, classified under IAS 39 in compliance with the IAS / IFRS standards, was €640.8 million against €1,123.9 million in 2017, a decrease of over €483 million;
- In 2018, indirect business, concentrated on run-off treaties with Spanish and Belgian companies of the ERGO group, resulted in premium income of €5.88 million, compared to €6.79 million earned in the previous financial year, i.e. a decrease of 13%;
- Premiums ceded decreased by 15.4% due to the effect of the decrease in premiums for the subsequent years ceded under treaties relating to pre-2001 business arising for the network of the former company Ergo Previdenza (premiums ceded of €53.2 million compared to €62.9 million in the previous financial year);
- Investment income, net of related charges (net of interest expense on reinsurers' deposits) stood at €267.2 million, compared to a 2017 result of €306.1 million (gross of the PPA effect). It should be recalled that the volatility of the investment portfolio caused by the adoption of the IAS / IFRS measurement criteria, (even if it appears in a limited manner in the Income Statement given the classification of securities portfolio as Available for sale) did not have similar results in returns of the Separate Management funds. Separate Management funds, and therefore the associated products and related provisions, were valued by only taking into account the realized capital gains or losses and consequently were not directly influenced by the performance of the market rates but by the realized return of the assets that constitute them. The Company is however aware of the uncertainty of net contingent capital gains in its investment portfolio and monitors the performance of financial markets. It is believed that the intrinsic volatility in the measurement of assets at fair value does not currently require the Company to carry out any other market operations and hedges as further specified below.

Gross technical provisions, also considering the recognition of provisions calculated by using the shadow accounting method, decreased slightly, going from €9,988 million to €9,795 million. It should also be noted that, due to the merger transaction in the previous fiscal year, technical provisions include a Value in Force of €171,885 thousand relating to the former company Eurovita Assicurazioni. This value was amortized in line with the underlying portfolio maturity by separate management fund.

Operating expenses decreased by 9.5% from €75.6 million at the end of 2017 to €68.4 million at the end of the current fiscal year. This decrease is mainly due to lower personnel costs by €1.5 million, lower IT costs by €2.1 million and no costs for the Value Creation Program (posted in the amount of €3.3 million in 2017).

In 2018, the component relating to expenses for voluntary staff redundancy amounted to €8.72 million, which includes €3.6 million drawn from the related provision as they had already been set aside in the previous fiscal year. In September 2018, the Rome office of the former company Eurovita Assicurazioni S.p.A. was closed following the transaction carried out in April 2018, which allowed the voluntary redundancy of 53 resources and had an impact of about €5.6 million on the income statement for the year.

The pre-tax result, i.e. €51.7 million, was lower than that of the previous fiscal year (€67.4 million) for a total of €15.7 million. Taxes were calculated in accordance with applicable tax laws and regulations and went from €19.8 million to €14.9 million.

On February 20th 2019, IVASS notified Eurovita and Eurovita Holding of two inspection reports that represent the results of the inspection conducted by the Authority against the Companies in the period between October 1 and December 21, 2018, with reference to the measurement of risks and the role of internal control functions in the context of the implementation of Directive 2009/138 (so-called Solvency II).

As a result of the inspections, IVASS formulated observations concerning the Group's governance and control system, which according to IVASS did not guarantee an adequate management of the risk profile assumed by the Group following the merger, and the methodologies used and the controls carried out in implementation of the Solvency II framework, and in particular those used for the calculation of the best estimate of the technical provisions (BEL) and of the Solvency Capital Requirement (SCR), which in the opinion of the Authority should be the object of an overall reinforcement.

Simultaneously with the transmission of the aforementioned inspection reports, the IVASS, by sending two separate disputing letters, initiated:

(a) with respect to Eurovita, an administrative sanctioning procedure for the violation of the regulatory provisions on the calculation of the BEL and for the methodological deficiencies that in the opinion of the Authority have affected the information relating to the Solvency II framework transmitted by the Company to IVASS with reference to the year 2017;

(b) against Eurovita Holding, an administrative sanctioning procedure for the alleged failure to verify the adequacy of the mechanisms adopted, at Group level, to guarantee the solvency of the Companies.

Together with the inspection reports, IVASS issued two deeds of assessment in relation to the abovementioned issues and two "sanction" which prescribe:

- a ban to pay dividends until all the remedial actions related to the Solvency II regime will be properly implemented;
- the preparation of a Capital Plan, in case the Solvency ratio at 31 December 2018 was lower than the risk appetite framework (150%), which set out the actions to be carried out in order to assure that the Solvency ratio would meet the risk appetite framework in future on a continuative bases; and
- the preparation of a Remediation Plan which would aim to eliminate the deficiencies highlighted during the inspections and to assure the corporate governance and the BEL calculation would meet the Solvency II framework.

On 21 April 2019 the Company sent over to IVASS respectively:

- the assessment made by the Board and Senior Management on the issues risen by the Regulator during the inspections;
- the Capital Plan and the Remediation Plan;
- the response to the deeds of assessment whereby the Regulator initiated the sanction process against Eurovita.

Based on the considerations set out in the inspection report, the Company transposed the information given by the Supervisory Authority in the calculation of the Solvency ratio for 2018 and forward-looking Solvency ratio for 2019-2020, also considering the technical opinion received from an actuarial consultancy firm on the findings submitted by the Supervisory Authority. Further measures to strengthen the internal methodologies relating to Solvency II framework will be implemented by the Company within the remedy plan that was prepared in execution of IVASS request.
Also taking into consideration the changes made by the Company to the technical assumptions underlying the calculation of the BEL in order to receipe the indications formulated by IVASS,the Company, against a capital requirement (SCR) of €403.40 million, holds €458.84 million in OF with a Solvency II Ratio of 114%, assessed according to the provisions of Directive 2009/138/EC (Solvency II). This result shows an under-sizing that, in light of the actions undertaken, the Company's management team considers temporary and the result of the contingent situation that was created after the IVASS inspection. As mentioned above, the Supervisory Authority carried out the inspection during the fourth quarter of 2018 and presented its conclusions to the Company's Board of Directors on 20 February 2019. Accepting all the observations, the Company changed some of the technical assumptions underlying the calculation of Best Estimate Liabilities, in particular by adjusting redemption assumptions and, consequently, lengthened the duration of the portfolio. However, as the year 2019 had already started, the Company was physically unable to adjust assets to cover commitments undertaken with policyholders (an operation in any case carried out in the first quarter of 2019). The Solvency level at 31 December 2018, therefore shows a mismatch between assets and liabilities, which, in turn, generated a significant impact on interest risk (in this case, down) in the order of 12 percentage points on the final Solvency ratio, as noted in the 2019 first quarter interim report.

In any case, the Board of Directors has the reasonable expectation that the Company will continue its operational existence in the foreseeable future and therefore obviously prepared the Report on Operations on a going-concern basis. The acquisitions and the merger that characterized 2017 laid the foundations for the establishment of a new insurance enterprise of primary importance on the Italian market, increasingly committed to expanding its distribution network and developing new products in the life sector.

As further proof of this, it should be stressed that the Holding Company recapitalized the Company by €27.4 million on 27 March 2019 with the aim of harmonizing the Solvency Ratio among the Group entities.
This capital injection and the assets duration's extension already bring the solvency ratio of the Company back to a theoretical 131%.

In addition to the aforementioned actions, the Company, as part of the Capital Management Plan that will be submitted to IVASS prepared a new Capital Policy aiming to raise the limit of solvency II ratiobeyond which it can distribute dividends to 165%, make no dividend payouts for a temporary period, and issue a Tier 2 subordinated bond for up to €65 million, which will be fully subscribed by the shareholder for the purpose of bringing the Company to a Solvency II ratio of at least 150% as early as Q2 2019.

To achieve this the subject that indirectly controls the Company has formally communicated its willingness to make the funds necessary for the subscription of the entire amount of the loan, following the completion of the necessary formalities for the issue.

With regard to the risks to which the Company is exposed, please refer to the appropriate section in the Explanatory Notes.

Based on the requirements of I.S.V.A.P. regulation No. 7/2007, the following is the mandatory information on compliance with Solvency Capital Requirements, in particular the amount of the Solvency Capital Requirement and the Minimum Capital Requirement, as well as the eligible amount of own funds to cover the aforementioned requirements classified by levels:

Own funds available and eligible to cover SCR (amounts in Euro thousand)

	Own funds available	Eligibility adjustments	Own funds eligible
Tier 1 unrestricted	409.902	-	409.902
Tier 1 restricted	-	-	-
Tier 2	48.942	-	48.942
Tier 3	-	-	-
Total OF	458.844	-	458.844
Total SCR			403.406
Surplus (shortage)			55.438

Own funds available and eligible to cover MCR (amounts in Euro thousand)

	Own funds available	Eligibility adjustments	Own funds eligible
Tier 1 unrestricted	409.902	-	409.902
Tier 1 restricted	-	-	-
Tier 2	48.942	12.636	36.307
Tier 3	-	-	-
Total OF	458.844	12.636	446.208
Total MCR			181.533
Surplus (shortage)			264.676

According to the provisions of Article 62 - Transitional provisions of IVASS Measure No. 53/2017 -, it should be noted that the data relating to the Solvency Capital Requirement and Minimum Capital Requirement set out above should be understood as estimates. The corresponding final data will be communicated to the supervisory authority and included in the Solvency and Financial Condition Report (SFCR) within the timeframe established by IVASS regulations on Solvency II.

4. Sales Networks

During the year 2018, the Company used various distribution channels for the performance of insurance brokerage activities:

- Agents' channel;
- Advisory Network channel;
- Bancassurance channel.

Agents' Channel

Support for this network focuses on assistance, coaching, commercial support, development, and coordination of training activities for Agencies.

At 31 December 2018, the channel was made up as follows:
98 Traditional Agencies (including the leads of the HQ agency)
8 Brokerage Firms

Reorganization activities started at the beginning of the year and led to the closure of 40 traditional agencies and the opening and/or reorganization of 2 Agencies. Closure operations, in almost all cases, involved non-profitable agencies with small portfolios scarcely oriented towards the acquisition of new customers.

At 31 December 2018, the new business amounted to €66 million. This positive result was also achieved thanks to the results obtained during the financial year in marketing campaigns focused on the recovery of customers with capital expiring in the year.

As usual, the training plan for the brokers' professional updating continued. The updating of the on-line training platform is on an ongoing basis.

Lastly, the ongoing verification of the regularity of all brokers registered in the Italian Register of Intermediaries continued, in compliance with the statutory provisions governed by I.S.V.A.P. Regulation No. 5, concerning insurance brokerage activities, with the consequent cancellation of the approval for all brokers not in compliance with the law.

Bancassurance Channel

During the course of 2018, in addition to banking institutions, the channel also used other types of intermediaries, such as brokers (Section B of the RUI), agents and local federations (Section A of the RUI), for the performance of insurance brokerage activities.

This channel was made up as follows:
94 Banking Institutions
3 Brokerage Firms
3 Insurance Agencies
3 Agencies / Local Federations of the Iccrea Banking Group

Consistent with its business plan, the Company set strategic objectives aimed at consolidating partnerships with the distribution network and finalizing the range by reviewing the product catalog. In fact, in fiscal year 2018 the Company, on one hand, consolidated its partnerships with Banca Popolare di Puglia and Basilicata, Cassa di Risparmio di Volterra and Cassa di Risparmio di Bolzano, the latter signing an exclusive agreement for 10 years; on the other hand, it reviewed its product catalog downscaling Class I supply in favor of multi-class products in a year in which, however, the market situation favored an ever-increasing demand for traditional and less risky products.

Training activities continued throughout 2018, emphasizing the training courses of a technical, regulatory, and business nature, following a consultancy approach targeting customers' demands and insurance needs. As usual, training activities also involved all the new products being distributed. The entire activity was integrated by the IT support of *AVAC* (*Ambiente Virtuale per l'Apprendimento Collaborativo*, Virtual Environment for Collaborative Learning), made available to all intermediaries, for the use of self-training courses, a platform compliant with IVASS Regulation No. 6.

Advisory Network Channel

During 2018, in line with the Company's commercial reorganization, a redistribution of the intermediaries belonging to the so-called Advisory Network channel was started assigning to it mainly distribution enterprises that operate through financial advisers (directly or with underwriting authorization) and Private Banking enterprises, including through insurance brokers.

As a result of this process, the new business created by this commercial channel was almost exclusively produced by these two types of distributors.

In terms of brokerage agreements, 5 new agreements were activated:

- 1 collaboration agreement with a Broker
- 2 brokerage agreements with Private Banks
- 2 brokerage agreements with agencies that carry out the activity through financial advisers with "underwriting authorization"

In light of the above, in the absence of agreements closed in 2018, the current composition of this sales channel is as follows:
14 Banking Institutions
10 Brokerage Firms
9 Insurance Agencies
6 securities brokerage firms

Overall situation of all intermediaries in Sec. A

There were 98 Traditional Agencies at 31 December 2018, including 8 accounts belonging to the HQ Agency.

The global situation of the intermediary network examined above was as follows:

	Northern Italy	Central Italy	Southern Italy and major islands	Total
Situation at 31.12.2017	50	48	33	131
HQ agency	1	0	0	1
OMWI and EVA Agencies	4	0	0	4
Open agencies	1	0	1	2
Closed agencies	14	10	16	40
Situation at 31.12.2017	**42**	**38**	**18**	**98**

5. Production (New Business)

In financial year 2018, new business, including accessories, stood at the following levels (policies in units and premiums in Euro million):

Amounts in Euro million	2018		2017	
Insurance Products / Financial and Insurance products with DPF	individual policies	collective policies	individual policies	collective policies
No. of policies	101.881	9.605	67.572	8.726
Annual premiums	131,52	1,30	66,17	1,41
Single premiums	916,44	6,78	663,05	5,90
Financial Products	individual policies	collective policies	individual policies	collective policies
No. of policies	8.774	-	12.617,00	-
Annual premiums	0,88	-	0,58	-
Single premiums	623,58	-	1.154,06	-

The comparison with the results of the previous fiscal year was on a like-for-like basis, and shows a marked growth in new business linked to typical insurance products, to the detriment of financial products.

In detail, Annual Premiums and Single Premiums, relating to Insurance products, were issued for an additional value of €65.24 million and €254.27 million, respectively, compared to the previous fiscal year. While for financial products, the contraction of Single Premiums stood at a value of €530.48 million.

6. Premiums Issued

The premiums issued relating to direct business alone amounted to €1,246.3 million for financial year 2018.

The following is a summary, on a like-for-like basis, of premiums issued for direct business by geographical area (amounts in Euro million):

Amounts in Euro million	2018	2017	Change in %
- Northern Italy	652,95	556,91	17,2%
- Central Italy	259,13	180,03	43,9%
- Southern Italy and major islands	334,25	221,67	50,8%
- Foreign countries	0,00	0,02	
Total	1.246,34	958,63	30,0%

Overall, the Company's distribution activity is spread throughout the country, with a prevalence in northern Italy. The breakdown by geographical area is influenced by sales networks distributed throughout the market.

The total amount of premiums issued, including accessories and values relating to indirect business, is given in detail in the following table (amounts in Euro million):

Amounts in Euro million	2018	2017	Change in %
Direct business			
Annual premiums			
- new business	11,74	12,82	-8,4%
- business from prior years	166,82	188,90	-11,7%
Total annual premiums	178,56	201,71	-11,5%
Total single premiums	1.067,78	756,92	41,1%
Total direct business premiums issued	1.246,34	958,63	30,0%
Indirect business	5,88	6,79	-13,4%
Total direct and indirect business	1.252,22	965,43	29,7%

On a like-for-like basis, financial year 2018 recorded a decrease of 8% in new business with annual premiums going from a premium volume of €12.82 million in 2017 to a volume of €11.74 million in 2018. The component linked to settlements reported a drop compared to the previous fiscal year, going from €188.90 million to €166.82 million.

However, income linked to single-premium products reported an increase of 41%, going from €757 million in 2017 to €1,068 million in fiscal year 2018.

Premiums for indirect business recorded a decrease of 13%, due to the fact that, as of 1 January 2009, the Company no longer reinsured new business issued by ERGO Insurance N.V. België (formerly Hamburg-Mannheimer), as the treaty remained in place only for annual renewals.

Moreover, it should be noted that income for financial products (classified as such in compliance with the IAS / IFRS standards and not presented according to the same rules among premiums issued as they are considered deposits) amounted to €640.87 million in 2018 (including €640.29 million in new business), a decrease compared to 2017, when new business had been €1,124 million.

7. Trends in Claims and Redemptions

The following table summarizes the overall data regarding the amount of the Company's claims settlements at year end, broken down by type, compared with data for 2017, which were reconstructed on a like-for-like basis (amounts in Euro million):

Amounts in Euro million

	Value at 31/12/2018	Value at 31/12/2017	Change	Change in %
Claims paid	124,3	127,2	-3,0	-2%
Redemptions paid	432,7	457,3	-24,6	-5%
Maturities liquidated	763,3	584,8	178,5	31%
Change in reserves for amounts to be paid	49,0	34,4	14,6	42%
Total gross	*1.369,3*	*1.203,8*	*165,5*	*14%*
Claims paid	-9,2	-5,8	-3,3	57%
Redemptions paid	-26,9	-34,8	7,9	-23%
Maturities liquidated	-333,8	-149,5	-184,4	123%
Change in reserves for amounts to be paid	-49,6	-9,9	-39,7	402%
Total portion borne by reinsurers	*-419,4*	*-200,0*	*-219,4*	*110%*
Total including reinsurance	949,8	1.003,8	-54,0	-5%

In detail, the charges for claims and redemptions, net of the reinsurance effect, show a significant reduction in maturities linked to the natural trend of the forfeiture of the portfolio of the former company Ergo Previdenza.

8. Technical Provisions and Financial Liabilities to Policyholders for Commitment on Investment Contracts

Gross technical provisions at 31 December 2018, including amounts to be paid, amounted to a total of €9,794.61 million, a slight decrease compared to provisions at the end of 2017, equal to €9,988.06 million. Despite the forfeiture of the portfolio of the former company ERGO Previdenza, mathematical provisions remained substantially unchanged compared to the previous fiscal year, while the shadow accounting provision dropped dramatically given the reduction in latent capital gains on separate management funds.

The shadow accounting provision amounted to €226.94 million compared to €430.11 million in the previous fiscal year, while Value in Force (a negative VIF recorded among provisions following the merger transaction on 31.12.2017) was €171.88 million and reflects the forfeiture of the portfolio of the former company EVA (€202.74 million at 2017). Mathematical provisions relating to policies with a revaluation clause linked to separate management funds amounted to €8,810.64 million against €8,800.97 million in the previous fiscal year.

Mathematical provisions relating to revaluable policies take into account attributable returns under specific contractual conditions.

With regard to other technical provisions, amounting to €289.71 million (€224.38 million in 2017), these include provisions for future management expenses of €33.58 million, provisions for amounts to be paid of €237.38 million, and supplementary provisions of €18.74 million (which include €18.68 million due to the supplementary provisions for rate decrease as per Law No. 1801).

The amount of provisions is broken down as follows (amounts in Euro million):

Amounts in Euro million	31/12/2018 Total	31/12/2017 Total	Change
Provisions for policies "Fondo EUROVITA 2000"	461,90	1.090,32	-628,43
Provisions for policies "Fondo EUROVITA Nuovo Secolo"	2.532,97	2.025,80	507,17
Provisions for policies "Fondo EUROVITA Nuovo PPB"	423,73	430,67	-6,93
Provisions for policies "Fondo EUROVITA Euroriv"	3.362,30	3.217,78	144,53
Provisions for policies "Fondo EUROVITA Futuriv"	13,40	11,70	1,70
Provisions for policies "Fondo EUROVITA Primariv"	1.976,22	2.001,10	-24,88
Provisions for policies "Fondo EUROVITA Smart"	37,51	21,25	16,26
Provisions for policies "Fondo EUROVITA Previdenza"	2,61	2,36	0,25
Total insurance provisions of segregated funds	8.810,64	8.800,97	9,67
Provisions for pure risk policies	103,05	129,02	-25,97
Supplementary provisions	10,42	13,40	-2,98
Technical provisions for indirect business	78,35	78,53	-0,18
Total pure actuarial reserves	9.002,45	9.021,92	-19,46
Provisions for Unit Linked policies	95,10	97,28	-2,18
Provisions for supplementary policies	8,52	11,63	-3,11
Other technical provisions	289,71	224,38	65,33
Shadow Reserves	226,94	430,11	-203,17
VIF	171,88	202,74	-30,86
TOTAL INSURANCE PROVISIONS	9.794,61	9.988,06	-193,45

Financial liabilities on investments contracts, recognized according to IVASS Regulation 7 among the financial liabilities measured at fair value through profit or loss, amounted to €6,605.2 million against €7,772.4 million at 31.12.2017 and represent the commitments to policyholders for Unit Linked contracts without significant insurance risk. The decrease is attributable both to a negative net cash flow contribution of Class III products and to the performance of the financial markets.

9. Transactions with Reinsurers

The Company implements insurance risk mitigation through a reinsurance policy focused on hedging death risk on TCM and PPI products, implemented under surplus share treaties (full €100,000 preservation of the former EP network and full €70,000 preservation of the former EVA network) for TCMs and quota share treaties for PPIs.

As mentioned above, the Company was established on 31 December 2017 from the merger of the former companies EP, EVA and OMWI.

Accordingly, the current situation represents the set of reinsurance policies of the three merged companies.

In the portfolio collected by the former EP agency network, the presence of commercial treaties relating to revaluable policies is predominant, with approximately 95% of the premiums ceded, to which surplus share risk-premium treaties hedging the death risk of TCM policies, quota share treaties hedging the death risk of CQS / CQP policies, as well as an LTC guarantee treaty, were added over time. The new company also inherited indirect business from the former company EP, essentially taken from ERGO Belgium, within the Munich Re Group of which the former company EP was a member, and retroceded business relating to both revaluable contracts and to TCM contracts.

The portfolio collected from financial advisers of the former OMWI network is protected by a risk-premium treaty aimed at hedging the optional death event of Unit-Linked products.

The portfolio collected through the former EVA banks is reinsured either under commercial treaties on revaluable policies or under treaties hedging the death risk for TCM and PPI policies. The provisions of the ceded business with respect to the provisions of direct business have a 16% weight on the provisions of revaluable policies, with a rate of 10% on risk-death provisions (TCM and PPI) and at the rate of 50% for LTC risk.

There are no alternative risk transfer tools.

The global economic result of 2018 consisted in a loss of €13 million for the Company. The table enclosed summarizes the position of Commercial Reinsurance and Risk in comparison with the previous fiscal year on a like-for-like basis.

Amounts in Euro thousand

	2018		2017	
	Comm. Reins.	Risk Reins.	Comm. Reins.	Risk Reins.
Premiums Ceded	-50.186	-3.014	-60.081	-2.783
Claims	8.102	1.029	4.967	985
Redemptions	26.879	0	34.793	0
Maturities	333.866	0	149.351	0
Change in reserve	-295.045	-354	-95.360	-218
Commissions	6.646	160	4.606	50
Other technical income and charges	3.429	851	138	656
Technical sub total	*33.690*	*-1.328*	*38.414*	*-1.310*
Interest on deposits	-45.334	-5	-53.803	0
Total	-11.644	-1.333	-15.389	-1.310
GRAND TOTAL	-12.977		-16.699	

With regard to outward reinsurance, there are still treaties in place with Ergo Vida and FIATC, companies operating on the Spanish market, although they only regulate annual renewals of the portfolio ceded up to 2004. Starting from 2006, the Company entered into an outward reinsurance treaty covering a 20% quota of new business of the company ERGO Insurance N.V. België (formerly Hamburg Mannheimer Belgium), a member of the ERGO Group; as of January 2009, as previously mentioned, the treaty was not renewed and the reinsurance only concerns the management of annual renewals related to contracts concluded previously.

The business result recorded an increase of €0.1 million, from €2.5 million in 2017 to €2.6 million in 2018.

Amounts in Euro thousand

Commercial Outward Reinsurance

result of indirect business	2018	2017
Premiums borne	5.880	6.792
Claims	-5.046	-4.162
Redemptions	0	0
Maturities	0	0
Change in reserve	187	-1.824
Commissions	-220	-109
Change in DAC	0	-330
Interest	1.834	2.126
Other net technical income	0	0
Total indirect business	2.635	2.493

10. Research & Development and New Products

The year 2018 allowed Eurovita to distinguish itself above all in the supply of new insurance products, with the main objective of completing the package of available products according to the multi-faceted disbursement strength at its disposal: therefore, products were created such as *BNL Thematic Plus*, a Unit-Linked product for BNL, characterized by a profound innovation in risk and volatility levels offered by internal funds and by financial themes underlying the Lines under Management made available to investors; *Eurovita Valore Mix*, single premium multi-class product designed to increase the type of products available to Banca Popolare Puglia and Basilicata; *Eurovita Profilo Multi-Strategia Plus 5*, single premium multi-class product designed to meet the needs of Banca Profilo's private customers - and for Banca Profilo a new single-premium multi-class product called *Eurovita Profilo Multi-Strategia Gold*, designed to manage the bank's private customers' demand.

The supply of "*Ad Personam*" products, for Widiba, was expanded in the first half of the year with the preparation of a new single-premium, unit-linked, whole life product with external funds, called *Ad Personam Unit-Linked Platinum*, created to manage the private network customers' demand.

During 2018, the Company's willingness to take action on the overall supply of available products was accompanied by the opportunity to expand the number of commercial agreements with new distribution partners. The following agreements should be mentioned:

- BIM, a financial advisory network, collaboration established in the first half of the year that led to the creation of *Eurovita Obiettivo Sicuro*, a new retail whole-life product in Class I, built by using the Eurovita Separate Management Fund *Nuovo Secolo*;

- Intesa Sanpaolo Private Bank, a financial advisory network, collaboration established in the second half of the year for the marketing of a new product called *Eurovita Capital Private*, a whole-life product in Class I designed to manage the Private Network customers' demand.

Towards the end of 2018, Eurovita signed a commercial agreement for the exclusive distribution of insurance products with Cassa di Risparmio di Bolzano and Cassa di Risparmio di Volterra aimed at launching an important and solid collaboration that will see the creation of a new package of insurance products in 2019.

The Company also chose to enhance existing products and services: just consider the restyling of the *Ad Personam* line for Widiba, characterized by the introduction, in all available product versions (*Silver*, *Platinum*, *Gold* and *Welcome*), of the already known optional service "omnibus switch": thanks to this option, Customers are given the chance to choose how much, from which fund and into which fund to allocate their investments.

In addition to new product research and development, the Company made a considerable effort to examine the impact deriving from the adoption of the European Directive on insurance distribution (EU No. 2016/97) and from the issuance of IVASS Regulation No. 41 laying down new rules on disclosure, advertising and creation of insurance products. This activity took the form of setting out criteria for prior customer due diligence investigation and subsequent monitoring in line with applicable legislation. During the second half of the year, a policy on product governance and control was issued and approved. In it, the Company formally defined the roles, responsibilities, rules and criteria that determine the processes being implemented.

At the same time, Eurovita set out and implemented the contractual adaptation process phases in regard of the products being placed in order to achieve the purposes laid down in IVASS Regulation No. 41: activities focused on the analysis of the new templates imposed by IVASS, with particular attention to new pre-contractual documents to be drawn up instead of the existing Disclosure Note and Prospectus, i.e. the *DIP* (*Documento di Informazione Precontrattuale*, pre-contractual information document).

The Company completed this project successfully, making available the new Information Sets as of 1 January 2019, as requested by the Supervisory Authority.

During the last few months of the year, Eurovita also carried out an in-depth examination of the product catalog currently available (resulting from the merger of the three former companies EP, EVA and OMWI), aimed at launching a restyling and global streamlining project of its product supply as early as the beginning of 2019.

11. Personnel and Specific Training

Eurovita S.p.A. was born on 31 December 2017 out of the merger of the three companies acquired by Cinven during 2016 and 2017. Eurovita Assicurazioni S.p.A. was based in Rome and therefore the new Company came to light with two offices: one in Milan and one in Rome. With a view to streamlining its structure and creating synergies, the Company decided to concentrate all corporate activities in Milan; during 2018, an engagement path was undertaken with trade union representatives aimed at relocating personnel to Milan.

The agreement, signed on 12 April, provided for incentives for redundancies on a fully voluntary basis if the resource decided not to accept the office relocation. The Company's proposal was substantiated in the disbursement of 31 monthly salaries. The number of people who adhered to this proposal was 53. One-off costs incurred amounted to €5.5 million, plus ancillary charges.

The Rome office was closed on 30 September 2018.

At 31 December 2018, the Company's workforce consisted of 213 employees (277 employees at 31 December 2017) with a decrease of 64 units.

At the reporting date, the Company's workforce was as follows:

	31/12/2018	31/12/2017
Company Number of employees		
Managers	8	11
Middle-managers and office workers	205	266
Total	213	277

During the year, Eurovita activated a corporate training process aimed at creating a new organizational culture, improving performance and developing innovative processes aimed at change.

During the first half of 2018, Eurovita completed the business plan financed by Fondo Banche Assicurazioni (FBA, banking and insurance fund), approved in 2017, which included the delivery of training courses in the period between July 2017 and July 2018. In particular, technical training on insurance, development of managerial skills and digital skills was delivered.

In September 2018, Eurovita presented a corporate training plan funded and approved by Fondo Banche Assicurazioni in October, which will end in October 2019. The maximum amount that can be financed is €252,400.00.

The plan was prepared consistently with the demand analysis that emerged during interviews with first-level managers. The plan's objectives include the strengthening of soft skills such as leadership, resource management and stress management; improvement of communication style through special training sessions on writing techniques and presentation skills; growth of industry expertise in technical insurance and improvement of the corporate climate through team-building activities aimed at creating integration between the various companies of origin.

In the last quarter of 2018, Business English courses were set up for senior management and all those positions who needed to improve their English-language communication skills, which are key to navigating the business world. Furthermore, a specialized training project on supplemental pension schemes was provided.

12. Pending Litigation and Provisions for Risks

The amount of the risk provision, equal to €22.1 million (€22.2 million in the previous fiscal year), is sufficiently large and includes future disbursements for disputes or risks to which the Company is exposed. Among the most significant, attention should be given to the retirement allowance to cover severance indemnities of the Company's agents, net of their actual recoverability by way of recourse, commitments undertaken with employed personnel in relation to charges relating to staff retention and costs deriving from the relocation from Rome, and probable disbursements for tax disputes and other disputes still pending with former agents, with policyholders also against indexes with defaulted issuers and with third parties.

Furthermore, given the particular attention paid to the search for the beneficiaries of dormant policies, supported by the Regulator, a risk fund was set aside to deal with any future payments of TCM policies that are no longer reckoned in mathematical provisions.

The following table is a summary of changes in provisions, starting from the value at 31 December 2017, broken down by type of provision:

Amounts in Euro thousand

	Amount at 31/12/2017	Increase	Decrease	Amount at 31/12/2018
Tax litigation	2.511	0	-3	2.508
Provisions for defaulted index-linked policies	3.032	150	-177	3.005
Sundry disputes with third parties	1.248	1.500	-156	2.592
of which, former EVA	*0*	*1.000*	*0*	*1.000*
of which, former OMWI	*1.248*	*500*	*-156*	*1.592*
Agency network provisions	7.599	0	-141	7.458
of which, former EP - Agents' pension scheme	5.099	0	-5	*5.094*
of which, former EP - Agency network restructuring	2.500	0	-136	*2.364*
Litigation with agency network	874	0	0	874
Sundry disputes with customers	1.560	900	-274	2.186
Other personnel provisions	5.361	1.742	-3.604	3.499
Total Provisions	22.185	4.292	-4.355	22.122

13. Capital and Financial Management

The year 2018 was characterized by a gradual abandonment of expansive monetary policies, with the Fed continuously increasing the cost of money and the ECB gradually abandoning its QE program. This process led to an increase in the volatility of global bond markets, in particular in emerging markets, which suffered the appreciation of the US Dollar.

The increase in volatility also involved European government securities, main investment area in the Company's ALM strategy, despite the marked diversification characterizing its investments. Among the Developed Countries, the Italian government bonds were the most volatile, with a sharp rise in yields in particular starting in May following the formation of the new government and then the tug of war undertaken with the European Commission for the approval of the Budget law. The Company's portfolio showed a good solidity and resilience, as its exposure to Italy remained at no more than 20% during the year.

On the macroeconomic side, while remaining in a context of growth, the third and fourth quarters were characterized by generally weak economic statistics. This was compounded by the intensification of political risks, with tensions over the trade war between the US and China, which created a climate of risk aversion both on the stock market and on the corporate bond, investment grade and high yield bond markets, which suffered a marked increase in risk premium. The effect was twofold: risky assets suffered generally negative performances (total return) in 2018, while those of core European government bonds and Spain and Portugal bonds were positive. The fall in risk free rates therefore continued, affecting the Company's returns. However, the new investment strategies implemented by the Company made it possible to contain the yield loss, while maintaining a prudent approach and a high portfolio diversification in a context of low government rates.

The investment strategy adopted by the Company combines a top-down approach, i.e. starting from the definition of its capital management strategy (strategic asset allocation) based on the study of macroeconomic variables and risk diversification, to arrive at the precise definition of investments by analyzing fundamental data, current and forward-looking, of individual investments (bottom-up approach).

As part of the bottom-up management of portfolios, the Company implements a broad diversification of investments by:

- geographical exposure, focused on core and peripheral European states;
- credit risk, favoring the highest levels according to a prudent assessment;

- issuer, in relation to the instruments of financial and corporate issuers.

Furthermore, some investment restrictions were defined in order to reduce risks in the investment strategy (no currency and equity market exposure).

To achieve the maximization and stabilization of returns in the medium-long term and the containment of risks, the Company "structured" its financial management as follows:

- investments in "traditional" asset classes (mainly government securities and bonds of financial issuers and corporate investment grade) are made under management mandates with financial managers with a high international standing (BNP Paribas AM - Goldman Sachs AM);
- investments in other liquid financial instruments (mainly bonds of Emerging Countries and High Yield bonds of European and American issuers) are made by investing in multi-asset fixed-income funds, which enable flexible, diversified (between and within the different asset classes) and global (geographically) management. Management is entrusted to a highly specialized global manager (Goldman Sachs AM);
- investments in "innovative and illiquid" financial instruments (mainly bonds and loans to medium-sized companies) are made through funds of the main international managers characterized by a long and solid track record. The investment in Private Debt funds, in addition to the corporate sector, makes it possible to invest in infrastructural and real estate initiatives, thereby enabling the diversification of investments and to "seize" the opportunities offered by illiquid premiums typical of these asset classes, consistent with the stability characteristics of insurance portfolios. For the selection and management of this type of investments, the Company uses the support of StepStone, which is one of the world's leading operators in this strategy.

In summary, financial management, through a "solid" investment process, aims to seize all the opportunities offered by the global financial markets in a professional and flexible way.

The net result of investments as presented, recalculated at IAS values gross of the negative accounting effect deriving from the different amortized cost and different realization gains / losses on the securities portfolio generated following the PPA impact described above to allow a comparison with 2017 for three companies prior to the merger, was €267.2 million, a decrease compared to the previous fiscal year (down 12.7% compared to €306.1 million in 2017). In particular, there was a decrease in investment income of €28.8 million due to lower interest income of €44.2 million partially offset by higher Other income of €15.3 million. The contribution of the income from realization was down by €5.5 million (€49 million in 2018 compared to €54.5 million in the previous fiscal year), as was valuation income, decrease of €4.6 million (down €6 million in 2018 compared to a drop of 1.4 million in the previous fiscal year). Net income from financial instruments at fair value through profit or loss brought higher charges for a total of €1.3 million.

Net income from realization (gain of €49 million against a gain of €54.5 in 2017) is the result of a number of strategies, such as the optimization of the ALM structure of some portfolios or partial consolidation of accumulated income, made on assets also for the adaptation of the various portfolios to the new Company's investment strategies.

The valuation result had a negative impact of €6 million due to final write-downs resulting from the impairment test, recorded on equity investments of Italian credit institutions and units of Alternative Investment Funds (AIF).

The result deriving from "Financial assets measured at fair value through profit or loss" generated a negative result (loss of €62 million compared to a gain of €16.7 million in 2017), due to the negative performance of the markets to which External Funds and Unit-Linked Internal Funds are connected, whose result was substantially affected by the increase in the size of assets following the new post-merger scope of operations, in particular thanks to the contribution of the portfolios deriving from Old Mutual Wealth Italy S.p.A., a company focused on these types of products.

Valuation of Investment Portfolio

The Company's total investment portfolio at book value amounted to €16,273 million at 31 December 2018 (€17,699 million at 31 December 2017).

Compared with the values for the previous fiscal year, the duration of the direct bond component in the portfolio (5.3 years) was substantially steady (5.6 years at the end of 2017) despite the short-term positions temporarily implemented at the end of the year on the latest funding; new purchases focused on maturities in the medium-long part of the curve, in line with the maturities of commitments in ALM terms.

The "Loans and receivables" portfolio, amounting to €446.8 million (€518.7 million in 2017), represents 2.7% of the total portfolio, showing theoretical net valuation gains of €19.4 million, a decrease compared with at the same figure for 2017 (€26.1 million), mainly due to the decrease in the average duration to 4.2 years (5.2 years in 2017).

The portfolio of "Financial assets available for sale" (AFS - Available For Sale), amounting to €9,140.7 million (€9,338.2 million in 2017), represents 56.2% of the total portfolio and shows a positive Equity Reserve of €66.6 million, a decrease compared to the value recorded in the previous fiscal year, i.e. €284.5 million. The performance of the Equity Reserve was affected by the contraction of the merging company's original portfolio, from which almost all of the reserve derives due to the related maturities. The accounting consolidation at market value of the merged companies' original portfolios at the time of acquisition substantially eliminated the values of the related provisions, determining the predominance of the merging company's values, which nevertheless had a shorter average duration. The average duration of the direct bond component is 5.31 years.

"Financial assets measured at fair value through profit or loss", amounting to €6,685.8 million (€7,841.8 million in 2017), represent 41.1% of the total portfolio. The item dropped due to the negative performance of the markets in the second part of the year to which the portfolios are linked.

Further Information

Starting in 2017, the direct bond investment portfolio front-office was, under specific Management Mandates almost in its entirety, delegated to BNP Asset Management Paris and Goldman Sachs Asset Management London. The investment strategy, as well as the risk control measures, was in accordance with the guidelines issued by the Board of Directors, under the strict supervision of the Investment Committee, and carried out in coordination with the Strategic Asset Allocation policy approved by the Board of Directors.

14. Trends in Overhead Expenses and Acquisition Costs

Overhead expenses, including transfers to other acquisition expenses, claims, investment management expenses and including amortization of intangible assets, amounted to €68.4 million, a decrease compared to the same period in the previous year (€75.6 million in 2017). Such drop is mainly due to lower personnel costs of €1.5 million, lower IT costs of €2.1 million and no costs for the VCP Project (€3.3 million reported in 2017).

In 2018, the component relating to voluntary staff redundancy expenses amounted to €8.72 million. The Company recovered costs from the TSA contract with Darag Italia for approximately €0.8 million related to IT services and rentals.

With respect to the other Group companies, the Company incurred costs of €2.1 million relating to the chargeback of personnel expenses by Eurovita Holding S.p.A.; it also charged back total costs of

€0.4 million to other Group companies, which included €0.2 million for personnel expenses and €0.2 million for IT services and other miscellaneous services.

Acquisition Commissions and Other Acquisition Costs (which include Purchase Commissions, Collection Commissions, Rappels and other Incentives to the sales network), net of acquisition commissions received from Reinsurers (i.e. €11.1 million) and Portfolio Maintenance Fees (i.e. €114.4 million), amounted to €41.7 million compared to €43.5 million recognized in 2017 (down 3.9%). This decrease is substantially in line with the decrease in total new business.

The change in Commissions to be amortized (DAC and DFI) amounted to €6.5 million and shows an increase of €2.1 million compared to the previous fiscal year (€4.4 million in 2017). This increase is mainly related to the increase in new business with annual premiums which generated an increase in purchase commissions with a consequent increase in the related portion to be amortized over the years.

15. Information Systems, Organization, and Significant Projects

During the course of 2018, the Company continued the system and process development plan started in 2017 in order to achieve the full integration of Eurovita with the three companies merged at 31 December 2017, including for the purpose of being fully compliant with the standards laid down in legislation and as required by the market and supporting strategic developments.

In particular, the concentration of Data Centers into IBM was completed and the first phase of the integration of portfolio systems in the former company EVA's target solution was achieved through the migration of the former Company OMWI's portfolio, completed in January 2019.

In the organizational area, in 2018 the Company was involved in defining the target operating model for the main corporate areas, including assistance, training and network portal, customer support, treasury and document management. The implementation phase, which involves a significant impact on information systems, both in terms of streamlining and development, was launched in 2018 and will be completed during 2019.

Furthermore, an overall plan was started to set out and formalize internal corporate regulations made available to all employees through the Company Intranet and an organizational analysis was conducted with the support of a specialized consultancy firm for the purpose of optimizing the workforce of all the Company's organizational departments.

The following activities were also carried out for the purpose of improving operational effectiveness and efficiency and regulatory compliance:

- Adaptation to the GDPR regulation
- Adaptation to the MIFID and IDD regulations;
- Improvement of safeguards on anti-money laundering processes;
- Adaptation to IVASS Regulations No. 40/41 of 3 August 2018 for matters pertaining to the year 2018.

16. Management and Coordination

The Company is subject to the management and coordination of the Parent Company Eurovita Holding S.p.A. Eurovita Holding S.p.A. continues - among others – to satisfy the characteristics required by Article 5 of IVASS Regulation No. 22/2017 to be qualified as parent company of the insurance Group. The Company is in fact the ultimate Italian holding company pursuant to Article 210, paragraph 2, of Legislative Decree No. 209/2005.

A greater analysis of transactions with the entity carrying on coordination and control activities are set out in detail in paragraph 17 below.

17. Transactions with Group Companies

The transactions with the entity carrying on coordination and control activities and with all the Group companies are detailed below.

Eurovita Holding S.p.A.: in 2018, services amounting to €368 thousand were billed and personnel expenses of €2.1 million were charged back.

On June 20, the shares previously held by Eurovita in Eurovita Service representing 6.21% and by Agenzia Eurovita representing 0.52% were sold to Eurovita Holding. This facilitated the merger transaction that took place during 2018 between Eurovita Holding and Eurovita Service S.r.l.
Agenzia Eurovita S.r.l. maintains regular agency relationships and holds a significant portion of the PPB client portfolio, assigned to it by Eurovita S.p.A. In relation to such transactions, Agenzia Eurovita pays the Company's compensation to Agents by installments, in accordance with the National Bargaining Agreement for Agents. At the end of 2018, Agenzia Eurovita accrued commissions of €2.28 million from Eurovita S.p.A. and recoveries of €83 thousand were made. The commission rates paid by Eurovita were reduced starting from the second half of 2012 to take into account the fact that part of the collection activities were being carried out directly by the Company, while the reimbursement of portfolio recoveries that the Company charged at the end of the financial year is governed by the National Bargaining Agreement for Agents. All the contractual relationships described above were settled at market conditions, unless specifically noted.

At the end of financial year 2018, Eurovita S.p.A. held no shares of its parent company or associated companies in its investment portfolio. It holds treasury shares equal to €520 recognized as a decrease in shareholders' equity.

With regard to other related parties not included in the list, the Company maintained normal transactions for the payment of social security contributions with the "Pension Fund for employees and executives of the Eurovita Group".

18. Transactions with the Insurance Supervisory Authority (IVASS)

During 2018, frequent contacts were held with IVASS as part of normal operating activities.

In the fourth quarter of 2018, IVASS carried out an inspection on the Company's operations aimed at verifying the best estimate of technical provisions (BEL) and assumptions for the calculation of this item, as well as the calculation of the solvency requirement (SCR), including on a forward-looking basis.

The inspection was concluded on 21 December 2018 and the inspection report, with the associated requests for corrective action, was received by the Company on 20 February 2019.

At the date hereof, the Company was preparing its response regarding the issues raised and observations made by the Supervisor. The resulting measures already taken, or those that the Company intends to take, were also specified.

Within sixty days from receipt of requests for action from the Supervisor, the Company will also send a remediation plan approved by the Board of Directors and accompanied by the assessments of the Board of Statutory Auditors.

The plan will be completed in the next six months and will include all the actions to be taken to remove the critical issues raised during the inspection on corporate governance and technical provisions.

Furthermore, given that at the end of financial year 2018 the Company's solvency ratio was lower than the 150% target set by the Risk Appetite Framework, within the same term of sixty days the Company will submit a Capital Plan, also approved by the Board of Directors and accompanied by the assessments of the Board of Statutory Auditors, which will report the measures necessary to restore this level of capitalization and ensure compliance on an ongoing basis, as better described in point 3 above.

19. Exposure to Risk

Please refer to section 5.C of the Explanatory Notes.

20. Business Outlook

The Group will continue to develop, and work to streamline, its internal processes with a view to containing costs and creating a solid and independent company, the leader in the Italian life products market.

21. Significant Events after the End of the Financial Year

As stated in the Explanatory Notes, these financial statements were prepared on a going concern assumption, since, in the Directors' opinion, no uncertainties emerged in relation to events or circumstances that, considered individually or together, could give rise to doubts in regard of such assumption.

On February 20, 2019, IVASS notified Eurovita and Eurovita Holding of two inspection reports that represent the results of the inspection conducted by the Authority against the Companies in the period between October 1 and December 21, 2018, with reference to the measurement of risks and the role of internal control functions in the context of the implementation of Directive 2009/138 / (so-called Solvency II).

As a result of the inspections, IVASS formulated observations concerning the Group's governance and control system, which according to IVASS did not guarantee an adequate management of the risk profile assumed by the Group following the merger, and the methodologies used and the controls carried out in implementation of the Solvency II framework, and in particular those used for the calculation of the best estimate of the technical provisions (BEL) and of the Solvency Capital Requirement (SCR), which in the opinion of the Authority should be the object of an overall reinforcement.

Based on the considerations set out in the inspection report, the Company transposed the information given by the Supervisory Authority in the calculation of the Solvency ratio for 2018 and forward-looking Solvency ratio for 2019-2020, also considering the technical opinion received from an actuarial consultancy firm on the findings submitted by the Supervisory Authority. Further measures to strengthen internal methodologies relating to the Solvency II framework will be implemented by the Company within the remedy plan that was prepared in execution of the IVASS request.

In view of the inspection findings, the Authority requested the Company to prepare a corporate remediation plan, including a capital management plan, the contents of which have been illustrated in paragraph 3 above, within sixty days of the notification of the report.

EUROVITA
Valore alle tue prospettive

Shareholders,

We hereby propose to approve these financial statements comprising the Balance Sheet, the Income Statement, the Comprehensive Income Statement, the Statement of Changes in Shareholders' Equity, the Cash Flow Statement, and the Explanatory Notes, and accompanied by the Report on Operations.

The profit for financial year 2018 amounted to €30,885,478.39.

We hereby propose to set aside the entire profit for the year as retained earnings:

Utile d'esercizio	30.885.478

Riserva Legale	
Attribuzione riserva utili portati a nuovo	30.885.478

Concluding this report, we would like to thank the Shareholders and the Policyholders for the trust given to the Company.

We would also like to thank our Sales Networks, their Collaborators, and our Employees, who, through their activity and commitment, made it possible to achieve the results described herein.

Milan, 15 April 2019

FOR THE BOARD OF DIRECTORS
Erik Stattin
Chief Executive Officer

Balance Sheet

BALANCE SHEET - ASSETS

(Amounts in Euro)

		31/12/2018	31/12/2017
1	INTANGIBLE ASSETS	107.040.669	126.216.191
1.1	Goodwill	22.050.297	22.050.297
1.2	Other intangible assets	84.990.371	104.165.894
2	TANGIBLE ASSETS	466.029	594.158
2.1	Land and buildings (self used)	-	-
2.2	Other tangible assets	466.029	594.158
3	AMOUNTS CEDED TO REINSURERS FROM INSURANCE PROVISIONS	1.227.589.188	1.522.997.659
4	INVESTMENTS	16.273.258.546	17.698.741.538
4.1	Land and buildings (investment properties)	-	-
4.2	Investments in subsidiaries, associated companies and joint ventures	-	-
4.3	Held to maturity investments	-	-
4.4	Loans and receivables	446.709.252	518.730.727
4.5	Available for sale financial assets	9.140.733.746	9.338.241.591
4.6	Financial assets at fair value through profit or loss	6.685.815.548	7.841.769.221
5	RECEIVABLES	*89.304.541*	*91.275.334*
5.1	Receivables arising out of direct insurance operations	58.407.078	39.208.858
5.2	Receivables arising out of reinsurance operations	5.192.097	7.073.857
5.3	Other receivables	25.705.366	44.992.618
6	OTHER ASSETS	425.043.769	420.905.054
6.1	Non-current assets or disposal groups classified as held for sale	-	-
6.2	Deferred acquisition costs	35.637.357	28.921.980
6.3	Deferred tax assets	-	-
6.4	Tax receivables	306.728.818	311.321.367
6.5	Other assets	82.677.594	80.661.707
7	CASH AND CASH EQUIVALENTS	60.821.469	94.416.969
	TOTAL ASSETS	18.183.524.211	19.955.146.902

BALANCE SHEET - LIABILITIES AND SHAREHOLDERS' EQUITY

(Amounts in Euro)

		31/12/2018	31/12/2017
1	SHAREHOLDERS' EQUITY	348.424.999	445.330.559
1.1	Share capital	90.498.908	90.498.908
1.2	Other equity instruments	-	-
1.3	Capital reserves	219.093.364	242.388.321
1.4	Revenue reserves and other reserves	22.671.365	80.283.491
1.5	(Own shares)	- 520	-
1.6	Reserve for currency translation differences	-	-
1.7	Reserve for unrealized gains and losses on available for sales financial assets	- 18.093.760	22.065.835
1.8	Reserve for other unrealized gains and losses through equity	3.370.163	- 8.998.913
1.9	Result of the period	30.885.478	19.092.916
2	OTHER PROVISIONS	22.122.215	22.184.804
3	INSURANCE PROVISIONS	9.794.612.958	9.988.064.203
4	FINANCIAL LIABILITIES	7.774.376.890	9.297.281.588
4.1	Financial liabilities at fair value through profit or loss	6.608.308.209	7.793.899.983
4.2	Other financial liabilities	1.166.068.681	1.503.381.606
5	PAYABLES	134.280.121	76.271.600
5.1	Payables arising out of direct insurance operations	26.196.509	29.889.997
5.2	Payables arising out of reinsurance operations	64.735.497	17.898.774
5.3	Other payables	43.348.116	28.482.830
6	OTHER LIABILITIES	109.707.027	126.014.148
6.1	Liabilities directly associated with non-current assets and disposal groups classified as held for sale	-	-
6.2	Deferred tax liabilities	1.958.947	22.328.121
6.3	Tax payables	53.690.017	72.554.644
6.4	Other liabilities	54.058.063	31.131.382
	TOTAL EQUITY AND LIABILITIES	18.183.524.211	19.955.146.902

Income Statement and Statement of Comprehensive Income

Company: EUROVITA S.P.A.

INCOME STATEMENT

(Amounts in Euro)

		31/12/2018	31/12/2017
1.1	Net earned premiums	1.199.021.452	182.828.338
1.1.1	*Gross earned premiums*	*1.252.222.023*	*240.491.259*
1.1.2	*Earned premiums ceded*	- 53.200.571	- 57.662.921
1.2	Fee and commission income and income from financial service activities	174.502.063	113.908
1.3	Net income from financial instruments at fair value through profit or loss	- 62.029.607	1.357.528
1.4	Income from subsidiaries, associated companies and joint ventures	-	-
1.5	Income from other financial instruments and land and buildings (investment properties)	239.376.423	137.632.268
1.5.1	*Interest income*	163.386.123	122.760.603
1.5.2	*Other income*	30.852.954	2.234.647
1.5.3	*Realized gains*	45.137.346	12.637.018
1.5.4	*Unrealized gains and reversal of impairment losses*	-	-
1.6	Other income	61.045.558	17.901.699
1	TOTAL INCOME	**1.611.915.889**	**339.833.741**
2.1	Net insurance benefits and claims	1.245.875.947	212.339.766
2.1.1	*Claims paid and change in insurance provisions*	*1.320.334.111*	*302.398.144*
2.1.2	*Reinsurers' share*	*- 74.458.164*	*- 90.058.379*
2.2	Fee and commission expenses and expenses from financial service activities	137.998.480	- 246.243
2.3	Expenses from subsidiaries, associated companies and joint ventures	-	-
2.4	Expenses from other financial instruments and land and buildings (investment properties)	70.188.319	53.864.761
2.4.1	*Interest expenses*	47.983.470	53.803.106
2.4.2	*Other expenses*	-	-
2.4.3	*Realized losses*	14.248.056	61.655
2.4.4	*Unrealized losses and impairment losses*	7.956.793	-
2.5	Acquisition and administration costs	79.641.544	40.027.752
2.5.1	*Commissions and other acquisition costs*	37.076.285	15.701.140
2.5.2	*Investment management expenses*	11.811.099	2.242.865
2.5.3	*Other administration costs*	30.754.160	22.083.747
2.6	Other expenses	35.117.827	9.558.594
2	TOTAL EXPENSES	1.568.822.118	315.544.630
	EARNINGS BEFORE TAXES	43.093.771	24.289.111
3	Taxation	12.208.293	5.196.194
	EARNINGS AFTER TAXES	30.885.478	19.092.916
4	RESULT OF DISCONTINUED OPERATIONS	-	-
	RESULT OF THE PERIOD	30.885.478	19.092.916

STATEMENT OF COMPREHENSIVE INCOME

		31/12/2018	31/12/2017
	RESULT OF THE PERIOD	30.885.478	19.092.916
	Items that may not be reclassified to profit and loss in future periods	22.727	40.303
	Share of other comprehensive income of associates	-	-
	Reserve for revaluation model on intangible assets	-	-
	Reserve for revaluation model on tangible assets	-	-
	Result of discontinued operations	-	-
	Actuarial gains or losses arising from defined benefit plans	22.727	40.303
	Other	-	-
	Items that may be reclassified to profit and loss in future periods	- 27.790.518	- 35.585.174
	Foreign currency translation differences	-	-
	Net unrealized gains and losses on investments available for sale	- 40.159.595	- 26.634.784
	Net unrealized gains and losses on cash flows hedging derivatives	12.369.076	- 8.950.390
	Net unrealized gains and losses on hedge of a net investment in foreign operations	-	-
	Share of other comprehensive income of associates	-	-
	Result of discontinued operations	-	-
	Other	-	-
	OTHER COMPREHENSIVE INCOME	- 27.767.791	- 35.544.871
	TOTAL COMPREHENSIVE INCOME	3.117.687	- 16.451.955

Statement of Changes in Shareholders' Equity

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(Amounts in Euro)

	Amount as at 31.12.2016	Change in amounts	Allocation	Transfer to profit or loss account	Other transfer	Amount as at 31.12.2017
Share capital	90.000.000	-	498.908		-	90.498.908
Other equity instruments	-	-	-		-	-
Capital reserves	34.331.522	-	208.056.799		-	242.388.321
Revenue reserves and other reserves	18.516.457	-	61.767.034		-	80.283.491
(Own shares)	-	-	-		-	-
Result of the period	29.923.047	-	- 4.830.131		- 6.000.000	19.092.916
Other comprehensive income	48.611.793	-	- 12.445.254	- 23.099.617	-	13.066.922
Total	221.382.819	-	253.047.357	- 23.099.617	- 6.000.000	445.330.559

	Amount as at 31.12.2017	Change in amounts	**Allocation**	**Transfer to profit or loss account**	**Other transfer**	Amount as at 31.12.2018
Share capital	90.498.908	-	-		-	90.498.908
Other equity instruments	-	-	-		-	-
Capital reserves	242.388.321	-	- 4.055.127		- 19.239.831	219.093.364
Revenue reserves and other reserves	80.283.491	-	4.154.909		- 61.767.034	22.671.365
(Own shares)	-	-	- 520		-	- 520
Result of the period	19.092.916	-	30.785.697		- 18.993.135	30.885.478
Other comprehensive income	13.066.922	-	- 19.300.493	- 8.490.026	-	- 14.723.597
Total	445.330.559	-	11.584.466	- 8.490.026	- 100.000.000	348.424.999

Cash Flow Statement

Company: EUROVITA S.P.A. **Financial Year: 2018**

CASH FLOW STATEMENT (indirect method)

(Amounts in Euro)

	31/12/2018	31/12/2017
Earnings before taxes	43.093.771	24.957.456
Changes in non-cash items	**186.949.672**	**- 80.643.234**
Change in the provisions for unearned premiums and for unexpired risks for non-life segment	-	-
Change in the provisions for outstanding claims and other insurance provisions for non-life segment	-	-
Change in the mathematical provisions and other insurance provisions for life segment	101.957.227	- 172.814.311
Change in deferred acquisition costs	- 6.715.377	- 2.030.997
Change in other provisions	- 62.589	386.291
Other non-cash expenses and revenues arising out of financial instruments, investment properties and investments in subsidiaries, associated companies and joint ventures	70.859.618	-
Other changes	20.910.794	93.815.782
Change in receivables and payables from operating activities	**25.338.061**	**22.341.194**
Change in receivables and payables arising out of direct insurance and reinsurance operations	25.826.776	- 2.565.333
Change in other receivables and payables	- 488.715	24.906.526
Income taxes paid	**- 12.208.293**	**-**
Net cash flows from cash items related to investing or financing activities	**- 1.185.591.774**	**196.347.365**
Financial liabilities related to investment contracts	- 1.185.591.774	196.347.365
Payables to banking and inter-banking customers	-	-
Loans and receivables from bank and interbank customers	-	-
Other financial instruments at fair value through profit or loss	-	-
NET CASH FLOWS FROM OPERATING ACTIVITIES	**- 942.418.562**	**163.002.781**
Net cash flows from investment properties	-	-
Net cash flows from investment in subsidiaries, associated companies and joint ventures	-	-
Net cash flows from loans and receivables	67.085.587	53.858.871
Net cash flows from held to maturity investments	-	-
Net cash flows from available for sale financial assets	103.793.596	- 3.471.371
Net cash flows from tangible and intangible assets	19.303.651	35.448.466
Net cash flows from other investing activities	1.155.953.673	- 210.202.167
NET CASH FLOWS FROM INVESTING ACTIVITIES	**1.346.136.506**	**- 124.366.202**
Net cash flow from equity instruments	- 100.000.000	- 36.952.133
Net cash flow from own shares	- 520	-
Dividends payment	-	-
Net cash flow from equity instruments third party	-	-
Net cash flow from subordinate liabilities and from participation financial instruments	-	-
Net cash flow from other financial liabilities	- 337.312.924	- 107.544.256
CASH FLOW FROM FINANCING ACTIVITIES	**- 437.313.444**	**- 144.496.389**
Effect of exchange rate changes on cash and cash equivalents	**-**	**-**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	94.416.969	261.926.800
CHANGE IN CASH AND CASH EQUIVALENTS	- 33.595.500	- 105.859.810
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**60.821.469**	**156.066.991**

5.A Basis of Presentation

The Consolidated Financial Statements at 31 December 2018 were prepared in accordance with the International Financial Reporting Standards adopted by the European Union. International Financial Reporting Standards (IFRS) refers to all international accounting standards called “International Financial Reporting Standards” (IFRS) and “International Accounting Standards” (IAS) and related interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and its predecessor, the Standard Interpretations Committee (SIC).

With regard to the entry into force of new accounting standards, it should be noted that the new accounting standard IFRS 9, issued by IASB in July 2014 and approved by the European Commission under Regulation No. 2067/2017, as of 1 January 2018, replaced IAS 39, which currently regulates the classification and measurement of financial instruments. IFRS 17, i.e. the new standard relating to the measurement of Insurance Contracts, not yet approved at 31 December 2018, will instead be applicable as of 1 January 2021. In this regard, it should be noted that, due to the complexity of the standard, the IASB has recently proposed to postpone the date of first adoption by one year - 1 January 2022.

In September 2016, the International Accounting Standards Board (IASB) published an amendment to IFRS 4, which provides for two options for insurance groups: Temporary Exemption and Overlay Approach.

- Temporary Exemption allows for a complete departure from IFRS 9, maintaining the adoption of IAS 39 up to the Financial Statements at 31/12/2020, except for the recent IASB proposal to extend the term for a temporary deferral of the adoption of IFRS 9 so as to align it with the adoption of IFRS 17, as mentioned above;

- Overlay Approach makes it possible to remove any volatility from the Income Statement by suspending it as OCI, which could arise before the implementation of IFRS17 from some financial instruments that, following the adoption of IFRS 9, no longer meet the requirements for cost or FVOCI.

The two provisions were introduced in order to avoid the volatility of results deriving from a misalignment between the date of entry into force of the new accounting standard IFRS17 regarding insurance liabilities, in place of the current IFRS 4, and the new standard IFRS 9.

The Company opted for the adoption of the Temporary Exemption, so as to provide for its joint implementation for the insurance segment together with IFRS 17.

The Company verified that it meets the requirements for applicability of the Temporary Exemption. The calculation should be carried out taking as a reference the closing figures of financial year 2015, but given the extraordinary transactions as a result of which Eurovita S.p.A. was established during 2016 and 2017, the Company deemed it appropriate to make a reassessment of such reckoning as at 31.12.2017. In particular, the percentage of book value of liabilities linked to insurance activities on the book value of the entity’s total liabilities is higher than 90%, as at such date (predominance ratio).

As established by the law, a quantitative disclosure is provided below for entities that will apply the principle in arrears at 1 January 2022.

Loans and receivables	Fair value 31/12/2018	Fair Value change	Other changes	Fair value 31/12/2017
of which:				
Financial assets with contractual terms that provide for specific cash flows on specific dates represented solely by payments of principal and interest on the amount of the principal to be returned				
Bonds	302.128.811	- 6.349.608	47.252.714	261.225.705
Other financial assets	38.992.011	-	- 42.456.924	81.448.934
	341.120.822	**- 6.349.608**	**4.795.791**	**342.674.640**
Financial assets other than those with contractual terms that provide for specific cash flows on certain dates represented solely by payments of principal and interest on the amount of the principal to be returned				
Bonds	15.189.654	112.439	- 48.806.688	63.883.904
Other financial assets	-	-	- 1.351.618	1.351.618
	15.189.654	**112.439**	**- 50.158.307**	**65.235.522**

Available for sale financial assets	Fair value 31/12/2018	Fair Value change	Other changes	Fair value 31/12/2017
of which:				
Financial assets with contractual terms that provide for specific cash flows on specific dates represented solely by payments of principal and interest on the amount of the principal to be returned				
Bonds	7.739.087.006	141.742.713	- 1.058.865.426	8.656.209.719
	7.739.087.006	**141.742.713**	**- 1.058.865.426**	**8.656.209.719**
Financial assets other than those with contractual terms that provide for specific cash flows on certain dates represented solely by payments of principal and interest on the amount of the principal to be returned				
Bonds	301.180.122	8.216.029	30.288.575	262.675.517
Fund shares	1.073.838.201	35.061.746	650.241.595	388.534.861
Derivatives	10.804.868	-	23.742.702	- 12.937.833
	1.385.823.191	**43.277.775**	**704.272.872**	**638.272.544**
Other financial assets which provide no test				
Stock shares	26.628.417	1.012.913	- 4.067.744	29.683.248
	26.628.417	**1.012.913**	**- 4.067.744**	**29.683.248**

Financial assets at fair value through profit or loss	Fair value 31/12/2018	Fair Value change	Other changes	Fair value 31/12/2017
of which:				
Financial assets with contractual terms that provide for specific cash flows on specific dates represented solely by payments of principal and interest on the amount of the principal to be returned				
Bonds	4.577.554	-341.350	-	4.918.904
Derivatives	-2.301.900	920.100	-	-3.222.000
	2.275.654	**578.750**	**-**	**1.696.904**
Financial assets other than those with contractual terms that provide for specific cash flows on certain dates represented solely by payments of principal and interest on the amount of the principal to be returned				
Bonds	5.387.205	-467.942	-	5.855.147
Fund shares	-	-	-4.988.036	4.988.036
Derivatives	1.476.800	-994.700	2.562.135	-90.635
	6.864.005	**-1.462.642**	**-2.425.901**	**10.752.548**

With regard to credit risk, the data relating to risk exposure for securities that have passed the SPPI test are shown below:

RATING

Financial assets with contractual terms that provide for specific cash flows on specific dates represented solely by payments of principal and interest on the amount of the principal to be	Book value 31/12/2018	Market value 31/12/2018	Book value 31/12/2017
of which			
Investment grade			
Bonds	7.774.282.690	7.885.021.397	8.681.566.638
Other financial assets	38.848.742	38.992.011	81.131.773
Non Investment grade			
Bonds	159.918.975	8.450.315.582	100.396.493

As of 1 January 2018, the new accounting standard IFRS 15 also entered into force, replacing the previous IFRS 15 Revenues and IAS 11 Work in progress on order, and will be adopted by the Company as of such date.

Furthermore, as of 1 January 2019 the new accounting standard IFRS 16 will come into force replacing the previous standard IAS 17 Leasing. The new standard requires finding whether a contract is (or contains) a finance lease, based on the concept of control over the use of an asset for a period of time; it follows that lease, rental, renting or free loan contracts, previously not assimilated to finance lease, may now fall within the scope of rules on finance lease. In light of the above, significant changes were introduced to the accounting of leasing transactions in the lessee's / user's statements, providing for the introduction of a single accounting method for leasing contracts by the lessee, based on the right-of-use model. In essence, the main change consists in overcoming the distinction, established by IAS 17, between operating and finance leasing: all leasing contracts must therefore be accounted for in the same way with the recognition of an asset and a liability. For the periods starting from financial year 2019, the effects on the financial statements resulting from adoption of IFRS 16 will therefore be identifiable for the lessee in an increase in assets recognized in the financial statements (the leased assets) and in an increase in liabilities (the debt against the leased assets), a reduction in administrative expenses (lease fees) and a simultaneous increase in financial costs (the remuneration of the recognized debt) and depreciation (relating to the right of use).

Even after delisting from *Mercato Telematico Azionario*, which took place on 9 April 2009, the former company ERGO Previdenza continued to use the International Financial Reporting Standards as part of the current regulatory provisions (Legislative Decree No. 38/2005).

With regard to the technical forms of preparation, the Financial Statements were prepared in compliance with I.S.V.A.P. Regulation no. 7/2007, as amended.

The financial statements were prepared in accordance with the following tables set out in I.S.V.A.P. Regulation No. 7/2007:

- Balance Sheet;
- Income Statement;
- Statement of Comprehensive Income;
- Statement of Changes in Shareholders' Equity;
- Cash Flow Statement;
- Explanatory Notes;
- Annexes;

and are accompanied by the Directors' Report on Operations.

The reporting date is 31 December 2018.

The Financial Statements were prepared in Euros; the amounts in the Explanatory Notes, unless otherwise specified, are shown in Euro thousand.

The Financial Statements were prepared in a comparative form specifying the corresponding values of the previous financial year.

It should be noted that the comparative analysis of Income Statement data was significantly affected by the merger of Old Mutual Wealth Italy S.p.A. (hereinafter also "OMWI") and Eurovita Assicurazioni S.p.A. (hereinafter also "EVA") into Ergo Previdenza S.p.A. (hereinafter also "Ergo" or "EP"), which gave rise to Eurovita S.p.A., with effect as of 31 December 2017. The Balance Sheet data are harmonized and therefore comparable between the two fiscal years.

For the preparation of the statutory financial statements of Eurovita S.p.A., the merger, in accordance with IAS / IFRS international accounting standards, qualified as a merger with a restructuring nature and, in particular, a "mother-daughter integration". Therefore, the transaction could not be classified as a business combination, since it did not involve any exchange with third-party enterprises with reference to the activities that are being aggregated, nor an acquisition in the business sense.

The cost for the original acquisition of the merged companies, as well as the allocation thereof at fair value of the merged companies' assets and liabilities and goodwill, if any, were reported in the Group's consolidated financial statements. In other words, the merger with a restructuring nature determined the convergence of the consolidated financial statements at the merger date with the merging company's post-merger financial statements, thereby implementing the so-called "legal consolidation".

The entry of assets and liabilities arising from the merged companies in the merging company's financial statements did not lead to the emergence of higher fair values for such assets, compared to those presented in the consolidated financial statements, nor therefore of greater goodwill. It follows that the cancellation difference between the cost of the equity investment and the corresponding portion of the merged entities' shareholders' equity was allocated to the merged companies' assets as they did not exceed the values presented in the consolidated financial statements.

Measurement criteria were adopted on a going-concern assumption, using the accrual method, and the principles of relevance and significance of accounting information.

After the end of the financial year, no significant events occurred that could affect the data presented in the financial statements.

5.B Accounting Standards and Measurement Criteria

ACCOUNTING STANDARDS

The Board of Directors reasonably expects the Company to continue with its operational existence in the foreseeable future and prepared the Financial Statements on a going concern assumption. It is believed that the current market situation will not lead to significant uncertainties regarding events or conditions that may generate doubts about the Company's going concern. In this regard, please refer to the description in the Report on Operations and in the Explanatory Notes regarding the Capital Management Plan to be delivered to IVASS, together with the Remediation Plan, in response to the observations made following the inspection conducted by the Supervisor in the fourth quarter of 2018.

BALANCE SHEET

Intangible Assets

Goodwill

Intangible assets include goodwill (also provisionally calculated on the basis of the provisions of IFRS 3) paid in corporate acquisitions / integrations. Since such goodwill is with an indefinite useful life, it is not amortized, but is valued at least once a year, or in any case whenever there are indicators of potential permanent loss in value, by means of an impairment test; if the loss in value is confirmed as permanent, it is recognized in the Income Statement and will not be recovered in subsequent financial years.

Other Intangible Assets

In accordance with IAS 38, an intangible asset should only be recognized if it is identifiable and controllable by the company, if future business benefits are expected from its use and its cost can be determined and/or is reasonably determinable.

These assets are valued at purchase or production cost net of amortization and accumulated impairment losses. Amortization on a straight-line basis is calculated according to the estimated expected useful life and begins when the asset is available for use.

Other intangible assets include goodwill paid for the acquisition of Life portfolios (value in force, or VIF): the value of the contracts acquired is determined by estimating the present value of future cash flows of existing contracts. VIF is amortized on the basis of the actual life of the contracts acquired. This assessment is reviewed every year.

Tangible Assets

Other Tangible Assets

In compliance with IAS 16, these should be recognized at purchase cost including ancillary charges and are shown net of depreciation and any accumulated impairment losses. They are depreciated on a straight-line basis using rates considered fair in relation to the technical and business evaluation as to the residual possibility of use of the assets.

The value of other tangible assets and their residual life are reviewed at the end of each financial year.

The depreciation rates used during the financial year, unchanged with respect to the previous period, are as follows:

	Furniture	Ordinary office machines	Electronic office machines	Plants and equipment
Depreciation rate	12%	20%	20%	10%

Ordinary maintenance and repair costs are expensed in the financial year in which they are incurred.

Technical Provisions Borne by Reinsurers

This macro-item includes the commitments of reinsurers that derive from reinsurance contracts governed by IFRS 4. They should be calculated and recognized according to the contractual conditions provided for in the reinsurance treaties, unless otherwise assessed in regard to the recoverability of the loan.

Investments

In calculating the fair value of financial instruments, three different input levels were identified:

- **level 1**: inputs represented by (unmodified) listed prices in active markets for identical assets or liabilities that can be accessed at the valuation date;
- **level 2**: inputs other than listed prices included in Level 1 that are, directly or indirectly, observable for the assets or liabilities to be valued;
- **level 3**: unobservable inputs for the asset or liability for which estimates and assumptions made by the appraiser are used.

The choice between the aforementioned methods is not optional, as they must be applied in that order. Please refer to the attachments to the Explanatory Notes to the Financial Statements for details regarding the breakdown of financial instruments by fair value level.

Loans and Receivables

This item includes loans on policies, mortgages, loans to employees, deposits with ceding entities (reinsurers), repurchase agreements, time deposits, receivables for claims against agents, unlisted debt securities not available for sale that the Company intends to hold in the foreseeable future, and the existing collateral under any forward contracts signed.

This category also includes unlisted debt securities, possibly comprising a bond component separated from structured products.

For loans and receivables of a non-insurance nature, initial recognition is made at fair value (amount disbursed including transaction costs and directly attributable commissions). The subsequent valuations are carried out at amortized cost, using the effective interest method, including any write-downs.

Loans and receivables of an insurance nature should be recognized and valued according to the criteria established by the Italian standards, in accordance with the provisions of IFRS 4, i.e. they are recognized at their nominal value and subsequently valued at their presumed realizable value.

Financial Assets Available for Sale

This category includes debt securities, equity securities, UCI units, and equity investments deemed strategic (shares of less than 20% of the share capital, of strategic importance from a commercial or corporate standpoint).

UCI units should be allocated in their respective asset classes on the basis of the prevailing underlying. Therefore, fixed-income were allocated to capital instruments items.

This category is defined in residual terms by IAS 39 and includes non-derivative financial assets designated as available for sale or that have not been otherwise classified.

At the time of initial recognition, the financial instrument is measured at cost (including directly attributable transaction costs), as an expression of fair value at that date, in accordance with IAS 39; financial assets are recognized in the Balance Sheet when the Company becomes a party to the contractual clauses of the instrument. In case of initial recognition deriving from a restatement of the instrument from a different class, fair value at the time of transfer is used.

Any subsequent measurements are carried out at fair value, represented by the listing at that date or, in the event of non-listing on an active market, it will be calculated by using valuation techniques generally recognized by the financial markets.

For the purpose of the listing, a market is considered active when it can set a price at which a transaction could occur. The existence of official prices in a regulated market being an optimal, but not required, condition for setting a fair value; however, in the event that the prices on regulated markets do not represent a condition of sufficient liquidity, markets capable of representing effective trading, even if not regulated, are preferred by favoring the principle of substance over that of form.

The Income Statement includes charges and income capitalized on the basis of the amortized cost according to the effective return rate method. Unrealized gains and losses are instead recorded in a specific shareholders' equity reserve (including taxation).

In the event of sale or loss in value caused as a result of an impairment test, any unrealized gains or losses accumulated up to that moment in shareholders' equity are transferred to the Income Statement.

A financial asset available for sale is canceled from the Balance Sheet if, following its natural maturity, disposal, or other event, the contractual rights on the cash flows, as well as the risks and benefits associated with the same, expire or are transferred. Simultaneously with the cancellation of the asset, the amount corresponding to the gains and losses accumulated in the equity reserve is recognized in the Income Statement.

Assets are recorded at the settlement date.

Impairment policy for financial assets

In light of the merger that characterized financial year 2017, in order to make the impairment policy more consistent with the new investment portfolio and market practices, the Company's management decided to modify the impairment test triggers, as explained below.

At each reporting date, if there is reasonable evidence of the existence of a permanent loss, the value of the instrument is adjusted accordingly (impairment), recognizing the cost in the Income Statement.

IAS 39 requires that, at each reporting date, companies must check whether there is any objective evidence that a financial asset, or group of financial assets, has suffered impairment.

The units of mutual funds are considered as equity securities for the purposes of the impairment test.

For the purposes of the impairment test, the Company analyzed the following situations for equity securities:

a) the market price was always lower than the initial recognition value in the past 12 months;

b) the decrease in value at the reference date was 30% higher than the initial recognition value.

It should be noted that particular cases, such as AIFs in a start-up phase (where the initial loss in value is natural), will be analyzed in detail in order to verify the actual and objective loss in value.

For the aforementioned securities, if evidence of impairment is confirmed, the overall change in fair value is recognized in the Income Statement with a write-off of the reserve on assets available for sale.

With regard to fixed-return financial instruments, in order to verify the possible need to proceed with impairment, the Company examines objective factors or concrete information that calls into question the payment of benefits (payment of coupons or repayment at maturity); losses in value of more than 20% of the amortized cost of the investment or decreases in the fair value below 70% of the nominal value constitute further indications and grounds for assessment. It should be specified that the 70% threshold is not valid for the zero coupon securities component.

The recognition of impairment over previous periods is considered a condition for further impairment if the security was still producing a loss at the measurement date.

If a capital security has suffered impairment, any subsequent value recoveries will be recorded in the specific shareholders' equity reserve, reversal of impairment being prohibited. The recovery of value adjustments up to the corresponding amortized cost value is permitted for debt securities, provided that the reasons underlying the permanent loss have ceased to be effective on the basis of objective evidence. This value recovery is recorded in the Income Statement.

Financial Assets measured at fair value through profit or loss

This category includes assets held for trading in the short term (in line with the definitions of IAS 39, supplemented with the provisions of European Commission Regulation No. 1864 of 15 November 2005) and assets designated at fair value through profit or loss.

The following assets are assigned to the latter category:

- structured instruments, in which there is an embedded derivative not strictly connected to the primary contract, for which IAS 39 (paragraph 12) provides for the separate accounting of the two components and which the Company has decided not to account for separately;

- derivative components, separated from the primary contracts according to IAS 39 (paragraph 11), in turn accounted for among other categories (Loans and receivables - Assets available for sale);

- derivative contracts excluding hedging contracts.

The assets designated at fair value through profit or loss also include assets hedging the Company's commitments for insurance and/or investment contracts with investment risk borne by policyholders, as well as derivative financial instruments that do not meet the conditions qualifying an effective hedging, according to the definition provided by the IFRS, between the derivative instrument and the hedged item.

In accordance with IAS 39, financial assets should be recognized in the Balance Sheet when the Company becomes a party to the contractual clauses of the instrument.

Initial recognition is carried out at cost, as an expression of fair value at that date. The subsequent valuations are carried out at fair value, represented by the pricing at that date or, in the event of non-listing on an active market, calculated by using valuation techniques generally recognized by the financial markets.

For the purpose of the calculation, a market is considered active when it can set a price at which a transaction could occur. The existence of official prices in a regulated market is an optimal, but not required, condition for setting a fair value; however, in the event that the prices on regulated markets do not represent a condition of sufficient liquidity, markets capable of representing effective trading, even if not regulated, are preferred by favoring the principle of substance over that of form.

Unrealized gains and losses were recorded in the Income Statement.

Assets were recorded at the settlement date.

Sundry Receivables

Receivables Arising from Direct Insurance Transactions and Receivables Arising from Reinsurance Transactions

In accordance with IAS 39, these items include receivables from policyholders, insurance and reinsurance brokers, and insurance and reinsurance companies.

They are recognized at nominal value and subsequently measured at their presumed realizable value. Since these are short-term receivables, discounting methods are not used.

Other Receivables

In compliance with IAS 39, this item includes non-insurance receivables.

They are recognized at nominal value and subsequently valued at their presumed realizable value. Since these are short-term receivables, discounting methods are not used.

Other Asset Components

Deferred Acquisition Costs

Starting from the end of financial year 2003, the Company amortized commissions in prepaid form relating to policies with annual premiums with regular payment of the premium, within the limits of the charge included in the portion of the commissionable premium, with the exception of:

- commissions relating to individual forms of insurance, including guarantees associated with the same - temporary insurance in the event of death and disability, and optional temporary insurance in the event of death;
- commissions relating to unit-linked policies;
- commissions relating to supplementary guarantees.

Commission bonuses were excluded from the acquisition costs to be amortized.

The above charges, to be calculated on each individual policy, are amortizable for a maximum period of 10 years, and are in any case amortized within the limit of the contractual duration and premium charges.

At each closing, the deferred acquisition costs relating to contracts issued during the reference period (also for partial redemption), are expensed by posting the residual commission in the Income Statement. In case of partial redemption, commissions are expenses pro-quota (in proportion to the provisions released).

Current Tax Assets and Deferred Tax Assets

Income taxes are calculated in compliance with current tax legislation, Presidential Decree No. 917/1986, as amended by Legislative Decree No. 38/2005, also taking into account the amendments brought by Law No. 244/2007 (2008 Finance Law), the provisions of Law No. 208 of 28 December 2015 (2017 Stability Law), the prevailing interpretations provided by legal theory and official instructions by the (Italian) Financial Administration.

I.R.A.P. (regional tax on productive activities) is calculated in compliance with the provisions of Legislative Decree No. 446/1997, as amended by the aforementioned Law No. 244/2007.

The tax burden is represented by the total amount of current and deferred taxation included in the calculation of profit or loss for the period. Income taxes are recorded in the Income Statement with the exception of those relating to items debited or credited directly to shareholders' equity. The Company records the effects related to current and prepaid taxes applying tax rates in force.

Provisions for income taxes are calculated on the basis of a prudent forecast of the current, prepaid, and deferred tax burden.

Prepaid and deferred taxes are calculated on the basis of the temporary differences between the value attributed to an asset or liability according to statutory criteria and the corresponding values assumed for tax purposes, without any time limit.

Temporary differences can be:

- taxable, i.e. they will result in taxable amounts when computing the taxable income of future financial years when the book value of the asset or liability has been realized or eliminated;

- deductible, i.e. they will be translated into amounts that are deductible when computing the taxable income of future financial years when the book value of the asset or liability has been realized or eliminated.

Deferred tax assets represent income taxes recoverable in future financial years attributable to:

- deductible temporary differences;

- carry-forward of unused tax losses.

Deferred tax assets are recognized in the Financial Statements to the extent that they are likely to be recovered, which is also assessed on the basis of the Company’s and the Group’s ability, as a result of opting for the “tax consolidation”, to generate positive taxable income on an ongoing basis.

Deferred tax liabilities represent taxes due in future financial years attributable to temporary taxable differences.

All deferred tax liabilities are recognized in the Financial Statements.

Deferred tax assets and liabilities being recognized are regularly measured to take into account any changes in tax rules or tax rates.

Starting in financial year 2008, the new formulation of the standard IAS 12.74 was implemented. It provides for the obligation to offset deferred tax assets and liabilities relating to income taxes of the same type and attributable to the same taxable person or different taxable persons who intend to settle such items on a net basis, or to realize the assets and settle the liabilities simultaneously, in each subsequent financial year.

<u>Other Assets</u>

The item mainly includes deferred acquisition costs (DAC) on insurance and reinsurance contracts classified as Investment Contracts in accordance with the provisions of IFRS 4 and treated in compliance with the provisions of IFRS 15.

These costs refer to costs incurred for the financial management service to be provided over the duration of the contract. The acquisition costs also include any “welcome bonus” attributed to the customer.

For single-premium contracts, amortization is carried out over a period of 10 years. For annual premium contracts, the duration of amortization is based on the duration of the contract (with a maximum limit of 10 years). At each closing, it should be noted that deferred acquisition costs relating to contracts issued during the reference period (including for partial redemption), are expensed by charging the residual costs through profit or loss.

Cash and Cash Equivalents

This item includes cash, sight deposits, and bank deposits with the central bank, recognized at their nominal value.

Shareholders’ Equity

Capital Reserves

This item comprises the share premium.

Profit Reserves and Other Equity Reserves

This item, as required by IFRS 1, includes the reserve comprising any gains and losses arising from the first adoption of the IFRS standards. Other profit reserves are also included and gains and losses arising from material misstatements and changes in accounting policies or estimates adopted, as required by IAS 8, may be included.

Gains or Losses on Financial Assets Available for Sale

The item includes any gains or losses arising from the measurement of financial assets available for sale (IAS 39.55 (b)) directly entered in Shareholders’ Equity, net of the component relating to the deferral of profits or losses to be attributed to policyholders (Shadow Accounting) and net of the related tax effects.

Other Gains or Losses Recognized Directly in Equity

This item includes any gains or losses arising from direct recognition in Shareholders’ Equity, including gains or losses on hedging instruments of a financial flow.

Dividends

Dividends payable are shown as changes in shareholders’ equity in the year in which they are approved by the General Meeting of shareholders’.

Provisions

This macro-item includes provisions recognized in accordance with IAS 37, i.e. if there is a current (legal or implicit) obligation as a result of a past event, the use of resources to fulfill such obligation is probable and necessary and the amount thereof may be estimated reliably.

Technical Provisions

This macro-item includes any commitments that arise from contracts falling within the scope of IFRS 4, or contracts that, following the classification process described in the appropriate paragraph, have been classified among insurance contracts, with or without discretionary participation feature (DPF), or among investment contracts with DPF.

In life insurance, these are:

- mathematical provision for pure, supplementary, and additional premiums, of premium reserves and technical provisions of supplementary insurance and expense reserves;

- provisions for sums to be paid, set aside for any exit from the portfolio due to claims, redemption, annuity, or maturity which, at year end, had not yet given rise to the corresponding payment;

- profit sharing and retrocession provisions.

Supplementary guarantees in particular concerns:

- Premium reserve (pro-rata basis and for risks in progress);

- Claims reserve (including the estimate of claims for the period).

Within technical provisions relating to investment contracts with DPF, a special capital reserve was set aside to limit volatility due to the presence of unrealized gains / losses on assets (referred to as shadow accounting).

At the end of the period, in order to verify the fairness of the technical provisions and in compliance with the provisions of IFRS 4, an adequacy test is carried out based on the expected future cash flow values generated by the portfolio in place at the valuation date. Any inadequacy found will give rise to a supplementary provision pursuant to IFRS 4.15 (Liability Adequacy Test, or LAT).

Any negative goodwill paid for the acquisition of Life portfolios (value in force, or VIF) is also included in the technical provisions: the value of contracts purchased is calculated by estimating the present value of future cash flows of contracts in place. VIF is amortized on the basis of the effective life of the contracts acquired. This estimate is reviewed every year.

Shadow Accounting Provisions

The shadow accounting technique, set forth in IFRS 4, makes it possible to account for unrealized losses and/or gains among technical provisions of insurance or investment contracts with discretionary participation feature, as if they had been realized.

The shadow accounting provision is determined as a Balance Sheet adjustment to mathematical provisions and is equal to the difference between the actuarial provision set aside and the actuarial provision that would have been set aside if all the (unrealized) valuation gains and losses had been implemented with a so-called “going concern” approach. It follows that shadow accounting is applicable to contracts for which the realization of net valuation gains and losses has an effect on mathematical provisions. Generally, for Italian products, this occurs for valuable tariffs, linked to separate management funds.

The shadow accounting going-concern approach allows to obtain:
- Greater stability of the results for the period and changes in the Company’s shareholders’ equity;
- A faithful representation of the economic reality of business: the assumption of instant realization of valuation gains and losses is in general not consistent with the Company’s discretion regarding the time and amount of the realization of investments of separate management funds;
- Consistency with value measurements though profit or loss that take into account portfolio development;

- Truthful and correct calculation of capital and results for IAS / IFRS purposes in scenarios of significant capital losses: the assumption of instant realization of capital losses could result in an unjustified capital reduction even if there is a current business performance well above guaranteed minimums;
- Adherence to the 'going-concern' principle (included in the framework of IAS / IFRS standards), according to which the Financial Statements should be prepared on the assumption of the company's future going concern. In particular, in view of the commitments for maturities / redemptions, the Company can count on future cash flows deriving from the collection of premiums and/or from the collection of coupons / dividends, and from the repayment of bonds at maturity;
- Consistency with the valuation system of Article 36 of Regulation 21 of 28 March 2008. The assumption of instant realization could penalize capital due to a possible 'double counting' of capital losses already considered in the supplementary provisions recognized according to the aforementioned Regulation No. 21/2008.

The "going-concern approach" is an approach that, in short, considers the following elements:
- the balance of potential gains and losses at the reference date for the period that are realized prospectively over a period of several years, consistent with the Company's management policies. The analysis is performed by single separate management fund;
- the reference yield on which to measure the impact of the realization of capital gains/losses is the "prospective natural return" of the individual separate management fund. The natural rate is defined as the rate of return before any possible realization and, from a theoretical standpoint, consists of income from equity investments, income from real estate investments, coupon flows, and issuing and trading discounts for bonds, and from the return on liquidity;
- the percentage of participation in gains / losses by policyholders taking into account the minimum guaranteed contractual rate, the minimum commission withheld by the Company for the management of contracts, and the average percentage of retrocession on returns if any. The analysis is carried out for each separate management fund and within the same by brackets of minimum guaranteed return.

Liability adequacy test (LAT)

In accordance with the provisions of IFRS 4, in order to verify the fairness of provisions, a Liability Adequacy Test (LAT) was carried out. This test was conducted in order to verify whether the technical provisions, including deferred liabilities to policyholders, are adequate to cover the fair value of future cash flows relating to insurance contracts.

The adequacy test is therefore performed by comparing the IAS / IFRS provision (which includes the portion deriving from the adoption of shadow accounting and the VIF) net of any deferred acquisition costs or intangible assets linked to the contracts in question, with the fair value of future cash flows relating to insurance contracts. Any eventual inadequacy is immediately charged through profit or loss.

Financial liabilities

Financial Liabilities measured at fair value through profit or loss

The financial liabilities in this category are divided into two further sub-items:

- financial liabilities held for trading, where negative positions on derivative contracts are classified;

- financial liabilities designated at fair value through profit or loss, where financial liabilities relating to contracts issued by insurance companies whose investment risk is borne by policyholders are classified, in the presence of insignificant insurance risk, and without discretionary participation feature. The item refers to the financial liabilities governed by IAS 39 (IAS 39.9,47 (a)) and therefore includes the financial liabilities constituted by the deposit component of investment contracts (within the meaning of IFRS 4.IG2) issued by the Company, comprising technical provisions relating to unit-linked, index-linked products.

With regard to the criteria applied in the estimation of the time when to account for a financial liability, when to derecognize it, in the initial and subsequent valuations, as well as the methods for recognizing any related charges, please refer to the paragraph relating to financial assets measured at fair value through profit or loss.

Other Financial Liabilities

The items of an insurance nature mainly refer to deposits received from reinsurers recognized at nominal value, and subordinated liabilities measured at amortized cost.

Payables

Payables Arising from Direct Insurance Transactions and Payables Arising from Reinsurance Transactions

In accordance with IAS 39, this item includes trade payables arising from direct and indirect insurance transactions. These payables are recognized at nominal value.

Other Payables

Among other things, this item includes provisions for amounts due to employees for Severance Indemnities, valued, as required by IAS 19, based on actuarial assumptions of a demographic, economic, and financial type. For a detailed description of the method used to measure this liability, please refer to the paragraph “Employee Benefits”; the residual part of payables is recognized at nominal value, in accordance with IAS 39.

Other Liability Components

Current Tax Liabilities and Deferred Tax Liabilities

The item Current tax liabilities include payables to the (Italian) Tax Authorities for current taxes.

Deferred tax liabilities are recognized for all taxable temporary differences between the book value of assets and liabilities and the corresponding value recognized for tax purposes, except for the cases provided for by IAS 12.

Deferred tax liabilities are calculated by applying the tax rate according to the regulations in force at the end of the financial year.

Please refer to the paragraph on Tax Assets for further details.

Other Liabilities

This item includes deferred commission income related to insurance and reinsurance contracts that do not fall within the scope of IFRS 4, as required by IFRS 15.

These are up-front charges, i.e. acquisition charges relating to the financial management service provided, recorded and deferred over the duration of the contract. For contracts classified as Investment, the premium charges, generally on single premiums, intended to cover commissions, recurring expenses, and additional hedges, as well as to generate profits for the Company, are deferred on a straight-line basis over the duration of the contract, through the creation of a special reserve called DIR (Deferred Income Reserve), which includes reserves for future expenses, calculated with the Level 1 bases. The portion of premium charges to be deferred is that which is obtained from the gross premium, after excluding the part of the deposit (treated according to IAS39) relating to the invested premium, and removing the insurance component relating to additional hedges (when not financed entirely by recurring commissions).

For single-premium contracts, amortization is carried out over a period of 10 years. For annual premium contracts, the duration of amortization is based on the duration of the contract (without any limit). Deferred commissions relating to contracts issued during the reference period (including by partial redemption), are charged through profit or loss for the residual portion.

The item also includes provisions for amounts due to employees for other long-term social security payments and remuneration. For a detailed description of the method used to measure this liability, please refer to the paragraph “Employee Benefits”.

The item includes existing collateral under forward contracts according to the financial sign.

The remaining part of liabilities is recognized at nominal value.

INCOME STATEMENT

Net Premiums

This item includes premiums for the period relating to contracts pursuant to IFRS 4.2.

Premiums are accounted for with reference to their maturity irrespective of the date on which their actual cash collection takes place and net of taxes to be paid by policyholders. Premiums ceded to reinsurers include the amounts due to reinsurers under contractual reinsurance treaties. During the financial year, with a view to harmonizing the criteria of the two merged companies, the insurance contracts identified were contracts underwriting insurance risk equal to or greater than 5%, obviously including the contracts under which the Company underwrites a significant insurance risk linked to longevity, mortality, or other biometric risks.

Commission Income

This item includes the accounting of revenues connected with financial services provided, as required by IFRS 15.

This item therefore includes the operating commission income and other technical revenues relating to investment contracts, which do not fall within the scope of IFRS 4.

It also includes the amortization in the Income Statement of deferred income in connection with insurance and reinsurance contracts having a non-significant insurance risk and therefore valued according to IAS 39. This in particular refers to the positive margins deferred through the Deferred Income Reserve (DIR), as well as the Deferred Acquisition Costs (DAC) relating to commissions received under reinsurance treaties governed by IAS 39.

Income and Charges Arising from Financial Instruments Measured at Fair Value through Profit or Loss

This macro-item includes realized gains and losses and increases and decreases in the value of financial assets and liabilities measured at fair value in the Income Statement.

Income Arising from Other Financial Instruments

This macro-item includes income arising from financial instruments not valued measured at fair value through profit or loss, as set forth in IAS 39. Namely: interest income (calculated using the effective interest method), other income from investments (dividends and other), realized gains, and valuation gains (value recovery, reversal of impairment).

Other Revenues

This macro-item, among other things, includes other technical income in connection with insurance contracts falling under IFRS 4, exchange differences accounted for in accordance with the provisions of IAS 21, as well as gains realized and recoveries relating to tangible and intangible assets, as required by IAS 16 and IAS 38.

Charges Relating to Claims

With reference to insurance contracts under IFRS 4.2, this macro-item includes the amounts paid, change in claims reserves, change in the reserve for amounts to be paid, the mathematical provisions, the technical provisions when the investment risk is borne by the policyholders if related to insurance contracts, and other technical provisions of the life classes.

Recognition is carried out gross of settlement costs, net of recoveries and reinsurance.

Commission Expense

This item includes the recognition of costs connected to financial services received, as required by IFRS 15.

This item therefore includes other technical charges relating to investment contracts that do not fall within the scope of IFRS 4.

It also includes the amortization in the Income Statement of deferred charges in connection with insurance and reinsurance contracts with non-significant insurance risk and therefore valued in accordance with IAS 39. This in particular refers to commission expense deferred through the Deferred Acquisition Costs (DAC) relating to contracts governed by IAS 39.

Charges Arising from Other Financial Instruments

This macro-item includes charges arising from financial instruments not measured at fair value through profit or loss, as required by IAS 39. In detail: interest expense (calculated using the effective interest method), other investment charges, realized losses, and valuation losses (impairment).

Operating expenses

Commissions and Other Acquisition Costs

This item includes the fees due to the sales network in relation to the acquisition of insurance contracts pursuant to IFRS 4.2. This also includes overhead expenses allocated to acquisitions charges.

Investment Management Fees

This item includes overheads and personnel expenses related to the management of financial instruments.

Other Administration Expenses

This item includes overheads and personnel expenses not attributed to charges relating to the acquisition of contracts, settlement of claims, and management of investments. In particular, this item also includes overheads and personnel expenses associated with the administration of investment contracts that do not fall within the scope of IFRS 4.

Other Costs

This macro-item, among other things, includes other technical charges related to insurance contracts falling within the scope of IFRS 4, exchange differences, supplementary provisions made during the financial year, as well as the losses realized, and permanent loss in value relating to intangible assets and relating to tangible assets for the portion not otherwise allocated to other cost items.

Current Taxes and Deferred Taxes

These items include charges relating to current taxes, calculated according to the tax legislation in force, as well as changes in deferred taxes, as defined and regulated by IAS 12.

OTHER INFORMATION

Defined Benefits after Termination of Employment and Other Long-Term Benefits

Defined benefits should be set apart from defined contribution benefits due to the fact that, unlike the latter, not all actuarial and investment risks are borne by the party entitled to the same.

Defined benefits refer to pension plans (including severance indemnities) and healthcare assistance that the Company grants to its employees after termination of employment. The benefits due are based on the remuneration received by employees during a predetermined period of service, as well as on the working life of such employees. These benefits are assessed using actuarial criteria; the gains and losses arising from this valuation are recorded in the statement of comprehensive income of the vesting period, using the projected unit credit method.

Following the supplementary pension reform referred to in Legislative Decree No. 262 of 5 December 2005, the portions of employees' severance indemnities accrued up to 31/12/06 remained within the Company, while the portions of employees' severance indemnities accrued starting from 1 January 2007 were, at the employee's choice (by 30 June 2007), allocated to a supplemental pension scheme or to the I.N.P.S. Treasury Fund.

Any employees' severance indemnities accrued up to 31/12/2006 (or up to the date between 01/01/2007 and 30/06/2007 chosen by the employee in case of allocation of his/her severance indemnities to a supplemental pension scheme) will continue to be "Defined benefits" and therefore subject to actuarial valuation, albeit with a simplification in the actuarial assumptions, which will no longer take into account the forecast on future salary increases.

Any portions accrued from 1/07/2007 (or up to the date between 01/01/2007 and 30/06/2007 chosen by the employee in case of allocation of his/her severance indemnities to a supplemental pension scheme) were considered as a "Defined contribution" plan (since the Company's obligation ceases when the accrued severance indemnities are paid into the pension scheme chosen by the employee) and therefore the relevant cost for the period is equal to the amounts paid into the supplemental pension scheme or into the I.N.P.S. Treasury Fund.

Derecognition of Financial Instruments from Assets and Liabilities

A financial instrument will be derecognized from the Balance Sheet if, following its natural expiry, disposal, or other event, the contractual rights on the cash flows, as well as the risks and benefits associated with it, expire or are transferred.

Use of Estimates

The preparation of the Financial Statements and related notes in adoption of IFRS entails making estimates and assumptions that produce effects on the values relating to assets, liabilities, costs, and revenues, as well as on the presentation of contingent assets and liabilities at the reporting date. Such estimates and measurements are regularly reviewed by the Company's management on the basis of past experience and other factors deemed reasonable in such circumstances. Actual results may differ from such estimates due to different operating conditions and different assumptions. Any changes in estimates are recognized in the Income Statement in the financial year in which they actually occur.

Insurance Contracts

IFRS 4 lays down the obligation to temporarily continue using the national accounting standards used until 2004 to account for insurance contracts, defined as contracts with a significant insurance risk, while life contracts with a high financial content and with no guaranteed return, or that do not provide for the discretionary participation feature are considered financial instruments falling within the scope of IAS 39, without prejudice to their representation in the life segment of the Financial Statements.

5.C Risk Analysis

Introduction

The Company is equipped a risk management model, integrated into business, aimed at optimizing its risk-return profile by increasing profitability and maintaining an adequate level of economic / regulatory capital, thereby guaranteeing the expectations of shareholders and policyholders in terms of value creation and safeguard of the Company's assets.

The Company assumes risks prudentially by pursuing the following objectives:

- only bear risks pertaining to its core business, developing and offering products for which it is able to guarantee consolidated and high-level skills;
- only bear risks for the management of which the Company has suitable expertise and resources;
- ensure satisfactory and lasting results to shareholders through risk management, safeguarding the expectations of the contracting parties and policyholders and maintaining a capital surplus even in the face of extreme events;
- adopt prudent investment policies that aim to achieve efficient risk-return combinations;
- promote ethical values and a risk culture at all company levels;
- ensure the integration of risk management in the business through:
    - current and forward-looking risk assessment process, aligned and integrated with the main decision-making processes (e.g. definition of business plan);
    - assessment of the Company's Risk Appetite and control mechanisms over consistency between the latter and the actual risk profile;
    - explicit consideration of the impacts of the Company's business initiatives on the risk profile;
    - continuous monitoring of the Solvency Position by means of a sensitivity analysis.

The internal risk control and management system, proportional to the Company's size and operational characteristics, is structured according to three "Defense Lines", organized as follows:

- the First Line consists of persons - essentially belonging to "business" and "staff" Organizational Units - responsible for risk assumption and for monitoring risks in terms of initial identification, assessment, control / monitoring, management, and reporting thereof;
- the Second Line consists in the "second level" Control Functions, i.e. Risk Management, Compliance, and Actuarial Departments. In particular, the Risk Management department has the task of monitoring and maintaining the entire Risk Management System, which contributes to ensuring it effectiveness including by supporting the Company's Board of Directors and Senior Management in relation to the definition and implementation of the same. The Actuarial Department contributes to effectively applying the risk management system, with particular regard to technical and capital aspects, making sure that the assumptions used in the calculation of technical provisions are consistent with the business, criteria, and methods used by the Company to calculate own funds and the current and prospective solvency capital requirement. Finally, the Compliance Department, in addition to identifying the regulations applicable to the Company on an ongoing basis by evaluating the impact thereof on processes and procedures, also has specific tasks in regard of non-compliance risk prevention;
- the Third Line consists in the Internal Audit Department, with respect to its role to provide independent "assurance".

The main elements of the risk management System are represented by:

- a process for defining the risk strategy, which will constitute the link between the Company's business strategy and risk management and will determine the general risk appetite framework by defining a set of risk management limits and requirements (Risk Appetite Framework);
- a process for identifying risks aimed at detecting the internal and external risk factors relevant to the Company and any changes that can have a significant impact on its business strategy and objectives on a continuous and ad hoc basis;
- a risk measurement and assessment process, aimed at quantifying the economic impact (with qualitative / quantitative methods) in terms of expected average loss in a complete and systematic way for each risk category through the use of the Standard Formula;
- a risk monitoring process, based on feedback inherent in the risk management process and on verification of the identified operational limits;
- a risk reporting process governing specific information flows between all the departments involved;
- dissemination of a risk management culture, aimed at increasing value creation, minimizing possible negative impacts.

The System aims to guarantee risk-based decision-making processes in accordance with the relevant national and European regulations and applies both to risks in place and to risks that can arise in existing businesses or in new businesses.

The Board of Directors is ultimately responsible for the internal control and risk management system, of which it ensures the continual completeness, functionality, and effectiveness, including in relation to outsourced activities. The governing body ensures that the risk management system enables the identification, evaluation also on a forward-looking basis, and risk control, including risks deriving from non-compliance with the rules, guaranteeing the goal of safeguarding assets, including in the medium-long term.

Senior Management is responsible for the implementation, maintenance, and monitoring of the internal control and risk management System, including risks deriving from non-compliance with the rules, in line with the directives of the Governing Body.

The Board of Statutory Auditors, as a body having control functions, verifies the adequacy of the organizational, administrative, and accounting structure adopted by the Company and its concrete operation.

The Supervisory Body, pursuant to Legislative Decree No. 231/2001, has supervisory and control functions on the operation, effectiveness, adequacy, and compliance of the Organization and Management Model adopted by the Company and is responsible for its updating.

In order to illustrate the corporate governance and internal control safeguards within the Company, it is also considered useful to note that committees have been established within the Board of the parent company Eurovita Holding S.p.A.:

- Audit, Internal Control, and Risk Committee;
- Appointments and Remuneration Committee;
- Board Group Investment Committee.

These committees report to the parent company's Board, which has approved their respective Operating Regulations.

Finally, the organizational area coordinated by the Chief Risk Officer includes the Anti-Money Laundering function, which aims to:

- ensure the suitability of the internal control system and corporate procedures with regard to the risk of money laundering and terrorist financing;
- prevent and combat the violation of laws, regulations, and codes of conduct on the matter.

The widespread risk management policy applied within the Company, reviewed and updated on an annual basis, defines the risk governance and risk appetite model. The taxonomy, measurement, control, and management of risks, and the risk reporting system, have been defined.

Mechanisms for sharing and exchanging information between the corporate bodies, the Supervisory Body, Senior Management, as well as the aforementioned Board Committees of the parent company, have been defined in order to make the activities of departments responsible for risk monitoring and control fully effective.

The rules and operational procedures followed for the management and monitoring of risks to which the Company is exposed have been defined in the risk management Policy of the Eurovita Group, which in particular require the review of risks on an ongoing basis and at least quarterly and that the findings regarding the underlying risk profile be reported to the Board of Directors using the appropriate forms.

Based on the findings of the risk detection and assessment processes, a system of limits and triggers has been established by the Board of Directors setting risk tolerance limits on the risk bearing capacity.

Risks are being currently detected and managed on the basis of the provisions of the risk management Policy and in compliance with the provisions of Article 19 of IVASS Regulation No. 38/2018. Including in consideration of the Solvency II framework, such risks have been classified in the following risk categories:

- Financial risk;
- Life technical risk;
- Risk of counterparties' default;
- Other risks.

1 Financial Risk

The variables with the greatest impact on the financial portfolios were monitored during the financial year. Therefore, the effects of market changes on the portfolio were assessed as part of risk management, both in qualitative and quantitative terms, with a view, on the one hand, to ensuring the availability of assets and, on the other, defining an investment management strategy related to the structure of commitments to policyholders, in order to improve the Company's profitability. The financial management of the Company's Separate Management Funds has been delegated to external companies (Goldman Sachs Asset Management, BNP Paribas Asset Management).

The most relevant risk factors for the "Class C portfolio", given the nature of investments, are risks relating to interest rate, credit, concentration, liquidity, and depreciation of equity assets and real estate securities, as well as the unfavorable trend in currency exchange rates and liquidity risk.

With a view to diversifying the portfolio and reducing interest rate risk (spread), the Company has increased the weight of indirect investments in credit and alternative funds and has stipulated (long and short) forward derivative contracts on government bonds in the Euro area.

With regard to investments in the "Class D portfolio", the Company is indirectly exposed to a market risk transmitted by the policyholders' assets, since management fees are withdrawn in proportion to the market value of the customers' funds, rather than in proportion to their initial investment. This is an accepted risk of the Company's business model, which pursues the objective of making the proposal more attractive to customers.

The Company maintains a continuous monitoring of financial risks in order to implement any corrective measures and minimize the effects of adverse market changes that could lead to a depreciation of the value of investments, influence the behavior of policyholders, and increase the cost of yield guarantees embedded in the liability portfolio. Through an integrated analysis of assets and liabilities by individual Separate Management Funds, the sustainability of the guaranteed minimum amounts is evaluated with respect to the prospective macroeconomic scenario and the matching between assets and liabilities is analyzed in terms of net cash flows and duration. Targeted asset and return optimization actions have been carried out both in terms of ALM and for the purpose of a prospective reduction of the Solvency II capital requirement.

The Company, as also required by IVASS Regulation No. 24/2016, has arranged for and drafted the Framework Resolution on Financial Investments aimed at measuring and containing exposure to the market risk of portfolios. Moreover, it has established a Management Investment Committee, which meets monthly and in which corporate business and control bodies are invited to participate. This Committee works in support of the Board Group Investment Committee, at least quarterly, in which the Chief Risk Officer is invited to participate and whose purpose is to monitor the results achieved and verify the adequacy of the strategies and management tactics adopted in relation to the continuous evolution of the markets.

For a correct management of the Company's exposure to the financial markets, the management team has adopted the appropriate strategies developed with a view to defining the most consistent risk / return combination with the Company's objectives.

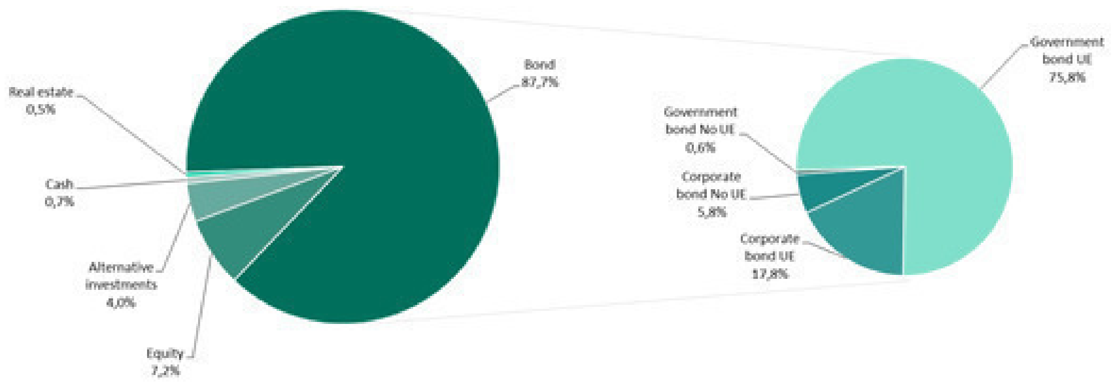
Interest rate risk is managed through a policy to optimize the investment performance and by constantly monitoring the match between assets and liabilities broken down by separate management fund.

The Company manages *concentration risk* by defining specific limits by asset class, reviewed annually by the Board of Directors upon approval of the Framework Resolution on Investments.

The Risk Management Department regularly monitors compliance with the above limits.

The Company's "Class C" portfolio at 31 December 2018 amounted to €9,487 million. It mainly comprised bond instruments (approximately 87.7%), equity securities (approximately 7.2%), alternative funds (approximately 4.0%), derivatives (approximately down 0.01%), real estate (approximately 0.5%) and liquidity in current accounts (approximately 0.7%).

The bond portfolio mainly includes securities issued in the Euro zone and mainly comprises government securities (approximately 76.4%), covered bonds, and corporate bonds (approximately 23.6%).



Market risk is assessed using Standard Formula. Considering the composition of the Company's portfolio, the assessment findings show a consistent exposure mainly to spread risk.

Liquidity risk arises when the Company, in order to meet the liquidity needs of Separate Management Funds, has no available funds and is unable to promptly liquidate the investment in securities without suffering significant losses in value.

The Company constantly carries out a careful analysis of its cash flows and, during the year, carried out a management action in order to mitigate this risk by limiting exposure to illiquid and structured products. Periodically, monitoring of the risk is performed in the short, medium and long term, as required by the "Policy on liquidity risk management" set out under the Framework Resolution on Investments (pursuant to IVASS Reg. No. 24/2016), verifying whether the value of the Liquidity Coverage Ratio (LCR), i.e. the ratio of liquid assets to inflows / outflows, is not less than 125%.

2 Life Technical Risk

The Company's portfolio is represented by a balanced mix of hedging products with a main savings content, unit-linked products without guarantees, and pure risk hedging products for a residual portion.
In relation to the nature of the business and composition of the portfolio, it was found that the main underwriting risks to which the Company is exposed are as follows:

- lapse risk, determined by changes in the level or volatility of the rates for early repayments due to partial redemptions, total redemptions, reductions (termination of premium payments), and other reasons;
- expense risk, linked to the possibility that the income generated by the business may not cover all the related costs incurred;
- biometric risk, with particular reference to the risks of mortality, disability, and morbidity, which is also mitigated through reinsurance.

Longevity risk is negligible by virtue of the low number of annuity contracts. Guaranteed option ratios are not provided for in the products in the portfolio.

For risks associated with with-profit policies with minimum yield guarantees, in addition to integrating appropriate criteria that take into account the situation of the financial markets and the existing regulatory restrictions, the holding of the corresponding financial investments is measured over time using ALM techniques.

With regard to purely technical insurance risks, the Company pays particular attention to risks associated with the launch of new products and their assessment through profit testing to verify the sustainability of the coverage being offered, the riskiness, and the margins generated for the Company. The pricing is based on statistical analyzes of the actuarial type, including on a forward-looking basis, to ensure an adequate assumption of risks in setting the premium and margins, including in relation to contract placement and management / maintenance costs. There is also a continuous comparison and monitoring of market trends and foreseeable scenarios, a capital requirement calculation using the Solvency II "standard formula", and a careful assessment of exposure to insurance risk within the limits of risk tolerance in terms of quantity and type of new business during the annual planning phase.

Product pricing follows the same risk measurement standards (assumptions, flow modeling, etc.) as those included in the overall risk management framework. To this end, the Company favors recourse to verified historical data (assumptions concerning redemption rates, mortality cases), used in a discriminate manner, i.e. paying attention to their overall solidity (historical series depth, correctness of the surveys, presence of anomalous data, suitability of historical data for use as predictive tools, etc.).

With regard to mortality risk, i.e. relating to insurance contracts in the "event of death", the mortality tables used for pricing are prudential and risk exposure is monitored through a comparison between actual mortality and theoretical mortality deduced from the tables themselves.

Among risk mitigation factors, reinsurance is critical, especially for mortality risk.

The risk management policies adopted in association with life insurance contracts require the adoption, in the contract acquisition phase, of appropriate prudential rules aimed at achieving a careful selection of risks.

With regard to contracts that provide for payment of capital in the event of death, the underwriting policy provides for the acquisition of suitable health documentation, which should be the more detailed the higher the capital to be insured and the insured's age. The analysis and evaluation of the documentation received will then determine the decision to request further documentation, underwrite or reject the risk, or apply appropriate extra premiums (in relation to the insured's health condition, linked to certain professions and/or sports activities).

The risk is assessed using the Standard Formula; the Company's exposure to underwriting risk is mainly due to the risks of early repayment and expenses.

The table below shows the concentration of direct gross premiums by business line.

Direct gross premiums by business line (figures in Euro thousand)

Amounts in Euro thousand

IAS Classification (in Euro thousand)	Premiums in subsequent years	Premiums in the first year	Total
Supplementary	12.204	67	12.271
Indirect business	5.880	-	5.880
Insurance	156.632	9.948	166.579
Investment DPF	972.411	94.972	1.067.383
Investment	639.482	1.501	640.982
Grand total	1.786.608	106.488	1.893.096

The table below shows the concentration of technical provisions of direct gross business in the life segment by level of guarantee offered.

Life segment insurance provisions by yield guarantee (figures in Euro million)

	Direct Business December 2018
Reserves with interest rate guarantees	8.810,64
from >= 0% to <=1%	**4.318,80**
from >1% to <=2%	**2.863,06**
from >2% to <=3%	**861,45**
from >3% to <=4%	**767,33**
Over 4%	-
Reserve for mortality risk	55,12
Reserves linked to specific assets	47,92
Unit-Linked Reserves	95,24
Other Technical reserves	308,52
Shadow accounting reserve	226,94
VIF - Value in force	171,88
Total	**9.716,27**

3 Risk of Counterparties' Default

The risk of counterparties' default (or "credit risk", or "default risk") reflects the possible losses due to unexpected defaults or deterioration of the creditworthiness of the Company's counterparties and creditors in the following 12 months. Credit risk sets apart at least three types of exposures subject to default, namely:

- the default of banking institutions where current accounts are held;
- the default of reinsurance companies;

- the default of other counterparties, including issuers of risk mitigation contracts, including vehicle companies, insurance securitization, and derivatives.

The Group periodically monitors the exposure to this risk and has certain management strategies in place, such as the setting by the Board of Directors of specific limits for the insolvency risk of financial intermediaries and quality, commitment, and solvency criteria with regard to the insolvency risk of reinsurers. The reinsurers with whom the Company operates must, in general, meet criteria of quality, commitment, and solvency; the Company's reinsurance policy is generally oriented towards prudent hedging of exposures to avoid unwanted risk concentrations.

The insolvency risk of financial brokers (bank exposures) is monitored and checked on a monthly basis as part of the monitoring of investments.

4 Other Risks

The Company's Risk Management System, in line with the provisions of IVASS Regulation No. 38/2018 and the Solvency II Directive, provides for the detection, assessment, and treatment of any other risks that, while not attributable to the categories referred to above, are deemed potentially detrimental to the achievement of the Company's objectives.

Therefore, an analysis is performed of the types of risk not included in the classifications illustrated above, including operational risk, legal compliance risk, strategic risk, and reputational risk. For these risks, the assessment of which is mostly qualitative, the Company has set up a management system that is considered suitable for containing the same at an acceptable level.

Operational risk is defined as the risk of suffering losses arising from the inadequacy or malfunction of processes, human resources, and internal systems, or due to external events. Risk management is essentially delegated to the business line managers, who are called to find and implement mitigation actions.

In relation to IT systems, the security, access, continuity, and performance requirements are guaranteed and integrated with the Disaster Recovery Plan system, which is geographically distant from the headquarters. The Company has a Disaster Recovery Plan in place that represents a specific strategic plan aimed at minimizing the loss of information and time for restoring corporate information in particularly critical situations; this plan defines the set of technology measures suitable for restoring systems, data, and infrastructures necessary for the provision of services as a result of catastrophic events.

With regard to the measurement of operational risk and the setting of the relevant capital absorption, the Company uses the standard formula method defined by EIOPA (in the Solvency II system). In addition to these assessments, a Risk & Control Self Assessment (RCSA) approach was adopted in order to control, mitigate and monitor operational risks. In particular, on an annual basis, first-line departments, supported by the Risk Management Department, are called to identify the main risk events to which the Company could be exposed, assess them in terms of likelihood of occurrence and in terms of economic impact, as well as to find adequate mitigation actions in the event that the risk level being assumed is considered unacceptable. The assessments conducted in financial year 2018 showed that the main sources of operational risk for the Company are attributable to data quality issues in the portfolio systems being used, possible malfunctions of the information systems deriving from the integration initiatives in progress, possible deficiencies in the processes for the management of policies linked to loans (PPI) and the so-called dormant policies and, finally, to malfunctions in the investment cycle for unit-linked policies.

Strategic risk is defined as the current or prospective risk of a drop in profits or capital arising from external factors, such as insurance market, competitors, and customers, or internal factors, such as business strategy, and the achievement of strategic objectives set by the Board of Directors. Senior Management, with the support of the Risk Management Department and other departments involved, is responsible for detecting and assessing risks and setting out the actions and resources necessary for their management. The ongoing adoption of measures ensures the achievement of business objectives and strategic objectives, as well as a continuous assessment of the effectiveness of such measures.

Reputational risk is defined as the risk of deterioration of the corporate image and increased conflict with policyholders also due to the poor quality of services offered, the placement of inadequate policies, or the behavior of the sales network. The management of reputational risk involves setting certain control measures, categorized on the basis of risk factors, such as:

- Supervisory Authority,
- customers, products, and business;
- sales network;
- human resources.

The risk is also managed and monitored through the risk of non-compliance with rules, or the risk deriving from non-compliance with legislation, regulations, or measures of the Supervisory Authority, with the resulting possibility of incurring judicial or administrative penalties, or suffering losses resulting from reputational damage.

5.D Transactions with Related Parties

1. Legal Framework

"Related parties" are parties defined as such by the International Accounting Standard IAS 24 concerning the financial statement disclosures on transactions with related parties.

In drafting this section of the Explanatory Notes, reference should be made to the applicable statutory provisions, the standard IAS 24, and the applicable provisions contained in IVASS Regulation No. 30 of 26 October 2016.

Following the issuance thereof, intercompany transactions are defined by the "Policy for the Management of Intercompany Transactions", while transactions with related parties are governed by the "Policy for the Management of Transactions with Related Parties".

Both documents were presented and approved by the Board of Directors on 28 March 2018 and are reviewed at least annually.

2. Management of Transactions with Related Parties

In accordance with the procedures and timeframe set out in the "Policy for the Management of Transactions with Related Parties", the appointed department provides the Chief Executive Officer, the Audit Committee, Internal Control and Risk, the Board of Directors, the Board of Statutory

Auditors, and the Supervisory Body with adequate information regarding any transactions related party.

In particular, in case of transactions with related parties carried out by one of the entities as defined in the "Policy for the Management of Transactions with Related Parties", a timely notice (referred to as transaction notice) must be sent to the appropriate corporate body containing the following information: a) characteristics of the transaction; b) whether the transaction was directly ordered by the Company or through a subsidiary company; c) information on the effective / potential counterparty and whether it is a Related Party; d) classification of the transaction on the basis of the categories set out in the Policy and reasons underlying the classification (e.g. whether it is a transaction of major / minor importance); e) any elements that make it possible to link the transactions to a Framework Resolution; f) information as to the value of the transaction and tentative timeframe of commencement; for transactions of a non-negligible amount, the Transaction Notice should also contain: g) objective evidence confirming the fact that the transaction has been concluded on terms equivalent to market or standard conditions; h) reasons underlying the classification of the transaction.

The corporate body in charge, as a result of the information received, will perform checks with reference to the classification of the transaction and completeness of the documentation received. It will also support the corporate department involved in preventative monitoring activities for the approval of transactions and will launch the approval process required for significant and very significant transactions, notifying the Chief Executive Officer and/or the Chairman of the Audit Committee, Internal Control & Risk, who will, upon receipt of this communication, provide for the convening of the Committee for the purpose of issuing a non-binding opinion.

Transactions with related parties carried out by the Company must be recorded in a specific list, the management and keeping methods of which are set out in the Policy.

2.1 Transactions with Related Parties to be Submitted to the Examination and Prior Approval of the Board of Directors

The most significant transactions with a value, considering each individual transaction, equal to or greater than €5,000,000 will be submitted to the prior examination and approval of the Audit Committee, Internal Control & Risk, and the Board of Directors of the Company.

In particular, the Committee will, after receiving the documentation and information, examine the transaction and issue a reasoned opinion to the Board of Directors on the Company's interest (and on the subsidiary's interest for any transactions carried out through the same) in carrying out the transaction, as well as on the cost-effectiveness and substantial fairness of the relevant conditions.

If the Committee has expressed a reasoned opinion that is not favorable to the completion of the transaction, the Board of Directors may: i) approve the transaction in compliance with the conditions set by the Committee; ii) approve the transaction (despite the Committee's contrary opinion) stating the relevant reasons with clear and substantiated arguments, appropriate to justifying the objective cost-effectiveness for the firm to proceed with the conclusion of the transaction, supported, if appropriate, by the opinion of third-party consultants; iii) not approve the transaction. In any case, any resolution approving the transaction must acknowledge the proper adoption of the Policy and provide an adequate reason as to the Company's interest in carrying it out, as well as the cost-effectiveness and substantial correctness of the relevant conditions.

For transactions of lesser importance, the documentation will be sent to the Chief Executive Officer, who will examine the transaction and authorize it if this falls within the powers granted to the same or, in cases where the transaction does not fall within its powers, or in the event that the latter considers it appropriate, an opinion is given to the Committee on the Company's interest in carrying out the transaction, so that the same Committee may refer the relevant assessment and decision to the decision-making body. In any case, any resolutions approving the transaction must provide adequate reasons regarding the Company's interest in carrying it out, as well as the cost-effectiveness and substantial correctness of the relevant conditions. In case of approval of the Chief Executive Officer, the decision will be noted in specific reports.

3. Transactions with Related Parties Conducted during the Year

Pursuant to the applicable provisions on the subject, it should be noted that the monitoring activities carried out did not reveal transactions between related parties of a significant nature or not at market conditions.

Please refer to the Directors' Report on Operations for the identification of intercompany transactions with related parties in the financial year under review.

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5.E Information on the Balance Sheet at 31 December 2018

The entries in the statement of financial position and the changes in the relevant amounts compared to 31 December of the previous financial year are commented on and supplemented hereunder.

Assets

1 Intangible Assets

The following table shows the changes in the aforementioned item during the closing period:

Amounts in Euro thousand

	Amount at 31/12/2017	Increase	Decrease	Amount at 31/12/2018	Acc. Amort. 31/12/2017	Increase	Decrease	Acc. Amort. 31/12/2018	Book value 31/12/2017
Goodwill	22.050		-	22.050	-	-	-	-	22.050
Total Goodwill	*22.050*	-	-	*22.050*	-	-	-	-	*22.050*
VIF OMWI	126.985	-	-	126.985	27.308	17.214	-	44.522	82.463
Software	6.212	-	-	6.212	4.936	706	-	5.642	570
Other intangible fixed assets	4.148	-	-	4.148	935	1.255	-	2.190	1.958
Total other intangible fixed assets	*137.345*	-	-	*137.345*	*33.179*	*19.175*	-	*52.354*	*84.991*
Total intangible assets	159.395	-	-	159.395	33.179	19.175	-	52.354	107.041

1.1 Goodwill

The item, amounting to €22,050 thousand, consists of the goodwill generated as a result of the merger by acquisition of the former company Old Mutual Wealth Italy S.p.A. into Eurovita S.p.A. The surplus of the acquisition cost of the shareholding of Old Mutual Wealth Italy, compared to the share at fair value of assets and liabilities, was accounted for in such item and represents a payment made in anticipation of future economic benefits arising from assets that cannot be identified individually and recorded separately.

The Company carried out an impairment test on this asset with an indefinite useful life that confirmed the book value. Therefore, the asset was not written down.

Furthermore, this valuation was supported by the evidence characterizing the 2018 management. With reference to events following the reporting date of financial year 2018, it should be noted that the positive business trend in the first weeks of 2019 and the forecasts for the entire financial year do not show elements of significant discontinuity with respect to 2018 such as to negatively affect the past measurement due to subsequent events.

1.2 Other Intangible Assets

This item, amounting to €84,991, mainly consists of the value of the Life portfolio of the former company Old Mutual Wealth Italy S.p.A. acquired in 2017 (VIF) for €82,463 thousand and costs incurred for the purchase of software and other intangible assets for €2,528 thousand.

As previously reported in the section on accounting standards and preparation criteria, the value of purchased contracts (VIF) was calculated by estimating the present value of future cash flows of existing contracts, net of any effects deriving from reinsurance. The VIF was amortized on the basis of the release of provisions to which it refers.

The amortization of other intangible assets is calculated on the basis of the 20% tax rate considered to be representative of their useful life.

The breakdown is provided in a specific attachment.

2 Tangible Assets

2.2 Other Tangible Assets

The changes in other tangible assets are shown in the following table:

Amounts in Euro thousand

	Amount at 31/12/2017	Increase	Decrease	Amount at 31/12/2018	Acc. depr. 31/12/2017	Increase	Decrease	Acc. depr. 31/12/2018	Amount at 31/12/2018
Furniture and fixtures	891	-	12	879	845	-	12	833	46
Electronic machines	1.466	-	-	1.466	1.316	116		1.432	34
Plants and equipment	1.104	-	-	1.104	706	12		718	386
Total tangible assets	3.461	-	12	3.449	2.867	128	12	2.983	466

Depreciation is calculated on the basis of the following tax rates considered representative of the useful life of each category:

- Furniture and Fixtures 12%
- Electronic Machines 20%
- Plants and Equipment 10%

3 Technical Provisions Borne by Reinsurers

The technical provisions borne by reinsurers, including business ceded and retroceded, amounted to €1,227,590 thousand (€1,522,998 in 2017), with a total decrease of €295,408 thousand compared to 31 December 2017, due to the onset of the maturity on a significant generation being reinsured.

Amounts in Euro thousand

	Amount at 31/12/2018	Amount at 31/12/2017	Change for the period
Mathematical Provision	1.119.899	1.464.330	-344.431
Provisions for complementary insurance	1.792	2.303	-511
Outstanding claims provisions	105.640	56.089	49.551
Provisions for profit sharing	259	276	-17
Total Amounts ceded to reinsurers from insurance provisions	1.227.590	1.522.998	-295.408

The performance of the technical provisions borne by reinsurers reflects the evolution of the recurring annual premium portfolio and of the temporary death and supplementary policies of the portfolio of the former company ERGO Previdenza. The mathematical reserves borne by reinsurers were calculated by applying the same criteria used for gross provisions.

Premium provisions on supplementary policies refer to accident and permanent disability coverage and were calculated by applying the *pro-rata temporis* criterion adopted for gross provisions.

The increase in the provisions for sums to be paid is due to the presence of a greater number of expiring policies compared to the end of the previous financial year.

The technical provisions borne by reinsurers are covered at 90.42% by deposits of the same reinsurers.

The table below shows the balance of provisions by type of reinsurer rating:

Amounts in Euro thousand

Rating (Standard & Poor)	Reserves ceded
AA+	78.358
AA-	1.138.220
A+	8.434
A	3
BBB+ and lower / No Rating	2.575
Grand Total	1.227.590

4 Investments

4.4 Loans and Receivables

The following table shows the breakdown of Loans and Receivables, totaling €446,709 thousand, by type of investment compared with the corresponding values at the end of the previous financial year (€518,731 thousand in 2017):

Amounts in Euro thousand	31/12/2018			31/12/2017		
	Amort. cost	Book value	Fair Value	Amort. cost	Book value	Fair Value
Other loans and receivables	32.427	32.427	32.427	43.040	43.040	43.040
Debt securities	336.942	336.942	356.310	380.464	380.464	406.559
Deposits with banking institutions	-	-	-	17.434	17.434	17.434
Deposits with reinsurers	77.340	77.340	88.303	77.793	77.793	85.823
Total Loans and Receivables	446.709	446.709	477.040	518.731	518.731	552.856

In particular, it should be noted that the item Loans and receivables includes:

- loans amounting to €31,592 thousand, which includes €30,189 thousand relating to loans on policies;
- recoveries from agents of €835 thousand, which includes €460 thousand relating to the associated company Agenzia Eurovita S.r.l. Among these, gross loans with a maturity of over one year amounted to €40 thousand (€323 thousand to Agenzia Eurovita), which includes €11 thousand exceeding five years (€67 thousand to Agenzia Eurovita);
- deposits with ceding institutions for a total of €77,340 thousand;
- debt securities, including the related accrued income of €336,942 thousand.

Debt securities comprise private placement issues and unlisted bonds of €297,950 thousand (of mainly European banking and financial institutions, as well as repurchase agreements in place with Italian banking institutions with underlying Italian government securities of €38,992 thousand); at the end of the financial year, this category showed a net contingent capital gain equal to €19,368 thousand.

4.5 Financial Assets Available for Sale

The breakdown of Financial assets available for sale classified by type of investment is shown in the following table compared with the corresponding values at the end of the previous financial year:

Amounts in Euro thousand	31/12/2018				31/12/2017			
	Amort. cost	Book value	Equity reserve	Fair Value	Amort. cost	Book value	Equity reserve	Fair Value
Debt securities	7.940.637	8.040.268	99.630	8.040.268	8.633.047	8.918.886	285.839	8.918.886
of which, listed	*7.908.897*	*8.008.549*	*99.652*	*8.008.549*	*8.633.047*	*8.918.886*	*285.839*	*8.918.886*
UCI units	1.106.854	*1.073.838*	- *33.016*	1.073.838	377.800	388.535	10.735	388.535
Equity securities at fair value	26.678	26.628	- 50	26.628	28.784	29.683	899	29.683
of which, listed	-	-	-	-	*1.173*	*1.109*	- *64*	*1.109*
of which, not listed	*26.678*	*26.628*	- *50*	*26.628*	*27.611*	*28.574*	*963*	*28.574*
Equity investments in affiliated companies	-	-	-	-	1.138	1.138		1.138
Total Available for Sale Financial Assets	9.074.169	9.140.734	66.564	9.140.734	9.040.769	9.338.242	297.473	9.338.242

Financial assets available for sale totaled €9,141 million, compared to €9,338 million in 2017.

The Equity Reserve on debt securities (understood as the difference between amortized cost and fair value) equal to €99,630 thousand at 31 December 2018 (a positive €285,839 thousand at the end of the previous financial year) decreased due to the reduced market value.

"UCI / ETF Units", amounting to €1,073,838 thousand, represent a variety of investment categories that include monetary stocks / shares (€102,700 thousand), investment grade and high-yield bonds (€551,000 thousand), open-end debt loans (€169,261 thousand), and other types of closed-end funds or funds with a limited-entry window (€226,947 thousand); the latter are diversified between Private Equity, Infrastructure Equity, Real Estate Equity, Infrastructure Debt, Real Estate Debt, Loan Debt, and Direct Lending subdivided into over 25 specialized instruments. The Equity Reserve of the category (a negative €33,016 thousand) was particularly penalized at year end by the negative performance of the High Yield and Emerging Market Debt markets, a result which, however, was quickly recovered in the first two months of the year 2019.

The item Equity securities at fair value constitutes a residual weight in line with the policy of limiting equity risk. This feature was confirmed during the year 2018 with a portfolio that consisted of shares of Italian banking institutions and other unlisted financial companies linked to the Company through distribution agreements, as well as 280 shares of the Bank of Italy (€7,000 thousand).

The item "Equity investments in associated companies", valued at cost, at 31.12.2017 included the investment in Eurovita Service S.c.r.l. of €1,138 thousand purchased for 1.82% in 2009. The investment, valued at cost, increased during 2017 as the 4.39% stake held by Darag Italia S.p.A. (the former company Ergo Assicurazioni) was purchased. On 20 June 2018, the company Eurovita S.p.A sold its equity investment in Eurovita Service S.c.r.l. to its parent company Eurovita Holding S.p.A.

Through the impairment test procedure, the Company verified the existence of any conditions that could definitively justify the recognition of permanent losses in value. At 31 December 2018, write-downs of bank investments for €932 thousand and of AIF shares for €7,024 thousand were recognized (against no write-down in the previous fiscal year) mainly related to Real Estate Equity funds (€5,659 thousand).

4.6 Financial Assets Measured at Fair Value through Profit or Loss

Financial assets measured at fair value through profit or loss by type of investment are detailed in the table below, which compares the corresponding values at the end of the previous financial year.

Amounts in Euro thousand	31/12/2018			31/12/2017		
	Amort. cost	Book value	Fair Value	Amort. cost	Book value	Fair Value
Hedge derivatives	11.595	11.595	11.595	2.774	2.774	2.774
Non-hedge derivatives	1.477	1.477	1.477	2.471	2.471	2.471
Debt securities	9.965	9.965	9.965	10.774	10.774	10.774
of which, listed	*5.387*	*5.387*	*5.387*	5.855	5.855	5.855
of which, not listed	4.578	4.578	4.578	4.919	4.919	4.919
Equity securities at fair value	-	-	-	30	30	30
of which, listed	-	-	-	30	30	30
Assets held for trading	*23.037*	*23.037*	*23.037*	*16.049*	*16.049*	*16.049*
Debt securities	89.589	89.589	89.589	-	-	-
of which, listed	*89.559*	*89.559*	*89.559*	-	-	-
of which, not listed	*30*	*30*	*30*			
UCI units	6.549.802	6.549.802	6.549.802	7.799.332	7.799.332	7.799.332
Equity securities at fair value	3.116	3.116	3.116			
of which, listed	*116*	*116*	*116*	-		-
of which, not listed	*3.000*	*3.000*	*3.000*			
Other Financial investments	20.272	20.272	20.272	26.338	26.388	26.388
Assets designated at fair value	*6.662.779*	*6.662.779*	*6.662.779*	*7.825.670*	*7.825.720*	*7.825.720*
Total Financial Assets at Fair Value through profit or loss	6.685.816	6.685.816	6.685.816	7.841.719	7.841.769	7.841.769

Financial assets measured at fair value through profit or loss totaled €6,686 million, compared to €7,842 million in 2017.

Among the investments held for trading, the item Debt securities includes structured bonds for which it was decided not to proceed with the accounting separation of embedded derivatives (€9,965 thousand) in addition to derivative components (€1,477 thousand) separated from structured products classified under Loans and Receivables, while the item "Hedge derivatives" refers to the positive positions of the forward hedge contracts (€11,595 thousand, a dramatic value recovery following the volatility of the spread over Italian government securities) subscribed during 2017, whose change in fair value was booked to shareholders' equity in the item Reserve for expected cash flow hedges. During 2018, the item did not undergo significant changes except for the first maturity of 10 forward contracts, which led to the related changes in the underlying bonds classified under the item Available-for-sale assets.

The item Financial assets designated at fair value includes investments for the benefit of life policyholders who bear the risk thereof (comprising 121 internal unit-linked funds and 1,562 external unit-linked funds), which totaled €6,662.8 million at 31 December 2018 (€7,825.7 million in 2017). The item decreased due to being affected, among other things, by the negative market trend in the second half of the year to which portfolios are linked and the negative cash flow of €596 million.

The following is a restatement of the overall bond portfolio by issuer risk without considering the portion relating to "Assets Designated at Fair Value":

Amounts in Euro thousand

	Breakdown of debt securities by issuer risk				
	Nominal Value	Amortized cost	Book value	Equity reserve	Fair Value
ITALIAN GOVERNMENT	2.179.344	2.496.519	2.474.151	22.368	2.474.151
SPANISH GOVERNMENT	852.805	890.953	898.591	-7.638	898.591
PORTUGUESE GOVERNMENT	699.671	755.429	768.836	-13.406	768.836
FRENCH GOVERNMENT	409.715	423.018	439.252	-16.234	439.252
IRISH GOVERNMENT	265.320	268.620	271.535	-2.914	271.535
BELGIAN GOVERNMENT	244.400	216.235	222.377	-6.142	222.377
AUSTRIAN GOVERNMENT	183.950	190.597	194.348	-3.751	194.348
BANK OF AMERICA CORP.	132.700	134.083	133.626	457	133.626
DUTCH GOVERNMENT	124.510	117.815	119.765	-1.950	119.765
BARCLAYS BANK PLC	103.000	104.284	107.281	-2.996	107.281
FINNISH GOVERNMENT	100.385	96.241	105.394	-9.152	105.394
DEXIA CREDIT LOCAL	96.400	98.197	98.854	-657	98.854
GERMAN GOVERNMENT	90.243	93.844	95.906	-2.062	95.906
CADES	78.300	79.925	84.642	-4.717	84.642
INTESA SANPAOLO SPA	77.500	80.623	79.884	740	79.884
CAISSE FRANCAISE DE FINANCEMENT LOCAL	65.000	73.718	73.718	0	83.310
ASSICURAZIONI GENERALI SPA	60.000	67.438	67.438	0	77.920
NRW BANK	60.000	66.526	65.765	762	65.765
BANCO BILBAO VIZCAYA ARGENTARIA SA	52.600	54.588	64.921	-10.333	64.921
ESPV SA	50.000	54.884	53.396	1.488	53.396
OTHER ISSUERS =< €50M	1.845.608	1.924.004	1.967.495	-43.490	1.966.789
Total	7.771.451	8.287.545	8.387.174	-99.630	8.406.542

5. Sundry Receivables

5.1 Receivables Arising from Direct Insurance Transactions

The breakdown is as follows:

Amounts in Euro thousand

	Amount at 31/12/2018	Amount at 31/12/2017	Change for the period
Receivables from policyholders for late premium payments	53.593	33.296	20.297
Receivables from insurance brokers	4.814	5.913	-1.099
Total Receivables arising out of direct insurance operations	58.407	39.209	19.198

Receivables arising from direct insurance transactions amounted to €58,407 thousand, compared to €39,209 thousand in 2017. A significant amount of receivables for premiums in arrears was collected in early 2019.

In accordance with sector regulations, the balance of receivables from policyholders does not include receivables referring to premiums of subsequent years, of a seniority exceeding twelve months, as they are completely written down, as presented in the changes in the Allowance for doubtful accounts shown below.

As required by I.S.V.A.P. Regulation No. 7/2007, receivables for recoveries were allocated among loans and receivables.

The balance of receivables from agents arising from direct insurance transactions takes into account the allowance for doubtful accounts of €2,200 thousand; for the purpose of completeness, the following detailed table shows the amount of the allowance for doubtful accounts relating to insurance receivables:

Amounts in Euro thousand

Allowance for doubtful accounts	Amount at 31/12/2018	Amount at 31/12/2017	Change for the period
Receivables from policyholders for late premium payments	5.895	1.860	4.035
Receivables from insurance brokers	2.200	2.288	-88
Total Allowance for doubtful accounts	8.095	4.148	3.947

5.2 Receivables Arising from Reinsurance Transactions

Amounts in Euro thousand

	Amount at 31/12/2018	Amount at 31/12/2017	Change for the period
Receivables reinsurance companies	4.357	6.124	-1.767
Receivables from reinsurance brokers	835	950	-115
Total Receivables arising out of reinsurance operations	5.192	7.074	-1.882

Receivables arising from reinsurance transactions went from €7,074 thousand at 31 December 2017 to €5,192 thousand. The item shows a total reduction of €1,882 thousand, consistent with the reduction in assets being ceded.

5.3 Other Receivables

"Other receivables" amounted to €25,706 thousand, against €44,993 thousand in 2017.

Amounts in Euro thousand

	Amount at 31/12/2018	Amount at 31/12/2017	Change for the period
Tax credit	10.538	14.725	-4.187
Receivables from financial operators	9.898	10.974	-1.076
Other receivables	5.270	19.294	-14.024
Total Other receivables	25.706	44.993	-19.287

The following table shows the breakdown of tax receivables at 31 December 2018:

Amounts in Euro thousand

	Amount at 31/12/2018	Amount at 31/12/2017
Receivables for prepaid tax stamp	1.758	4.026
Tax receivable for refund claims	3.023	3.014
Interest on tax receivable for refund claims	1.963	1.963
Tax receivable claimed as a refund	1.853	1.853
Withholding tax	0	1.970
Insurance tax receivable	1.893	1.627
Other tax receivable	48	273
Total Tax Receivable	10.538	14.725

Receivables from financial operators consist of the Asset Managers' retrocession of part of the management fees levied on the Class D portfolio invested in External Funds. These financial items are usually settled by the end of the quarter following the reference quarter.

The decrease in the item "Other receivables" is attributable to a reduction of €9,845 thousand in receivables from the parent company for tax consolidation and a reduction of €4,179 thousand in advances to suppliers, receivables from associated companies and other minor receivables.

6. Other Asset Components

6.2 Deferred Acquisition Costs

Deferred acquisition costs on insurance contracts amounted to €35,637 thousand, compared to €28,922 thousand in 2017.

The breakdown is as follows:

Amounts in Euro thousand

DAC Local	Amount at 31/12/2017	Unwind due to renewal failure	Unwind for installment amort.	New Business	Amount at 31/12/2018
Direct business	28.922	2.431	4.849	13.995	35.637
Indirect business	0		0		0
Total Deferred Acquisition Costs	28.922	2.431	4.849	13.995	35.637

Deferred acquisition costs refer to the amortization of commissions charged in advance on annual premium products marketed since 2007 and not ceded to reinsurers. As can be inferred from the above breakdown, the change is mainly attributable to new business during the year.

6.3 Deferred Tax Assets

As required by the accounting standard IAS 12.74, deferred tax assets and liabilities were offset when they referred to the same type of tax. For the year 2018, deferred taxes exceeded prepaid taxes, thus liabilities of €1,959 thousand were recognized under this item, while liabilities of €22,328 thousand had been recognized in 2017.

6.4 Current Tax Assets

Amounts in Euro thousand

	Amount at 31/12/2018	Amount at 31/12/2017	Change for the period
I.R.E.S. (corporate income tax) credit	6.783	4.677	2.106
I.R.A.P. (regional tax on productive activities) credit	0	3.727	-3.727
Tax credit on mathematical provision	299.946	302.917	-2.971
Total Tax receivables	306.729	311.321	-4.593

The item contains the tax credit for the levy of €299,946 thousand on mathematical reserves provided for by Law-Decree No. 209 of 24/9/2002, converted into Law No. 265 of 22/11/2002.

6.5 Other Assets

Amounts in Euro thousand

	Amount at 31/12/2018	Amount at 31/12/2017	Change for the period
Comm. to be amort. on invest. contracts	60.078	73.321	-13.243
Prepayments	5.310	6.437	-1.127
Accrued income	920	904	16
Deferred income	16.370	0	16.370
Total Other assets	82.678	80.662	2.016

The item records an increase of €2,016 thousand, mainly due to transactions of €16,370 on securities spanning two years to be settled and a decrease in acquisition commissions of €13,243 to be amortized relating to contracts classified as Investments.

Accrued income mainly refers to the accrual of management commissions accrued at the reporting date which mainly affect external funds.

Below is the change in the acquisition commissions to be amortized relating to contracts classified as Investments:

Amounts in Euro thousand

Investment Products	31/12/2017	Changes in portfolio	Unwind for installment amort.	New Business	31/12/2018
DAC	73.321	1.813	18.766	7.336	60.078

7. Cash and Cash Equivalents

Cash and cash equivalents, equal to €60,821 thousand (compared to €94,417 thousand at the end of the previous financial year), represent the balances of ordinary current accounts held with various banking institutions, checks in hand and cash in hand, which decreased by €33,596 thousand in total. Particular attention was paid to the management of banking risk, which generally confirmed the containment of deposits and a reduction in the diversification towards individual exposures, despite the levels at the end of the financial year being influenced by investment difficulties typical of the last days of the year.

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8 Intercompany Equity and Business Transactions

Amounts in Euro thousand

	Parent company	Affiliated companies	Total
Assets			
Loans and Receivables - receivables for recoveries			
Agenzia Eurovita Srl		5.124	5.124
Other receivables			
Eurovita Holding SpA	9.845		9.845
Total Assets	9.845	5.124	14.969
Liabilities			
Payables arising from direct insurance transactions			
Agenzia Eurovita Srl		24	24
Other payables			
Eurovita Holding SpA	11.444		11.444
Total Liabilities	11.444	24	11.468

Liabilities

1 Shareholders' Equity

The breakdown by type of shareholders' equity items is provided in the annexes.

It should be noted that the General Meeting of Shareholders held on 27 April 2018 resolved to allocate the profit for the year 2017, amounting to €19,093 thousand, as follows: €99,782 to the legal reserve and a dividend payout of €100,000 thousand, regularly paid in May 2018.

The following table shows a breakdown of shareholders' equity and the related changes during the course of 2018:

Amounts in Euro thousand

	Amount at 31/12/2018	Amount at 31/12/2017	Change for the period
Share Capital	90.499	90.499	0
Share premium reserve	38.387	38.387	0
Reserves for capital contributions	184.762	204.002	-19.240
Legal reserve	18.100	18.000	100
Own share	-1	0	-1
Organization fund	516	516	0
Reserve for Retained Earning	0	61.767	-61.767
AFS reserve	-18.094	22.066	-40.160
IAS 19 reserve	-26	-49	23
Reserve for expected cash flow transactions	3.396	-8.950	12.346
Result of the period	30.885	19.093	11.793
Total Shareholders' Equity	348.425	445.331	-96.906

The main changes are due to:

- Dividend payout of €100,000,000, setting the profit for the period of €18,993,135 as retained earnings in the amount of €61,767,034 and to the reserve for shareholders' capital contributions in the amount of €19,239,831;
- Change in expected cash flow hedge reserve: this includes changes in the fair value of derivative financial instruments generated as part of cash flow hedges, net of shadow accounting and deferred tax effects;
- Downward change in the AFS reserve (net of the shadow accounting effect) for a total of €40,160 thousand, which may be correlated to the market trend and to the realization of securities recognized in this class.

With reference to the reserve for expected cash flow hedge transactions, details of the changes during the period are provided below:

At the beginning of the previous financial year	Increase for change in fair value	Decrease for change in fair value	Release in Income Statement	Release to adjust assets / liabilities	Deferred tax effect	At the end of the current financial year
Hedging forward contracts	2.774	-15.711	0	0	3.987	-8.950

At the beginning of the current financial year	Increase for change in fair value	Decrease for change in fair value	Release in Income Statement	Release to adjust assets / liabilities	Deferred tax effect	At the end of the current financial year
Hedging forward contracts	11.595	-790	0	-5.896	-1.513	3.396

Shareholders' equity items, other than the result for the year, are detailed below, specifying their nature, possibility of use, and distributable portion.

Amounts in Euro thousand

Nature/description	Amount	Possibility of utilization	Available portion	Used in the past three year	
				to cover losses	for other reasons
Share Capital	90.499				
Organization fund	516	A, B	516		
Share premium reserve	38.387	A, B, C (1) e (2)	38.387		
Reserves for capital contributions	184.762	A, B, C (2)	184.762		
Legal reserve	18.100	B	18.100		
Reserve for Retained Earning	0	A, B, C	0		
Reserve for fin. assets held for sale	-18.094		0		
IAS 19 reserve and Cash flow hedge	3.370		0		
Total	**317.540**		**241.765**		
Non-distributable portion			18.616		
Residual distributable portion			**223.148**		

(A) for share capital increase - (B) to cover losses - C) for distribution to shareholders

(1) The share premium reserve can be used for distribution to shareholders provided that the legal reserve has reached one-fifth of the share capital.
(2) Pursuant to Article 2431 of the Italian Civil Code, the entire amount can only be distributed provided that the legal reserve has reached one-fifth of the share capital.

The share capital is fully subscribed and paid up and consists of 90,498,908 ordinary shares with a par value of €1 per share.

Profit per share amounted to €0.34.

2 Provisions

Amounts in Euro thousand

	Amount at 31/12/2018	Amount at 31/12/2017	Change for the period
Provisions	22.122	22.185	-63
Total Other Provisions	22.122	22.185	-63

The balance of the item "provisions" includes the allocations made to cover certain or probable losses whose amount or date of occurrence could not be determined with certainty at the end of the financial year.

Provisions recorded a total decrease of €63 thousand, dropping from €22,185 thousand in 2017 to €21,122 thousand.

The change is due to new provisions of €4,292 thousand and withdrawals of €4,355 thousand in the period.

The following is a summary of changes in provisions:

Amounts in Euro thousand

	Amount at 31/12/2017	Increase		Decrease	Amount at 31/12/2018
Tax litigation	2.511	0		-3	2.508
Provisions for defaulted index-linked policies	3.032	150	-	177	3.005
Sundry disputes with third parties	1.248	1.500		-156	2.592
of which, former EVA	*-*	*1.000*		*-*	*1.000*
of which, former OMWI	*1.248*	*500*	-	*156*	*1.592*
Agency network provisions	7.599	-	-	141	7.458
of which, former EP - Agents' pension scheme	5.099	-	-	5	*5.094*
of which, former EP - Agency network restructuring	2.500	-	-	136	*2.364*
Litigation with agency network	874	-		-	874
Sundry disputes with customers	1.560	900	-	274	2.186
Other personnel provisions	5.361	1.742	-	3.604	3.499
Total Provisions	22.185	4.292	-	4.355	22.122

The most significant changes that occurred during financial year 2018 are analyzed below:

Tax litigation:

It should be noted that certain tax disputes were pending at 31 December 2018 with the Italian Revenue Agency in respect of the company Eurovita:

- Arising from the merged company Eurovita Assicurazioni S.p.A.: provisions of €330 thousand allocated for the refund claims relating to taxes for 2004, submitted in 2007, whose appeal is pending before the Court of Cassation, and provisions €461 thousand set aside in regard to the tax dispute relating to the refusal to pay the I.R.A.P. refund for 1998 and related interest. The provision covers the full amount of recognized capital and interest, which had been set aside up to financial year 2015;
- Arising from the merged company OMWI for tax litigation for the years 2007 and 2009: total provisions of €1,720 thousand for taxes and penalties relating to tax litigation for the tax periods 2007 (provisions of €370 thousand) and 2009 (provisions of €1,350 thousand).

In relation to the year 2007, the provision (of €370 thousand) relates to higher I.R.A.P. assessed by the Italian Revenue Agency. In 2015, the Company had appealed to the Court of Cassation, against which the Italian Revenue Agency brought counterclaims. Since the date of the hearing has not been set yet, the amount has been kept unchanged compared to 2017.

The assessment on the tax period 2009 concerns both I.R.A.P. and I.R.E.S. In 2018, the Company submitted a conciliation proposal, in regard of which a settlement agreement was reached with the Italian Revenue Agency to be finalized in April 2019.

Provisions for defaulted index-linked products:
provision for index-linked policies with defaulted bond component whose contractors have not yet adhered to customer care initiatives and for which individual settlement agreements will be defined in the future. Total amount allocated at 31 December 2018 equal to €3,005 thousand.

Various disputes with third parties:
the amounts relate to allocations made against certain or probable legal cases related to leased properties and risks of loss in pending disputes with suppliers and third parties.

Agency network provisions:

- provisions for Agents' retirement benefits: this includes the provision for retirement benefits to cover the Company's agents' severance indemnities, taking into account its effective recovery. The provision remained substantially unchanged during 2018;

- Restructuring of the agency network: no new provisions were set aside.

Various agency network disputes:
Provisions for litigation with the agency network. This includes allocations for risks of loss in pending disputes with former agents. The previsions remained unchanged during 2018.

Various customer disputes:
This reserve includes provisions set aside for the risk of losing pending disputes with policyholders, which amounted to €1,560 thousand at 31 December 2017. The changes during the year relate to new provisions of €900 thousand and withdrawals of €274 thousand for the settlement of some disputes.

Other provisions relating to personnel:

This reserve includes provisions for retention bonuses or other expenses for employed personnel amounting to €1,742 thousand and uses referred to voluntary redundancy incentives of €3,604 thousand for personnel of the former company Old Mutual Wealth Italy.

3 Technical Provisions

Amounts in Euro thousand

	Amount at 31/12/2018	Amount at 31/12/2017	Change for the period
Insurance provisions	9.395.791	9.355.209	40.582
Shadow accounting	226.937	430.110	-203.173
VIF - Value in force	171.885	202.745	-30.860
Total Insurance Provisions	**9.794.613**	**9.988.064**	**-193.451**

Technical provisions show a slight decrease from €9,988 million in 2017 to €9,795 million at 31 December 2018.

As can be inferred from the table above, Technical provisions also include €171,885 thousand relating to the negative value of the Life portfolio of the former company Eurovita Assicurazioni S.p.A., acquired in 2017 (VIF - Value in force). The VIF is reduced annually on the basis of the unwind of provisions to which it refers.

The breakdown by type of Technical provisions, specifying the corresponding value of the previous financial year, is shown below:

Amounts in Euro thousand	Amount at 31/12/2018	Amount at 31/12/2017	Change for the period
Mathematical Reserves	8.834.053	8.879.755	-45.702
Reserve for premium recoveries	70.123	82.009	-11.886
Reserve for rate expiry risk	18.740	9.911	8.829
Reserve per demographic basis adjustments	6.876	5.330	1.546
Reserves for indirect business	77.340	77.793	-453
Reserves for special redemptions	428	405	23
Reserve for mortality risk	3.113	2.491	622
Reserves for future expenses	33.866	0	33.866
Reserves for Class D	104.341	96.619	7.721
Reserves for supplementary insurance	8.524	11.469	-2.945
Outstanding reserve	238.388	189.427	48.961
Shadow accounting reserve	226.937	430.110	-203.173
VIF	171.885	202.745	-30.860
Total	9.794.613	9.988.064	-193.451

In implementation of the provisions contained in paragraph 3 of Article 11-*bis* of I.S.V.A.P. Regulation No. 7 of 13 July 2007 and in paragraph 15 of IFRS 4, the adequacy of the insurance liability was tested as at 31 December 2018 according to the principles of the Liability Adequacy Test (LAT).

According to such rules for insurance contracts (and, if the entire discretionary component is set aside as a technical provisions, also for investment contracts with DPF), an adequacy test of the contractual technical provisions is required (mathematical provision for pure, additional, supplementary premiums, for future and other expenses), net of intangible assets relating to the acquisition of contracts (deferred acquisition costs - value in force). In other words, the LAT aims to verify that the *Statutory Reserve* (value of all contractual provisions) net of the intangible assets linked to the contracts (Deferred Acquisition Cost and VIF) is greater than or equal to the *Realistic Reserve* calculated on the basis realistic future commitments as further specified below.

The statutory reserve is given by the sum of the following items:

Actuarial reserve, including revaluation, provision for expenses, and additional reserve for expenses, additional reserve for insufficient demographic bases, additional reserve for insufficient rates and for the passing of time, and the shadow accounting reserve.

Deferred acquisition costs, considered with opposite sign, calculated policy by policy.

The value in force of portfolios linked to insurance products.

The test was carried out on the closed portfolio in place at 31 December 2018 and exclusively on the insurance and investment portfolio with DPF. The identification of the products to be tested was based on the provisions of IFRS4.

The realistic reserve is defined as follows:
(+) fair value of the company's business
(-) fair value of premiums
(+) fair value of expenses.

In particular:
FV of flows for payment at maturity + FV of flows for redemption payment +
FV of flows for coupon payment + FV of flows for annuity payments +
FV of flows for commission payments + FV of flows for expenses -
FV of flows for premium collections - FV of flows for the collection of coupon payment expenses.

The approach adopted for the computation of technical items useful for the implementation of the LAT is, for each product line, based on a calculation model that enables the valuation of technical provisions as the fair value of the expected cash flows generated by the closed portfolio in force at the valuation date.

The technical forms considered were aggregated by types of contracts with respect to the main discriminating parameters, such as tariff form, minimum guaranteed rate, retrocession rates, and separate management fund.

The projection, for each aggregate, was carried out through Milliman's "MG-ALFA" actuarial software, with particular reference to the time structure of premiums, insured benefits, payments for claims, maturities, or redemptions, as well as revaluation clauses, and any other contractual option in place.

The demographic assumptions, those on the policyholders' behavior, and those on expenditure used for the valuation derived from the Company's experience, the macroeconomic ones from market information and derived from analyzes to which reference was made for the calculation of the supervisory technical provisions and solvency.

With regard to the financial assumptions on the prospective return of separate management investments, the Company deemed it appropriate to apply a credit spread adjustment to the risk-free rate curve provided by EIOPA.

For products with benefits that can be revalued, the insured sums were revalued according to the contractual conditions on the basis of the one-year forward rate curve obtained from the spot curve retrieved according to the procedure described above. The discounting of the contractual flows was consistently carried out on the basis of the same financial assumptions.

With regard to the time horizon, in principle the projection must be sufficiently long to cover the entire duration of the contracts, always bearing in mind the principle of materiality. The company has adopted a projection horizon of 40 years with the exception of Separate Management Funds linked to supplemental pension products, whose limit was preferably extended to 50 years.

In order to take account of the portfolio not modeled (less than 3% of provisions) and of certain particular provisions, the realistic reserve, deriving from discounting of cash flows was proportioned, for each management, on the basis of the impact of the financial reserves of modeled contracts.

For the Asset Reinsurance contracts, the Realistic Reserves was obtained on the basis of the flows determined by the reinsurer.

The adequacy testing of insurance liabilities carried out according to the principles of the Liability Adequacy Test (LAT) according to the method set out above, highlighted sufficient levels for all business lines. Therefore, from a general perspective, a global adequacy of the insurance liabilities posted to the Financial Statements emerges.

4. Financial Liabilities

4.1 Financial Liabilities Measured at Fair Value through Profit or Loss

The breakdown of the item is as follows:

Amounts in Euro thousand

	Amount at 31/12/2017	Amount at 31/12/2016	Change for the period
Financial liabilities - Investment contracts	6.605.216	7.772.374	-1.167.158
Non-hedge derivatives	2.302	5.814	-3.512
Hedge derivatives	790	15.712	-14.922
Total fin. liabilities at fair value through profit or loss	6.608.308	7.793.900	-1.185.592

This item includes liabilities of €6,605 million for financial contracts at 31 December 2018 (€7,772 thousand at 31 December 2017) and total negative hedge, or otherwise, derivatives of €3,092 (€21,526 at 31 December 2017).

Hedging derivatives amounted to €790 thousand and relate to forward contracts, whose offsetting item was recognized in the so-called Cash flow hedge reserve, recognized in shareholders' equity net of the related tax effects. Non-hedging derivatives instead, amounting to €2.302 thousand, relate to the negative component of segregated derivatives, whose underlying security is accounted for in the item Loans and Receivables.

Details of assets and liabilities relating to contracts issued by insurance companies when the investment risk is borne by customers, with reference to benefits connected with investment funds or market indices, is provided in the annex specifying the corresponding value of the previous financial year.

Changes in financial liabilities relating to contracts classified as "Investments" are provided below:

Actuarial Reserve at 31/12/2018	7.772.374
Change in reserve for premiums collected for the year	639.154
Change in reserve for liquidation for the year	-1.241.791
Change in reserve as a result of revaluation	-564.116
Change in reserve for amounts to be paid	-7.297
Changes in portfolio	6.892
Balance sheet reserve 31/12/2018	6.605.216

4.2 Other Financial Liabilities

The table below shows the breakdown of this item:

Amounts in Euro thousand

	Amount at 31/12/2018	Amount at 31/12/2017	Change for the period
Subordinated liabilities	45.384	45.428	-44
Deposits Forward	10.731	0	10.731
Deposits received from reinsurers	1.109.954	1.457.954	-348.000
Total Other financial liabilities	1.166.069	1.503.382	-337.313

Other financial liabilities amounted to €1,166,069 thousand, compared to €1,503,382 thousand in 2017.

This item includes deposits received from reinsurers, equal to €1,109,954 thousand, decreased by €348,000 thousand compared to 2017, forward deposits of €10,731 and subordinated liabilities of €45,384 thousand. Deposits received from reinsurers are correlated with the reinsurers' reserves at year end. The reduction is therefore mainly linked to the decrease in reserves ceded. The remuneration of deposits is essentially linked to certified rates of return of separate management funds.

The following table shows the details of subordinated loans subscribed or issued in the form of bonds with the related maturities and financial terms and conditions:

Amounts in Euro thousand

	Amount	Subscription	Maturity	Rate	Amount at 31/12/2018
Bond loan	5.016	01/10/2015	01/10/2025	4,75%	5.014
Bond loan	40.412	22/12/2015	22/12/2025	6,00%	40.370
Total Subordinated liabilities	45.428				45.384

5 Payables

Payables amounted to €134,280 thousand at 31 December 2018, against €76,272 thousand in 2017.

Amounts in Euro thousand

	Amount at 31/12/2018	Amount at 31/12/2017	Change for the period
Payables arising out of direct insurance operations	26.197	29.890	-3.693
Payables arising out of reinsurance operations	64.735	17.899	46.836
Sundry payables	43.348	28.483	14.865
Total payables	134.280	76.272	58.008

5.1 Payables Deriving from Direct Insurance Transactions

The item "Payables deriving from direct insurance transactions" includes amounts for commissions, commissions and rappels due to the network on premiums collected during the fiscal year.

5.2 Payables Deriving from Reinsurance Transactions

The item "Payables deriving from reinsurance transactions", which rose from €17,899 thousand in 2017 to €64,735 thousand in 2018, includes payables to reinsurers for treaties with risk and commercial premiums and for indirect business. The increase of €46,836 thousand compared to December 2017 is mainly linked to the unwinding of maturities of the 1998 generation of commercial reinsurance.

5.3 Other Payables

The following table shows a breakdown by category:

Amounts in Euro thousand

	Amount at 31/12/2018	Amount at 31/12/2017	Change for the period
Employees' severance indemnities	920	1.254	- 335
Tax payables borne by policyholders	496	536	- 40
Sundry tax liabilities	11.776	6.200	5.576
Payables to pension and social security institutions	1.424	1.241	183
Sundry payables	28.732	19.251	9.481
Total Other payables	43.348	28.483	14.865

Employees' Severance Indemnities

Payables for employees' severance indemnities amounted to €920 thousand (€1,254 thousand in 2017). The balance includes the estimate of such indemnities, calculated in line with the IFRS accounting principles.

Tax Payables Borne by Policyholders

Tax payables borne by policyholders amounted to €496 thousand (€536 thousand in 2017). The decrease is due to the reduction in absolute value of the subsequent annual payments still subject to taxation.

Sundry Tax Payables

The item refers to the tax charges for which the company acts as a tax collection agent and to payables for taxes other than income taxes. These amounted to €11,776 (€6,200 thousand in 2017). The increase is attributable to the ordinary tax stamp paid in the month of February 2019.

Payables to Pension and Social Security Institutions

This item contains payables to I.N.P.S. for contributions to be paid by workers and by the Company, amounting to €1,424 thousand, compared to €1,241 thousand in 2017.

Sundry Payables

Sundry payables, amounting to €28,732 thousand, recorded an increase of €9,481 thousand following the combined effect of the decrease of €1,382 thousand in trade payables and of the increase of €11,444 thousand in tax consolidation payables.

The following table shows the breakdown of this item at 31 December 2018:

Amounts in Euro thousand

	Amount at 31/12/2018	Amount at 31/12/2017
Trade payables and Invoices to be received	11.407	10.616
Payables to employees	1.275	1.484
Payables for unit commissions	157	170
Sundry payables	4.134	6.485
Other payables	11.759	496
Total Sundry payables	28.732	19.251

6 Other Liability Components

6.2 Deferred Tax Liabilities

As required by accounting standard IAS 12.74, deferred and prepaid taxes should be offset when they refer to the same type of tax. It should be noted that this year, deferred taxes exceeded prepaid taxes and therefore this item was recognized under liabilities for €1,959 thousand, while in 2017 this item was also recognized under liabilities for €22,328 thousand.

Prepaid and deferred tax assets / liabilities mainly derive from the temporary differences on value adjustments on taxed risk provisions, on deferred acquisition income and costs, on the valuation of "long-term" securities according to fiscal principles, on the valuation of securities available for sale, and on shadow accounting, and adjustments due to positive and negative Value in Force.

It should be noted that following the amendments introduced by Decree-Law No. 78 of 31-5-2010, converted into Law No. 122 of 30-7-2010, the change in the net technical provisions of the life business became partially non-deductible / taxable; this effect can be reabsorbed in future financial years.

Following the approval of Law No. 208 of 28 December 2015 (2016 Stability Law), the I.R.E.S. rate fell from 27.50% to 24% as of the year 2017.

The attached table shows the details, with an indication whether the deferred / prepaid tax refers only to I.R.E.S. with an applicable 24% rate or also includes I.R.A.P. (6.82%) for a total of 30.82% for the two tax rates.

Net deferred taxes calculated by applying the 24% I.R.E.S. rate amounted to €94 thousand on temporary net differences of €392 thousand and those calculated by applying the 6.82% I.R.A.P. rate amounted to €1,865 thousand calculated on temporary net differences of €27,344 thousand.

	Fiscal year 2018			**Fiscal year 2017**			**Change due to tax effect 2018-17**
Breakdown of prepaid taxes	Amount of temporary differences	Rate	Tax effect	Amount of temporary differences	Rate	Tax effect	
Taxed provisions for write-downs and risks	32.369	24,00%	7.768	30.363	24,00%	7.287	481
Other tangible assets	-	30,82%	0	-	30,82%	0	0
Deferred commission income	4.858	30,82%	1.497	6.987	30,82%	2.153	-656
Tax losses to be carried forward	-	24,00%	0	16.081	24,00%	3.860	-3.860
Change in actuarial provisions	31.035	24,00%	7.448	27.003	24,00%	6.481	968
Employees' severance indemnities	-	24,00%	0	104	24,00%	25	-25
Other payables	-	30,82%	0	795	30,82%	245	-245
Intangible assets	264	30,82%	81	146	30,82%	45	36
Negative value in force	171.885	30,82%	52.975	202.745	30,82%	62.486	-9.511
Liabilities to policyholders (shadow accounting)	128.272	30,82%	39.534	163.729	30,82%	50.461	-10.928
Losses on equity investment valuations	- 8.063	24,00%	-1.935	3.638	24,00%	873	-2.808
Prepaid taxes offset in IS	**360.620**		**107.369**	**451.592**		**133.916**	**-26.547**
Liabilities to policyholders (shadow accounting)	92.660	30,82%	28.558	265.138	30,82%	81.715	-53.158
Other items	-	30,82%	0	-	24,00%	0	0
Losses on AFS securities and IAS 19 Reserve	-	30,82%	0	-	30,82%	0	0
Prepaid taxes offset in SE	**92.660**		**28.558**	**265.138**		**81.715**	**-53.158**
Total prepaid taxes	**453.281**		**135.927**	**716.730**		**215.632**	**-79.705**

	Fiscal year 2018			**Fiscal year 2017**			**Change due to tax effect 2018-17**
Breakdown of deferred taxes	Amount of temporary differences	Rate	Tax effect	Amount of temporary differences	Rate	Tax effect	
Gains on AFS securities	28.364	24,00%	6.807	36.090	24,00%	8.662	-1.854
Gains on AFS securities	221.496	30,82%	68.265	283.673	30,82%	87.428	-19.163
Deferred commission expense	49.404	30,82%	15.226	71.251	30,82%	21.960	-6.733
Positive value in force	82.463	30,82%	25.415	99.677	30,82%	30.720	-5.305
Employees' severance indemnities	25	24,00%	6	-	24,00%	0	6
Other items	-	30,82%	0	5.013	30,82%	1.545	-1.545
Deferred taxes offset in IS	**381.752**		**115.720**	**495.704**		**150.315**	**-34.595**
Gains on AFS securities	-	30,82%	0	-	30,82%	0	0
Liabilities to policyholders (shadow accounting)	-	30,82%	0	-	30,82%	0	0
Positive value in force	-	30,82%	0	-	30,82%	0	0
Deferred commission expense	-	30,82%	0	-	30,82%	0	0
Other items	354	30,82%	109	-	30,82%	0	109
Gains on AFS securities	71.567	30,82%	22.057	284.401	30,82%	87.652	-65.595
Deferred taxes offset in SE	**71.921**		**22.166**	**284.401**		**87.652**	**-65.486**
Total prepaid taxes	**453.672**		**137.886**	**780.105**		**237.967**	**-100.081**

	Fiscal year 2018			**Fiscal year 2017**			**Change due to tax effect 2018-17**
Breakdown of deferred / prepaid taxes	Amount of temporary differences	Rate	Tax effect	Amount of temporary differences	Rate	Tax effect	
Prepaid taxes offset in IS	360.620		107.369	451.592		133.916	-26.547
Deferred taxes offset in IS	-381.752		-115.720	-495.704		-150.315	34.595
Prepaid / deferred taxes offset in IS	**-21.131**		**-8.351**	**-44.112**		**-16.399**	**8.048**
Prepaid taxes offset in SE	92.660		28.558	265.138		81.715	-53.158
Deferred taxes offset in SE	-71.921		-22.166	-284.401		-87.652	65.486
Prepaid / deferred taxes offset in SE	**20.739**		**6.392**	**-19.263**		**-5.937**	**12.329**
Total prepaid / deferred taxes	**-392**		**-1.959**	**-63.375**		**-22.336**	**20.377**

Compared to the previous financial year, the changes in prepaid and deferred taxes offset in the Income Statement, equal to a net decrease of €8,048 thousand, were mainly due to:

- increase of €481 thousand in prepaid taxes on the allowance for doubtful accounts and on taxed provisions for risks;
- decrease of €656 thousand in prepaid taxes on deferred commission income;
- decrease of €3,859 thousand in prepaid taxes on tax losses;
- increase of €967 thousand in prepaid taxes on mathematical provisions;
- decrease of €9,511 thousand in prepaid taxes on a negative value in force;
- decrease of €10,834 thousand in prepaid taxes on shadow accounting;
- decrease of €2,808 thousand in prepaid taxes on valuation losses;
- decrease totaling €20,924 thousand in deferred taxes on capital gains on AFS securities;
- decrease of €6,733 thousand in deferred taxes on commission expense;
- decrease of 5,305 thousand in deferred taxes on a positive value in force;
- decrease of €1,544 thousand in deferred taxes on other items.

Compared to the previous financial year, the most significant changes in prepaid and deferred taxes offset in shareholders' equity, equal to a net decrease of €12,228 thousand, were as follows:

- decrease of €53,158 thousand in prepaid taxes net of the reduction in deferred taxes on shadow accounting;

- decrease of €65,595 thousand in deferred taxes on gains on securities available for sale (AFS).

6.3 Current Tax Liabilities

This item includes the portion for the period of the tax on mathematical provisions , as provided for by Law-Decree No. 209 of 24-9-2002, converted into Law No. 265 of 22-11-2002, equal to €53,690 thousand (€72,555 thousand in the previous year), not yet paid at year end.

6.4 Other Liabilities

The item is broken down as follows:

Amounts in Euro thousand

	Amount at 31/12/2018	Amount at 31/12/2017	Change for the period
Deferred commission income	5.391	6.697	- 1.305
Suspended premiums collected	39.189	14.691	24.499
Commissions to be paid on late premiums	1.654	1.654	-
Commission bonuses and agency network contributions	131	2.753	- 2.622
Personnel expenses	3.219	2.765	455
Accrued liabilities and deferred income	4.473	2.572	1.900
Total Other Liabilities	**54.058**	**31.131**	**22.927**

This account includes deferred commission income on investment contracts, amounting to €5,391 thousand, suspended premiums collected, for which the issue of the relevant policies or identification of the reason for collection is pending, equal to €39,189 thousand, commissions payable relating to late premiums at year end, totaling €1,654 thousand, the estimate for rappels and contributions to be paid to the agency network of €131 thousand, other personnel costs of €3,219 thousand, and accrued liabilities and deferred income of €4,473 thousand.

The changes in commission income on investment contracts are enclosed below:

Amounts in Euro thousand

Investment Products	31/12/2017	Changes in portfolio	Unwind for installment amort.	New Business	31/12/2018
DIR	6.623	280	1.371	459	5.431

As for the acquisition commissions of investments contracts to be amortized, also for the so-called DIR the decrease is essentially linked to a contraction in new business related to Unit Linked products.

5.F Information on the Income Statement at 31 December 2018

As mentioned above, during 2017 the former company Ergo Previdenza S.p.A. carried out two acquisition transactions. On 9 January 2017, subject to IVASS authorization by Measure No. 0228541/16 of 7 December 2016, the acquisition of the entire share capital of Old Mutual Wealth Italy S.p.A. was finalized, while on 11 August 2017, subject to IVASS authorization by Measure No. 0150511/17 of 3 August 2017, the acquisition of the share capital of Eurovita Assicurazioni S.p.A. (hereinafter also "EVA") was completed. Following authorization by IVASS, the merger of the former company Old Mutual Wealth Italy S.p.A. and of the former company Eurovita Assicurazioni S.p.A. into the former company Ergo Previdenza S.p.A., which simultaneously took the business name Eurovita S.p.A. became effective on 31 December 2017.

For the preparation of the statutory financial statements of Eurovita S.p.A. at 31 December 2017, the merger, according to IAS / IFRS international accounting standards, had qualified as a merger with a restructuring nature. This type of merger led to the convergence of the consolidated financial statements at the date of the merger towards the merging company's post-merger financial statements, implementing the so-called "legal consolidation".

The comparative analysis of income statement data is significantly affected by the merger transaction described above, which occurred at 31 December 2017, as the income statement balances at 31 December 2017 related to the former company Ergo Previdenza S.p.A. only.

1 Net Premiums

1.1.1 Gross Premiums for the Year

The breakdown of this item is shown below:

Amounts in Euro thousand

	Amount at 31/12/2018	Amount at 31/12/2017	Change
Annual premiums in the first year	166.223	10.565	155.658
Annual premiums in subsequent year	188.863	180.021	8.842
Single premiums	891.256	43.113	848.143
Total direct business	**1.246.342**	**233.699**	**1.012.642**
Premiums on reinsured risks (indirect business)	5.880	6.792	-912
Total gross earned premiums	**1.252.222**	**240.491**	**1.011.731**

The breakdown by IAS / IFRS classification showing business not classified as insurance contracts is as follows:

Amounts in Euro thousand

IAS Classification (in Euro thousand)	Premiums in subsequent years	Premiums in the first year	Total
Supplementary	12.204	67	12.271
Indirect business	5.880	-	5.880
Insurance	156.632	9.948	166.579
Investment DPF	972.411	95.080	1.067.491
Grand total	1.147.127	105.095	1.252.222
Investment	639.482	1.393	640.874
Grand total	1.786.608	106.488	1.893.096

1.1.2 Premiums Ceded to Reinsurers for the Year

Premiums ceded to reinsurers amounted to €53,201 thousand, showing a decrease of €4,462 thousand compared to 2017.

The breakdown of net premiums is shown in the annex specifying the corresponding value of the previous period.

Amounts in Euro thousand

	Amount at 31/12/2018	Amount at 31/12/2017	Change
Direct and indirect business	1.252.222	240.491	1.011.731
Ceded and retroceded business	- 53.201	- 57.663	4.462
Total preserved business	**1.199.021**	**182.828**	**1.016.193**

1.2 Commission Income

Commission income on financial products, net of amortization of commission income in previous years, amounted to €174,502 thousand (€114 thousand at 31 December 2017 on a non-like-for-like basis). The significant increase is essentially attributable to the merger transaction that took place during the previous fiscal year, thanks to the contribution of the former company Old Mutual Wealth Italy company, which specialized in the marketing of Unit Linked products.

1.3 Income and Charges Arising from Financial Instruments Measured at Fair Value through Profit or Loss

The breakdown of this item is shown below:

Amounts in Euro thousand

	Amount at 31/12/2018	Amount at 31/12/2017	Change
Net income from financial instruments at fair value through profit or loss	-62.030	1.358	-63.387

This item essentially includes the net income relating to investments whose risk is borne by policyholders.

Gross of restatements in regard of financial products (upward adjustment of €390,980 thousand), the result of the investment category whose risk is borne by policyholders (loss of €451,646 thousand) suffered from the negative performance of the markets in which the portfolio assets of external and internal unit-linked funds are invested (gain of €1,358 thousand in the previous financial year limited to the merging Company's result).

Assets "Held for trading" in the merging company's portfolio generated a loss of €1,362 thousand (no earnings in the previous financial year limited to the merging Company's result) mainly due to alignment with market values.

Income from investments in the category of "Financial assets measured at fair value through profit or loss" are detailed in the following table specifying the corresponding values of the previous financial year:

Amounts in Euro thousand

	31/12/2018					31/12/2017				
Investment Income	Interest income	Other income	Realized gains	Valuation gains	Total	Interest income	Other income	Realized gains	Valuation gains	Total
Held for trading	0	362	0	921	1.283	0	0	0	0	0
Designated at Fair Value	13.426	1	34.887	39.182	87.497	12	11	492	2.922	3.437
Restatement of financial products	0	390.980	0	0	390.980	0	0	0	0	0
Total Income from financial instruments at fair value through profit or loss	13.426	391.343	34.887	40.103	479.760	12	11	492	2.922	3.437

Amounts in Euro thousand

	31/12/2018					31/12/2017				
Investment Charges	Interest expense	Other charges	Realized losses	Valuation losses	Total	Interest expense	Other charges	Realized losses	Valuation losses	Total
Held for trading	0	0	-840	-1.804	-2.644	0	0	0	0	0
Designated at Fair Value	0	-14.936	-119.436	-404.774	-539.145	0	-390	-179	-1.048	-1.617
Restatement of financial products	0	0	0	0	0	0	-462	0	0	-462
Total Expenses from financial instruments at fair value through profit or loss	0	-14.936	-120.276	-406.578	-541.789	0	-852	-179	-1.048	-2.079

1.5 Income from Other Financial Instruments and Real Property Investments

Income from investments in the category of "Financial assets available for sale" and "Loans and receivables" are detailed in the following table, specifying the corresponding values at the end of the previous financial year:

Amounts in Euro thousand

	31/12/2018					31/12/2017				
	Interest income	Other income	Realized gains	Valuation gains	Total	Interest income	Other income	Realized gains	Valuation gains	Total
Available for sale financial assets	150.613	30.849	43.658	0	225.120	112.639	2.235	12.637	0	127.511
Loans and receivables	12.773	4	1.479	0	14.256	10.121	0	0	0	10.121
Total Income from other financial instruments and land and buildings (investment properties)	163.386	30.853	45.137	0	239.376	122.760	2.235	12.637	0	137.632

Ordinary income in the category of "Financial assets available for sale" and "Loans and receivables" increased. Gains from realization remained significant (€45,137 thousand), an increase compared to the amount of the previous fiscal year (€12,637 thousand), which however represents a different scope of the investment portfolio (limited to the merging company). The same explanation concerns the significant increase in recognized proceeds, in addition to the implementation of a number of strategies, such as the optimization of the ALM structure of some portfolios or partial consolidations of accumulated proceeds.

1.6 Other Revenues

The breakdown of other revenues is as follows:

Amounts in Euro thousand

	Amount at 31/12/2018	Amount at 31/12/2017	Change
Other technical income	54.028	569	53.459
Withdrawals from provisions	4.409	11.950	- 7.541
Contingent assets	390	1.440	- 1.050
Other revenues	2.219	3.942	- 1.723
Total Other income	61.045	17.902	43.144

As shown in the table above, “Other revenues” show an increase of €43,144 thousand. The comparison with the previous fiscal year, like other income statement items, is on a non-like-for-like basis as the former companies Eurovita Assicurazioni and Old Mutual Wealth Italy were acquired by the former company Ergo Previdenza S.p.A. with effect from 31 December 2017.

In particular, the breakdown of the item is as follows:

- “Other technical income” of €54,028 thousand, mainly comprising management fees retroceded by mutual fund managers included in investments of €53,799 thousand for the benefit of policyholders;
- withdrawals from reserves in the amount of €4,409 thousand, mainly attributable to the payment of employees voluntary redundancy incentives;
- “Other revenues” of €2,219 thousand, which mainly include charges to Group companies for the secondment of personnel;
- contingent assets totaling €390 thousand. Contingent assets are due to the settlement of items from prior years.

2.1 Net Charges Relating to Claims

The breakdown of net charges is as follows:

Amounts in Euro thousand

	Amount at 31/12/2018	Amount at 31/12/2017	Change
Amounts paid	1.328.968	654.286	674.682
Change in technical provisions	-8.633	-351.888	343.255
Direct and indirect business	*1.320.335*	*302.398*	*1.017.937*
Amounts paid - ceded	-369.867	-190.097	-179.770
Change in insurance provisions ceded	295.408	100.039	195.369
Ceded and retroceded business	*-74.459*	*-90.058*	*15.599*
Net amounts paid	959.101	464.189	494.912
Change in net insurance provisions	286.775	-251.849	538.624
Total Net insurance benefits and claims	1.245.876	212.340	1.033.536

The breakdown of the charges relating to claims, specifying the amounts paid, recoveries, and changes in reserves for each type thereof, separately for gross amounts and amounts borne by reinsurers, specifying the corresponding value of the previous period, is provided in an appropriate annex.

The comparison with the previous fiscal year, like the other income statement items, is not on a like-for-like basis given that the former companies Eurovita Assicurazioni and Old Mutual Wealth Italy were acquired by the former company Ergo Previdenza S.p.A. with effect from 31 December 2017.

The contribution of Old Mutual Wealth Italy is not visible as the company essentially placed investment products recognized in the income statement in terms of margins.

2.2 Commission Expense

Commission expense on financial products, net of the amortization of commission expense in prior years, amounted to 137,998 thousand (loss of €246 thousand at 31 December 2017 on a non-like-for-like basis). The increase essentially refers to the contribution of the former company Old Mutual Wealth Italy, specialized in the marketing of Unit Linked products, not posted to the 2017 income statement.

2.4 Charges Arising from Other Financial Instruments and Real Property Investments

The charges from investments in the category "Financial assets available for sale" and "Financial liabilities" are detailed in the table below specifying the corresponding values at the end of the previous financial year.

Amounts in Euro thousand	31/12/2018					31/12/2017				
	Interest expense	Other charges	Realized losses	Valuation losses	Total	Interest expense	Other charges	Realized losses	Valuation losses	Total
Available for sale financial assets	0	0	14.248	7.957	22.205	0	0	62	0	62
Loans and receivables	47.983	0	0	0	47.983	53.803	0	0	0	53.803
Total Expenses from other financial instruments and land and buildings (investment properties)	47.983	0	14.248	7.957	70.188	53.803	0	62	0	53.865

Interest expense refers to interest on deposits from reinsurers of €45,345 thousand and interest expense related to subordinated loans of €2,638 thousand.

Realization losses (together with the related gains shown above) of €14,248 thousand (€62 thousand in 2017) are an integral part of the results of the strategies implemented during the year for the optimization of the ALM structure of some portfolios carried out on a greater number of assets (mainly bonds but also

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related to AIF shares), both in terms of portfolios and in terms of volumes deriving from the Company's new scope of operations after the merger.

Losses on valuation amounted to €7,957 thousand due to write-downs on a final basis resulting from the impairment test, recognized on equity investment in Italian credit institutions of €0.9 million and in units of Alternative Investment Funds (AIF) of €7.0 millions; in the previous fiscal year, the impairment test had not shown any indicators of permanent losses in value.

A further detail of financial and investment costs, by type, specifying the corresponding value of the previous fiscal year, is provided in the mandatory IVASS annexes.

2.5 Operating Costs

Operating costs are detailed in the following table:

Amounts in Euro thousand

	Amount at 31/12/2018	Amount at 31/12/2017	Change
Acquisition commissions	27.748	7.584	20.164
Other acquisition costs	23.879	7.038	16.841
Change deferred acquisition costs	-8.991	592	-9.583
Collection commissions	5.545	6.332	-787
Commissions and profit sharing ceded	-11.104	-5.845	-5.259
Total commissions and other acquisition costs	*37.077*	*15.701*	*21.376*
Investment management expenses	11.811	2.243	9.568
Other administration costs	30.754	22.084	8.670
Total Acquisition and administration costs	79.642	40.028	39.614

The increase recognized in operating expenses, which rose from €40,028 thousand at 31 December 2017 to €79,642 thousand at the end of 2018, is mainly due to the increase of €21,376 thousand in commissions and other acquisition costs, to the increase of €9,568 thousand in investment management costs and increase of €8,670 thousand in other administration expenses. The delta is essentially attributable to the abovementioned scope of business not on a like-for-like basis.

The breakdown of insurance management costs, separately by type of expense, specifying the corresponding value of the previous period, is provided in an annex.

2.6 Other Costs

Other costs are broken down in the following table:

Amounts in Euro thousand

	Amount at 31/12/2018	Amount at 31/12/2017	Change
Other technical charges	10.599	1.308	9.291
Provisions set aside	2.521	2.980	-459
Losses on receivables	1.026	409	617
Contingent liabilities	439	284	155
Amortization of intangible fixed assets	1.962	535	1.427
Other costs	18.571	4.043	14.528
Total Other expenses	35.118	9.559	25.559

Other costs mainly include:

- other technical charges amounting to €10,599 thousand (€1,308 thousand in 2017), mainly refer to the cancellation of non-collectable receivables relating to premiums of €410 thousand, to commission reversals of €1,062 thousand, to provision of €4,035 thousand to the allowing for doubtful accounts in arrears and to technical charges of €4,884 thousand related to cancellation of premiums;
- amounts set aside as provisions refer to provisions for future risks and charges of €2,550 thousand, which mainly include €1,500 thousand in provisions for disputes with third parties and €900 thousand in provisions for disputes with customers;
- losses on receivables amounting to €1,026 thousand (€409 thousand in 2017) mainly related to receivables due from agents for uncollectable recoveries. However, these costs are entirely covered by provisions specifically set aside in previous fiscal years, the withdrawal from which was recognized in the section "Other revenues";
- contingent liabilities of €439 thousand (€284 thousand in 2017), due to the settlement of positions from the previous fiscal year;
- depreciation and amortization of €1,962 thousand (€535 in 2017) refer to software and IT systems projects;
- other costs amounting to €18,571 thousand (€4,043 thousand in 2017) are mainly attributable to the amortization of the Value in Force of the former company Old Mutual for €17,214 thousand and to administrative costs charged by other Group companies in the amount of €1,274 thousand.

The comparison with the previous fiscal year, as for the income statement other items, is not on a like-for-like basis as the former companies Eurovita Assicurazioni and Old Mutual Wealth Italy were acquired by the former company Ergo Previdenza S.p.A. with effect from 31 December 2017.

3. Taxes

Income taxes for the year and I.R.A.P. (regional tax on productive activities) allocated by the Company amounted to a total of €12,208 thousand, representing an impact of 28.33% on its pre-tax profit.

It should be noted that following the approval of Law of 28 December 2015 (2016 Stability Law), the I.R.E.S. (corporate income tax) rate decreased to 24% as from the year 2017.

Taking into account the provisions of Article 76 of the Lombardy Region Law No. 10 of 10 July 2003 and the abovementioned increase, the I.R.A.P. rate for the year 2018 was 6.82%.

The tax burden for 2018 was calculated by applying the following rates on taxable income for I.R.E.S. purposes and taxable income for I.R.A.P. purposes:

- I.R.E.S.: 24.00% on I.R.E.S. taxable income
- I.R.A.P.: 6.82% on I.R.A.P. taxable income

Income taxes for the year consisted in I.R.E.S. current taxes of €15,606 thousand and I.R.A.P. current taxes of €4,650 thousand, a growth due to the decrease in prepaid taxes of €26,547 thousand offset in the Income Statement and a decline due to the reduction in deferred taxes of €34,595 thousand offset in Income Statement.

Taxes for the year therefore amounted to €12,208 thousand.

For details of changes in prepaid and deferred taxes offset the Income Statement, reference should be made to the foregoing.

Reconciliation table between statutory tax burden and theoretical tax burden	FINANCIAL YEAR 2018			FINANCIAL YEAR 2017		
Reconciliation between statutory tax burden and theoretical tax burden (I.R.E.S.)						
Profit (loss) before income taxation		43.094			24.289	
Theoretical tax burden (rate of 27,5% for the year 2016 and 24% in 2017)			15.514			8.744
Temporary differences deductible in subsequent fiscal years:						
+ Taxed provisions for risks	10.917			2.980		
+ Other non-deductible provisions	4.342			-		
Total		15.259			2.980	
Temporary differences taxable in subsequent fiscal years:						
+/- Adjustments to financial fixed assets (AFS)	7.727			- 1.755		
- Net effect of the adoption of IFRS standards	31.282			- 195		
Total		39.009			1.950	
Use of temporary differences from prior financial years:						
+ Value adjustments to shares not held as fixed assets fr	-			-		
- Use of taxed funds	- 2.384			- 8.922		
- Use of taxed provisions	- 16.081			-		
- Other costs not deducted in prior financial years	- 9.510			- 4.091		
Total		- 27.976			- 13.013	
Permanent differences:						
+ Entertainment expenses and other non-deductible costs	1.212			885		
- Tax break on dividend receipts	- 599			-		
- Tax break on ACE	- 4.860			-		
- Non-taxable contingent assets	- 117			- 1.317		
Total		-4.364			-432	
Taxable amount - I.R.E.S.		65.022			11.874	
Current taxes for the year - I.R.E.S.			15.605			2.850
Reconciliation between statutory tax burden and theoretical tax burden (I.R.A.P.)						
Difference between production value and cost		34.306			5.922	
Net costs not relevant for I.R.A.P. purposes		33.874			2.335	
Total		68.179			8.257	
Theoretical tax burden (rate of 6.82% for the years 2016 and 2017)			4.650			563
Taxable amount - I.R.A.P.		68.179			8.257	
Current taxes for the year - I.R.A.P.			4.650			563
Total current taxes for the year - I.R.A.P. and I.R.E.S.			20.255			3.413
Change in prepaid taxes			26.547			2.001
Change in deferred taxes			-34.595			-218
Total taxes for the year			12.207			5.196

The following table shows the reconciliation between the statutory tax burden and the theoretical tax burden (amounts in Euro thousand):

Reconciliation table between applicable tax rate and actual tax rate:	Financial Year 2017	Financial Year 2016
Applicable ordinary tax rate - I.R.E.S.	24,00%	24,00%
Effect of increases on ordinary rate		
+ Entertainment expenses and other non-deductible costs	0,67%	0,87%
Effect of decreases on ordinary rate		
- Tax break on dividend receipts	-0,33%	0,00%
- Non-taxable contingent assets	-2,77%	-1,30%
	-8,96%	0,00%
I.R.E.S. actual rate without temporary differences	12,61%	23,57%
Temporary differences deductible in subsequent financial years	8,50%	2,94%
Temporary differences taxable in subsequent financial years	15,11%	-14,78%
I.R.E.S. actual tax rate	36,22%	11,73%
I.R.A.P. applicable ordinary rate	6,82%	6,82%
Effect of increases on ordinary rate		
+ Different I.R.A.P. taxable amount	-1,39%	-5,16%
+ Net costs not relevant for I.R.A.P. purposes	5,36%	0,66%
I.R.A.P. actual tax rate	10,79%	2,32%
Changes in prepaid taxes:	61,60%	8,24%
Changes in deferred taxes:	-80,28%	-0,90%
I.R.E.S. and I.R.A.P. actual tax rates	28,33%	21,39%

It should be noted that during the year 2013, the Company submitted a refund claim for I.R.E.S. due to the partial deductibility of I.R.A.P. relating to personnel expenses for the tax periods from 2007 to 2011 pursuant to Law-Decree No. 201/2011, and a similar application was submitted by the parent company Eurovita Holding S.p.A. (formerly ERGO Italia S.p.A. now merged into Eurovita Holding) on the same date.

The total amount claimed for all years amounted to €175 thousand, but no refund or communication was received in such respect; in accordance with the principle of prudence, no amount was recorded among the Company's revenues.

Together with the parent company Eurovita Holding S.p.A., the Company opted for the national tax consolidation system for the current year pursuant to Legislative Decree No. 344 of 12 December 2003.

Eurovita Holding S.p.A. will fulfill the obligations related to the tax return and settlement of I.R.E.S. The economic and financial transactions between the two companies in relation to the national tax consolidation are regulated under a specific contract. The years still open for tax purposes, both for direct tax and V.A.T. purposes, are the financial years starting from 2014.

It should be noted that there were still some pending tax disputes with the Italian Revenue Agency at 31 December 2018:

- originating from the merged company Eurovita Assicurazioni S.p.A.: allocation of €330 thousand for tax refund claims relating to 2004 taxes, filed in 2007, whose appeal is pending before the Court of Cassation and allocation of €461 thousand for the tax dispute relating to the denial of the I.R.A.P. refund in 1998 and related interest. The provision covers the entire amount of capital and interest recognized in the financial statements set aside until fiscal year 2015;
- Originating from the merged company OMWI for tax disputes regarding fiscal years 2007 and 2009: total provision of €1,720 thousand for taxes and penalties relating to tax disputes with the tax authorities for the tax periods 2007 (allocation of €370 thousand) and 2009 (allocation of €1,350 thousand).

In relation to the year 2007, the provision (€370 thousand) relates to the higher I.R.A.P. assessed by the Italian Revenue Agency. In 2015, the Company filed an application with the Court of Cassation, against which the Italian Revenue Agency appealed. Since the date of the hearing has not yet been set, the amount has been kept unchanged from 2017.

The 2009 tax assessment concerns both I.R.A.P. and I.R.E.S. During 2018, the Company submitted a conciliation proposal for which an agreement with the Revenue Agency was reached, currently being finalized.

5.G Other Information

1 Solvency Margin

Starting on 1 January 2016, the Company has been calculating the capital required by the supervisory regulations and the eligible own funds on the basis of the Solvency II legislation as established by Legislative Decree No. 74 of 12 May 2015 implementing Directive 2009/138/EC.

At 31 December 2018, the Company's Own Funds totaled €458.84 million (€552.17 million in 2017) and included the subscribed and paid-up share capital of €90,499 thousand, the Share Premium Reserve of €38,387 thousand, subordinated liabilities of €48,942 thousand, and the reconciliation reserve of €281,016 thousand.

The Company calculated its Own Funds (hereinafter also "OF") to cover the solvency capital requirement (hereinafter also "SCR") and the minimum capital requirement (hereinafter also "MCR") by carrying out the subsequent "tier" classification following the rules established by Article 93, and following, of the Directive.

The eligibility thresholds used are those established by Article 82 of the Regulations, which provide for the following criteria to satisfy the Solvency Capital Requirement:

- Tier 1 proportion must be at least 50% of SCR;
- the amount of Tier 3 items should be less than 15% of SCR;
- the sum of Tier 2 and Tier 3 items should not exceed 50% of SCR.

Following the assessments carried out for solvency purposes, the following chart shows the structure and the quantity of OFs to cover the SCR and the MCR calculated at 31 December 2018. The quality of OFs is shown in detail by Tier:

Own funds available and eligible for SCR coverage (data in Euro thousand)

	Own funds available	Eligibility adjustments	Own funds eligible
Tier 1 unrestricted	409.902	-	409.902
Tier 1 restricted	-	-	-
Tier 2	48.942	-	48.942
Tier 3	-	-	-
Total OF	458.844	-	458.844
Total SCR			403.406
Surplus (shortage)			55.438

Own funds available and eligible for MCR coverage (data in Euro thousand)

	Own funds available	Eligibility adjustments	Own funds eligible
Tier 1 unrestricted	409.902	-	409.902
Tier 1 restricted	-	-	-
Tier 2	48.942	12.636	36.307
Tier 3	-	-	-
Total OF	458.844	12.636	446.208
Total MCR			181.533
Surplus (shortage)			264.676

According to the provisions of Article 62 - Transitional provisions of IVASS Measure No. 53/2016, it should be noted that the data relating to the Solvency Capital Requirement and the Minimum Capital Requirement specified above should be understood as an estimate. The corresponding final data will be communicated to the supervisory authority and included in the Solvency and Financial Condition Report (SFCR) according to the timeframe established by the IVASS regulations on Solvency II.

Against a solvency capital requirement (SCR) of €403,4 million, the Company's own funds to be hedged amount to €458,84 million, which implies a Solvency II Ratio of 114%.

2 Assets Hedging Technical Provisions

This is to notify that, in compliance with current regulations, technical provisions were hedged by evaluating the assets and technical commitments according to the supervisory principles required by IVASS at 31 December 2018 (IVASS Regulation No. 24 of June 2016). After performing the evaluation according to such principles, the technical provisions were found to be fully hedged.

The hedging was proven by sending IVASS the document "Hedging of Technical Provisions at 31 December 2018" according to the prior template required by the hedging Model set out in the prior I.S.V.A.P. Regulation No. 36 of January 2011, as required by the Supervisory Authority in the letter to the market dated 18 August 2017.

3 Exemption from the Obligation to Prepare Consolidated Financial Statements

Eurovita S.p.A. does not hold significant financial investments in other companies nor does it effectively control other enterprises through the unified management of their governing bodies. Therefore, in accordance with general statutory regulations, it need not prepare consolidated financial statements.

This is also to announce that Eurovita Holding S.p.A., parent company of Eurovita S.p.A., prepares consolidated financial statements pursuant to Article 95, paragraph 2, of Legislative Decree No. 209/2005 and Article 25 of Legislative Decree No. 127/1991, which provide the information required to illustrate the Group's performance.

Unified management – a condition met on a presumptive basis pursuant to Article 96, paragraph 1, of Law-Decree No. 209/2005 when the governing bodies mainly comprise the same persons - which characterizes the Parent Company Eurovita Holding S.p.A. and its subsidiaries is adequately reflected in the consolidated financial statements of Eurovita Holding S.p.A. The correctness of the above mentioned structure was confirmed by IVASS

4 Compensation Paid to the Independent Auditor KPMG S.p.A., Directors, and Statutory Auditors

Compensation for the year for the provision of annual report auditing services amounted to a total of €207 thousand (not including V.A.T., expenses, and contributions), for the review of MVBS and SCR under IVASS Regulation 42 of 2 August 2018 amounted to a total of €189 thousand (not including V.A.T., expenses, and contributions) and for the provision of certification services amounted to €436 thousand.

Compensation for the year paid to the Board of Directors was zero, compensation being paid directly by the Parent Company Eurovita Holding S.p.A. Compensation paid to the Board of Statutory Auditors amounted to €175 thousand, including expenses and V.A.T.

6 Interim Dividends

During the year 2018, no interim dividends were paid out or approved for financial year 2018.

7 Average Number of Employees

The average number of employees at 31 December 2018 was 252.

8 Subsequent Events

As stated in the Explanatory Notes, these financial statements were prepared on a going concern assumption, since, in the Directors' opinion, no uncertainties emerged in relation to events or circumstances that, considered individually or together, could give rise to doubts in regard of such assumption.

On 20 February 2019, IVASS notified the Board a report on the inspection carried out in the fourth quarter of 2018 in respect of the Holding Company and of the Insurance Company. The scope of the inspection was the Solvency process and in such regard the Supervisory Authority raised some issues. In particular, with regard to BEL computation, it reported improvements to be made in the projection of redemptions and additional payments and in the valuation of expenses. On the SCR side, corrections were found to be necessary for the valuation of DT LACs. Governance issues were also found to be open to improvement, especially for the Holding Company.

Based on the considerations set out in the inspection report, the Company transposed the information given by the Supervisory Authority in the calculation of the Solvency ratio for 2018 and forward-looking Solvency ratio for 2019-2020, also considering the technical opinion received from an actuarial consultancy firm on the findings submitted by the Supervisory Authority, transposing the requests in the remediation plan for the purpose of remedying the information / quantitative gaps relating to OF and SCR processes and controls.

In view of the inspection findings, the Authority requested the Company to prepare a corporate recovery plan, including a capital management plan, the contents of which were illustrated in paragraph 3 of the Report on Operations, within sixty days of the notification of the report.

9 Data of the Parent Company

As required by Article 2497-*bis*, paragraphs 4 and 5, of the Italian Civil Code, please find attached hereunder a summary statement with the essential data of the latest approved financial statements of the company that carried direction and coordination of Eurovita:

Eurovita Holding S.p.A.

Amounts in Euros

INCOME STATEMENT	STATEMENTS AT 31.12.2017		STATEMENTS AT 31.12.2016	
Description	Interim	Total	Interim	Total
PRODUCTION VALUE				
Revenues from sales of goods and services	0		0	
Other revenues	2.163.465		82	
TOTAL PRODUCTION VALUE		2.163.465		82
PRODUCTION COSTS				
Services		4.413.910		377.232
Leased assets		100.363		0
Personnel		2.950.927		0
Depreciation and amortization		105		1.050
Provisions for risks		0		0
Other operating charges		2.303.582		5.306
TOTAL PRODUCTION COSTS		9.768.888		383.588
FINANCIAL INCOME AND CHARGES				
Income from investments		6.900.000		0
Other financial income		136		97
Interest and other financial charges		-112		-9
TOTAL FINANCIAL INCOME AND CHARGES		6.900.025		88
VALUE ADJUSTMENTS TO FIN. ASSETS AND LIABILITIES				
Write-ups	23.405.251		0	
Write-downs	-6.900.000		0	
TOTAL VALUE ADJUSTMENTS TO FIN. ASSETS AND LIABILITIES		16.505.251		0
Profit (loss) before income taxation (+A-B+C+D)		15.799.853		-383.418
Taxes for the year		1.706.652		0
+ PROFIT / - LOSS FOR THE YEAR		17.506.505		-383.418

EQUITY INVESTMENTS		435.237.772		288.081.784
CAPITAL AND RESERVES		323.202.064		242.179.330
NUMBER OF EMPLOYEES		14		0

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Shareholders,

We hereby propose to approve these financial statements comprising the Balance Sheet, Income Statement, Statement of Comprehensive Income, Statement of Changes in Shareholders' Equity, Cash Flow Statement, and Explanatory Notes, and accompanied by the Report on Operations.

The profit for financial year 2018 amounted to €30,885,478.39.

We propose to set aside the entire profit for the year as retained earnings:

Profit for the year	30,885,478

Appropriated retained earnings	30,885,478

Milan, 15 April 2019

FOR THE BOARD OF DIRECTORS
Erik Stattin
Chief Executive Officer

5.H Annexes and Additional Tables

Eurovita S.p.A.

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Company: EUROVITA S.P.A. Financial Year: 2018

Balance Sheet by Classes

(Amounts in Euro)

		Non-Life		Life		Total	
		31/12/2018	31/12/2017	31/12/2018	31/12/2017	31/12/2018	31/12/2017
1	INTANGIBLE ASSETS	0,00	0,00	107.040.669	126.216.191	107.040.669	126.216.191
2	TANGIBLE ASSETS	0,00	0,00	466.029	594.158	466.029	594.158
3	AMOUNTS CEDED TO REINSURERS FROM INSURANCE PROVISIONS	0,00	0,00	1.227.589.188	1.522.997.659	1.227.589.188	1.522.997.659
4	INVESTMENTS	0,00	0,00	16.273.258.546	17.698.741.538	16.273.258.546	17.698.741.538
4.1	Land and buildings (investment properties)	0,00	0,00	0	0	0	0
4.2	Investments in subsidiaries, associated companies and joint ventures	0,00	0,00	0	0	0	0
4.3	Held to maturity investments	0,00	0,00	0	0	0	0
4.4	Loans and receivables	0,00	0,00	446.709.252	518.730.727	446.709.252	518.730.727
4.5	Available for sale financial assets	0,00	0,00	9.140.733.746	9.338.241.591	9.140.733.746	9.338.241.591
4.6	Financial assets at fair value through profit or loss	0,00	0,00	6.685.815.548	7.841.769.221	6.685.815.548	7.841.769.221
5	RECEIVABLES	0,00	0,00	89.304.541	91.275.334	89.304.541	91.275.334
6	OTHER ASSETS	0,00	0,00	425.043.769	420.905.054	425.043.769	420.905.054
6.1	Deferred acquisition costs	0,00	0,00	35.637.357	28.921.980	35.637.357	28.921.980
6.2	Other assets	0,00	0,00	389.406.413	391.983.074	389.406.413	391.983.074
7	CASH AND CASH EQUIVALENTS	0,00	0,00	60.821.469	94.416.969	60.821.469	94.416.969
	TOTAL ASSETS	0,00	0,00	18.183.524.211	19.955.146.902	18.183.524.211	19.955.146.902
1	SHAREHOLDERS' EQUITY	0,00	0,00	348.424.999	445.330.559	348.424.999	445.330.559
2	OTHER PROVISIONS	0,00	0,00	22.122.215	22.184.804	22.122.215	22.184.804
3	INSURANCE PROVISIONS	0,00	0,00	9.794.612.958	9.988.064.203	9.794.612.958	9.988.064.203
4	FINANCIAL LIABILITIES	0,00	0,00	7.774.376.890	9.297.281.588	7.774.376.890	9.297.281.588
4.1	Financial liabilities measured at fair value through profit or loss	0,00	0,00	6.608.308.209	7.793.899.983	6.608.308.209	7.793.899.983
4.2	Other financial liabilities	0,00	0,00	1.166.068.681	1.503.381.606	1.166.068.681	1.503.381.606
5	PAYABLES	0,00	0,00	134.280.121	76.271.600	134.280.121	76.271.600
6	OTHER LIABILITY	0,00	0,00	109.707.027	126.014.148	109.707.027	126.014.148
	TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	0,00	0,00	18.183.524.211	19.955.146.902	18.183.524.211	19.955.146.902

Company: EUROVITA S.P.A. Financial Year: 2018

Income Statement by Classes

(Amounts in Euro)

		Non-Life		Life		Total	
		31/12/2018	31/12/2017	31/12/2018	31/12/2017	31/12/2018	31/12/2017
1.1	Net earned premiums	0	0	1.199.021.452	182.828.338	1.199.021.452	182.828.338
1.1.1	*Gross earned premiums*	0	0	1.252.222.023	240.491.259	1.252.222.023	240.491.259
1.1.2	*Earned premiums ceded*	0	0	-53.200.571	-57.662.921	-53.200.571	-57.662.921
1.2	Fee and commission income and income from financial service activities	0	0	174.502.063	113.908	174.502.063	113.908
1.3	Net income from financial instruments at fair value through profit or loss	0	0	-62.029.607	1.357.528	-62.029.607	1.357.528
1.4	Income from subsidiaries, associated companies and joint ventures	0	0	0	0	0	0
1.5	Income from other financial instruments and land and buildings (investment properties)	0	0	239.376.423	137.632.268	239.376.423	137.632.268
1.6	Other income	0	0	61.045.558	17.901.699	61.045.558	17.901.699
1	TOTAL INCOME	0	0	1.611.915.889	339.833.741	1.611.915.889	339.833.741
2.1	Net insurance benefits and claims	0	0	1.245.875.947	212.339.766	1.245.875.947	212.339.766
2.1.1	*Claims paid and change in insurance provisions*	0	0	1.320.334.111	302.398.144	1.320.334.111	302.398.144
2.1.2	*Reinsurers' share*	0	0	-74.458.164	-90.058.379	-74.458.164	-90.058.379
2.2	Fee and commission expenses and expenses from financial service activities	0	0	137.998.480	-246.243	137.998.480	-246.243
2.3	Expenses from subsidiaries, associated companies and joint ventures	0	0	0	0	0	0
2.4	Expenses from other financial instruments and land and buildings (investment properties)	0	0	70.188.319	53.864.761	70.188.319	53.864.761
2.5	Acquisition and administration costs	0	0	79.641.544	40.027.752	79.641.544	40.027.752
2.6	Other expenses	0	0	35.117.827	9.558.594	35.117.827	9.558.594
2	TOTAL EXPENSES	0	0	1.568.822.118	315.544.630	1.568.822.118	315.544.630
	EARNINGS BEFORE TAXES	0	0	43.093.771	24.289.111	43.093.771	24.289.111

Breakdown of equity investments

Company name	Country	Assets (1)	Type (2)	% Direct shareholding	% Total interest (3)	% Available votes in General Meeting (4)	Management (5)	Book value

(1) 1=Italian ins. cos.; 2=EU ins. cos.; 3=Third country ins. cos.; 4=insurance holding cos.; 4.1 Enterprises with mixed financial investments; 5=EU reins. cos.; 6=Third country reins. cos.; 7=banks; 8=mutual guarantee schemes; 9=other holding cos.; 10=real estate cos. 11=other

(2) subsidiaries (IFRS 10); b=affiliated cos. (IAS 28); c=joint ventures (IFRS 11); indicate with asterisk (*) companies classified as held for sale in compliance with IFRS 5 and show legend below the table

(3) This is the product of shareholdings relationships pertaining to all the companies that, placed along the shareholding chain, may be interposed between the company that draws up the consolidated financial statements and the company in question. If the latter is directly owned by several subsidiaries, the individual products should be added up.

(4) Total availability in percentage of votes in the annual general meeting of shareholders if different from the direct or indirect shareholding.

(5) Indicate:

D for investments assigned to Non-Life business

V for investments assigned to Life business

Company: EUROVITA S.P.A. Financial Year: 2018

Breakdown of tangible and intangible assets

(Amounts in Euro)

	At cost	At restated value or fair value	Total book value
Land and buildings (investment properties)	0	0	0
Land and buildings (self used)	0	0	0
Other tangible assets	466.029	0	466.029
Other intangible assets	107.040.669	0	107.040.669

Company: EUROVITA S.P.A. Financial Year: 2018

Amounts ceded to reinsurers from insurance provisions

(Amounts in Euro)

	Direct business		Indirect business		Total book value	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Non-life amounts ceded to reinsurers from insurance provisions	-	-	-	-	-	-
Provisions for unearned premiums					-	-
Provisions for outstanding claims					-	-
Other insurance provisions					-	-
Life amounts ceded to reinsurers from insurance provisions	*1.215.210.524*	*150.839.071*	*12.378.664*	*14.158.588*	*1.227.589.188*	*1.522.997.659*
Mathematical provisions	104.879.874	55.559.473	760.007	529.131	*105.639.881*	*56.088.603*
Provisions for outstanding claims	1.110.072.254	1.453.003.738	11.618.657	13.629.457	*1.121.690.911*	*1.466.633.196*
Provisions for policies where the investment risk is borne by the policyholders and provisions for pension funds	-	-	-	-	-	-
Other insurance provisions	258.396	275.860	-	-	258.396	275.860
Total Amounts ceded to reinsurers from insurance provisions	*1.215.210.524*	*1.508.839.071*	*12.378.664*	*14.158.588*	*1.227.589.188*	*1.522.997.659*

Company: EUROVITA S.P.A. Financial Year: 2018

Breakdown of financial assets

(Amounts in Euro)

	Investments held to maturity		Loans and receivables		Available for sale financial assets		Financial assets at fair value through profit or loss				Total book value	
							Financial assets held for trading		Financial assets designated at fair value through profit or loss			
	31/12/2018	31/12/2017	31/12/2018	31/12/2017	31/12/2018	31/12/2017	31/12/2018	31/12/2017	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Equities at cost	0	0	0	0	0	1.138.246	0	0	0	0	0	1.138.246
Equities at fair value	0	0	0	0	26.628.417	29.683.248	0	30.000	3.116.400	3.720.693	29.744.817	33.433.941
of which quoted equities	0	0	0	0	0	1.109.250	0	30.000	116.400	720.693	116.400	1.859.943
Bonds	0	0	336.942.608	380.463.454	8.040.267.128	8.918.885.236	9.964.759	10.774.051	89.588.747	100.996.226	8.476.763.241	9.411.118.967
of which quoted bonds	0	0	65.254.447	75.940.042	8.008.549.189	8.918.885.236	5.387.205	5.855.147	89.558.747	100.996.226	8.168.749.588	9.101.676.652
Investment fund units	0	0	0	0	1.073.838.201	388.534.861	0	0	6.549.802.637	7.694.615.284	7.623.640.839	8.083.150.145
Deposits under reinsurance business accepted	0	0	77.339.531	77.793.444	0	0	0	0	0	0	77.339.531	77.793.444
Financial asset components of insurance contracts	0	0	0	0	0	0	0	0	20.271.626	26.387.813	20.271.626	26.387.813
Other loans and receivables	0	0	32.427.113	43.039.829	0	0	0	0	0	0	32.427.113	43.039.829
Derivatives	0	0	0	0	0	0	1.476.800	2.471.500	0	0	1.476.800	2.471.500
Hedging derivatives	0	0	0	0	0	0	11.594.579	2.773.654	0	0	11.594.579	2.773.654
Other financial investments	0	0	0	17.434.000	0	0	0	0	0	0	0	17.434.000
Total	0	0	446.709.252	518.730.727	9.140.733.746	9.338.241.591	23.036.138	16.049.205	6.662.779.411	7.825.720.016	16.273.258.546	17.698.741.538

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Company: EUROVITA S.P.A.

Financial Year: 2018

Assets and liabilities related to policies where the investment risk is borne by policyholders and to pension funds

(Amounts in Euro)

	Benefits linked to investment funds and market indexes		Benefits linked to the management of pension funds		Total	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Total Assets	6.674.373.990	7.820.731.980	0	0	6.674.373.990	7.820.731.980
Financial liabilities	6.573.162.441	7.733.023.105	0	0	6.573.162.441	7.733.023.105
Insurance provisions recognized	95.239.099	87.019.691	0	0	95.239.099	87.019.691
Total Liabilities	6.668.401.540	7.820.042.796	0	0	6.668.401.540	7.820.042.796

Company: EUROVITA S.P.A. Financial Year: 2018

Insurance provisions

(Amounts in Euro)

	Direct business		Indirect business		Total book value	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Non-Life insurance provisions	*0*	*0*	*0*	*0*	*0*	*0*
Provisions for unearned premiums					*0*	*0*
Provisions for outstanding claims					*0*	*0*
Other insurance provisions					*0*	*0*
of which provisions for liability adequacy test					*0*	*0*
Life insurance provisions	*9.716.266.758*	*9.909.531.372*	*78.346.201*	*78.532.831*	*9.794.612.958*	*9.988.064.203*
Provisions for outstanding claims	237.381.434	188.687.484	1.006.671	739.389	*238.388.104*	*189.426.873*
Mathematical provisions	8.984.824.755	8.989.237.012	77.339.530	77.793.443	*9.062.164.285*	*9.067.030.455*
Provisions for policies where the investment risk is borne by the policyholders and provisions for pension funds	95.239.099	96.619.384	0	0	95.239.099	96.619.384
Other insurance provisions	398.821.470	634.987.492	0	0	*398.821.470*	*634.987.492*
of which provisions for liability adequacy test		2.132.915	0	0	*0*	*2.132.915*
of which deferred policyholder liabilities	226.936.802	430.109.678	0	0	226.936.802	430.109.678
Total Insurance Provisions	*9.716.266.758*	*9.909.531.372*	*78.346.201*	*78.532.831*	*9.794.612.958*	*9.988.064.203*

Company: EUROVITA S.P.A. Financial Year: 2018

Financial liabilities

(Amounts in Euro)

	Financial liabilities at fair value through profit or loss				Other financial liabilities		Total book value	
	Financial liabilities held for trading		Financial liabilities designated at fair value through profit or loss					
	31/12/2018	31/12/2017	31/12/2018	31/12/2017	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Preference shares	0	0	0	0	0	0	0	0
Subordinated liabilities	0	0		0	45.384.309	45.427.862	45.384.309	45.427.862
Financial liabilities related to investment contracts issued by insurance companies	0	0	6.605.216.598	7.772.374.364	0	0	6.605.216.598	7.772.374.364
when the investment risk is borne by policyholders	0	0	6.605.216.598	7.772.374.364	0	0	6.605.216.598	7.772.374.364
pension funds	0	0	0	0	0	0	0	0
other liabilities related to investment contracts	0	0	0	0	0	0	0	0
Deposits received from reinsurers	0	0	0	0	1.109.953.373	1.457.953.744	1.109.953.373	1.457.953.744
Deposit components of insurance contracts	0	0	0	0	0	0	0	0
Bonds	0	0	0	0	0	0	0	0
Other loans	0	0	0	0	0	0	0	0
Derivatives	2.301.900	5.814.135	0	0	0	0	2.301.900	5.814.135
Hedging derivatives	789.711	15.711.484	0	0	0	0	789.711	15.711.484
Other financial liabilities	0	0	0	0	10.731.000	0	10.731.000	0
Total	3.091.611	21.525.619	6.605.216.598	7.772.374.364	1.166.068.681	1.503.381.606	7.774.376.890	9.297.281.588

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Company: EUROVITA S.P.A.   Financial Year: 2018

Technical insurance items

(Amounts in Euro)

		31/12/2018			31/12/2017		
		Gross amount	Reinsurers' share	Net amount	Gross amount	Reinsurers' share	Net amount
Non-life business							
NET EARNED PREMIUMS		0	0	0	0	0	0
a	Premiums written			0			0
b	Change in the provisions for unearned premiums			0			0
NET INSURANCE BENEFITS AND CLAIMS		0	0	0	0	0	0
a	Claims paid			0			0
b	Change in the provisions for outstanding claims			0			0
c	Change in claims to be recovered			0			0
d	Change in other insurance provisions			0			0
Life business							
NET EARNED PREMIUMS		1.252.222.023	53.200.571	1.199.021.452	240.491.259	57.662.921	182.828.338
NET INSURANCE BENEFITS AND CLAIMS		1.320.334.111	74.458.164	1.245.875.947	302.398.144	90.058.379	212.339.766
a	Claims paid	1.328.968.248	369.866.635	959.101.613	654.286.378	190.096.626	464.189.751
b	Change in the provisions for outstanding claims	48.961.232	49.551.277	-590.046	31.980.305	9.891.625	22.088.679
c	Change in the mathematical provisions	5.484.009	-344.942.285	350.426.294	-401.909.896	-109.858.727	292.051.169
d	Change in the provisions for policies where the investment risk is borne by the policyholders and in the provisions for pension funds	8.388.237		8.388.237	-999.336	0	-999.336
e	Change in other insurance provisions	-71.467.615	-17.464	-71.450.152	19.040.694	-71.146	19.111.840

Company: EUROVITA S.P.A.

Financial Year: 2018

Income and expenses from investments, receivables and payables

(Amounts in Euro)

		Interests	Other income	Other expenses	Realized gains	Realized losses	Total realized gains and losses	Unrealized gains and reversal of impairment losses		Unrealized losses and impairment losses		Total unrealized gains and losses	Total income and expenses December 2018	Total income and expenses December 2017
								Unrealized gains	Reversal of impairment losses	Unrealized losses	Impairment losses			
Income and expenses from investments		166.339.982	41.326.265	14.935.615	80.373.763	134.508.594	138.595.801	40.101.333	0	23.555.167	0	16.546.166	155.141.967	138.928.140
a	from land and buildings (investment properties)	0	0	0	0	0	0	0	0	0	0	0	0	0
b	from investments in subsidiaries, associated companies and joint ventures	0	0	0	0	0	0	0	0	0	0	0	0	0
c	from held to maturity investments	0	0	0	0	0	0	0	0	0	0	0	0	0
d	from loans and receivables	12.772.976	0	0	1.479.272	31.173	14.221.075	0	0	0	0	0	14.221.075	10.121.508
e	from available for sale financial assets	150.613.147	30.852.954	0	43.658.074	14.216.883	210.907.292	0	0	7.956.793	0	-7.956.793	202.950.499	127.449.105
f	from financial assets held for trading	0	0	0	361.550	839.876	-478.326	920.100	0	1.803.992	0	-883.892	-1.362.218	0
g	from financial assets designated as at fair value through profit or loss	2.953.859	10.473.311	14.935.615	34.874.867	119.420.662	-86.054.239	39.181.233	0	13.794.383	0	25.386.850	-60.667.389	1.357.528
Income and expenses from receivables		0	0	0	0	0	0	0	0	0	0	0	0	0
Income and expenses from cash and cash equivalents		0	0	0	0	0	0	0	0	0	0	0	0	0
Income and expenses from financial liabilities		-47.983.470	0	0	0	0	-47.983.470	0	0	0	0	0	-47.983.470	-53.803.106
a	from financial liabilities held for trading	0	0	0	0	0	0	0	0	0	0	0	0	0
b	from financial liabilities designated as at fair value through profit or loss	0	0	0	0	0	0	0	0	0	0	0	0	0
c	from other financial liabilities	-47.983.470	0	0	0	0	-47.983.470	0	0	0	0	0	-47.983.470	-53.803.106
Income and expenses from payables		0	0	0	0	0	0	0	0	0	0	0	0	0
Total		118.356.512	41.326.265	14.935.615	80.373.763	134.508.594	90.612.331	40.101.333	0	23.555.167	0	16.546.166	107.158.497	85.125.034

Company: EUROVITA S.P.A. Financial Year: 2018

Acquisition and administration costs of insurance business

(Amounts in Euro)

		Non-Life business		Life business	
		31/12/2018	31/12/2017	31/12/2018	31/12/2017
Commissions and other acquisition costs		0	0	48.179.909	21.545.957
a	Acquisition and administration commissions	0	0	27.747.804	7.583.346
b	Other acquisition costs	0	0	23.878.738	7.038.089
c	Change in deferred acquisition costs	0	0	-8.991.239	592.315
d	Collecting commissions	0	0	5.544.606	6.332.206
Commissions and profit commissions from reinsurers		0	0	-11.103.624	-5.844.817
Commissions and other acquisition costs net of commissions and		0	0	11.811.099	2.242.865
Other administration costs		0	0	30.754.160	22.083.747
Total		0	0	79.641.544	40.027.752

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Details on other comprehensive income

	Allocation		Transfer to profit and loss account		Other transfer		Total variation		Taxes		Amount	
	31/12/18	31/12/17	31/12/18	31/12/17	31/12/18	31/12/17	31/12/18	31/12/17	31/12/18	31/12/17	31/12/18	31/12/17
Items that may not be reclassified to profit and loss in future periord	22.727	40.303	0	0	0	0	22.727	40.303	11.492	21.617	-25.796	-48.523
Revenue reserve from valuation of equity								0				
Reserve for revaluation model on intangible assets								0				
Reserve for revaluation model on tangible assets								0				
Result of discontinued operation								0				
Actuarial gains or losses arising from defined benefit plans	22.727	40.303					22.727	40.303	11.492	21.617	-25.796	-48.523
OtherS								0				
Items that may be reclassified to profit and loss in future periord	16.872.369	-12.485.557	-44.685.615	-23.099.617	0	0	-27.790.518	-35.585.174	6.547.936	-5.842.989	-14.697.801	13.115.445
Reserve for currency transition differences								0				
Net unrealized gains and losses on investments available for sale	13.383.192	-3.535.167	-44.685.615	-23.099.617			-31.279.695	-26.634.784	8.102.380	-9.830.428	-18.186.978	22.065.835
Net unrealized gains and losses on hedging derivatives	3.489.177	-8.950.390					3.489.177	-8.950.390	-1.554.444	3.987.439	3.489.177	-8.950.390
Net unrealized gains and losses on hedge of a net investment in foreign								0				
Shares of other comprehensive income of associates								0				
Result of discontinued operation								0				
Others								0				
TOTAL OTHER COMPREHENSIVE INCOME	16.895.096	-12.445.254	-44.685.615	-23.099.617	0	0	-27.767.791	-35.544.871	6.559.428	-5.821.372	-14.723.597	13.066.922

Details on financial assets reclassified and its effect on profit or loss account and comprehensive income

Financial asset categories affected by the reclassification		Financial assets	Amount of the financial assets reclassified in the year at the reclassification date	Book value of reclassified financial assets at 31/12/2018		Fair value AS AT 31/12/2018		Financial assets reclassified in 2018		Financial assets reclassified until 2018		Financial assets reclassified in 2018		Financial assets reclassified until 2018	
from	to			Financial assets reclassified in 2018	Financial assets reclassified until 2018	Financial assets reclassified in 2018	Financial assets reclassified until 2018	Fair value gains or losses through profit or loss	Fair value gains or losses through equity	Fair value gains or losses through profit or loss	Fair value gains or losses through equity	Fair value gains or losses that would be recognized through profit or loss without reclassification	Fair value gains or losses that would be recognized through equity without reclassification	Fair value gains or losses that would be recognized through profit or loss without reclassification	Fair value gains or losses that would be recognized through equity without reclassification
Total															

Assets and liabilities measured at fair value on recurring and non-recurring basis: fair value hierarchy

		Level 1		Level 2		Level 3		Total	
		31/12/2018	31/12/2017	31/12/2018	31/12/2017	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Financial assets and liabilities at fair value on a recurring basis									
Available for sale financial assets		8.583.717.492	8.783.960.699	279.510.312	347.088.586	277.505.942	207.192.305	9.140.733.746	9.338.241.591
Financial assets at fair value through profit or loss	Financial assets held for trading	677.553	8.502.185	22.358.586	12.535.056	0	0	23.036.138	21.037.241
	Financial assets designated at fair value through profit or loss	6.659.749.283	7.817.731.980	30.128	0	3.000.000	3.000.000	6.662.779.411	7.820.731.980
Investment properties		0	0	0	0	0	0	0	0
Tangible assets		0	0	0	0	0	0	0	0
Intangible assets						104.513.389	121.726.898	104.513.389	121.726.898
Total financial assets at fair value on a recurring basis		15.244.144.327	16.610.194.864	301.899.025	359.623.642	385.019.331	331.919.204	15.931.062.683	17.301.737.710
Financial liabilities at fair value through profit or loss	Financial liabilities held for trading	0	-15.711.484	-3.091.611	-5.814.135	0	0	-3.091.611	-21.525.619
	Financial liabilities designated at fair value through profit or loss	-6.605.216.598	-7.772.374.364	0		0		-6.605.216.598	-7.772.374.364
Total financial liabilities at fair value on a recurring basis		-6.605.216.598	-7.788.085.848	-3.091.611	-5.814.135	0	0	-6.608.308.209	-7.793.899.983
Financial assets and liabilities at fair value on a non-recurring basis									
Non-current assets or of discontinued operations		0	0	0	0	0	0	0	0
Non-current liabilities or of discontinued operations									

Details of the variation of assets and liabilities measured at fair value on a recurring basis classified in Level 3

	Financial assets			Investment properties	Tangible assets	Intangible assets	Financial liabilities at fair value through profit or loss	
	Available for sale financial assets	Financial assets at fair value through profit or loss						
		Financial assets held for trading	Financial assets designated at fair value through profit or loss				Financial liabilities held for trading	Financial liabilities designated at fair value through profit or loss
Opening balance	207.192.305		0			0		
Purchases and issues	116.052.411		3.000.000					
Disposals through sales and settlements	-50.657.617		0					
Pay-backs	0		0					
Net gains and losses recognized in P&L	-7.870.028		0					
- of which net unrealised gains and losses	-7.956.793		0					
Net unrealised gains and losses recognized in OCI	0		0					
Net transfers to Level 3	0		0					
Net transfers out of Level 3	0		0					
Other changes	12.788.871		0			104.513.389		
Closing balance	277.505.942		3.000.000			104.513.389		

Assets and liabilities not measured at fair value: fair value hierarchy

	Book value		*Fair value*							
			Level 1		Level 2		Level 3		Total	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017	31/12/2018	31/12/2017	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Assets										
Held to maturity investments										
Loans and receivables	446.753.668	518.730.727	38.992.011	81.448.913	297.950.597	299.014.540	109.811.060	138.267.273	446.753.668	518.730.727
Investments in subsidiaries, associated companies and joint	0						0		0	
Land and buildings (investment properties)	0									
Tangible assets	466.029	594.158					466.029	594.158	466.029	594.158
Total assets	447.219.697	519.324.884	38.992.011	81.448.913	297.950.597	299.014.540	110.277.089	138.861.431	447.219.697	519.324.884
Liabilities										
Other liabilities	-1.166.068.681	-1.503.381.606					-1.166.068.681	-1.503.381.606	-1.166.068.681	-1.503.381.606

Interests in unconsolidated structured entities

Name of structured entity	Revenues earned by structured entity during the period	Book value (at the transfer date) of assets transferred to the structured entity in the period	Book value of assets recognized in own financial statements and relating to the structured entity	Corresponding item in Balance Sheet assets	Book value of liabilities recognized in own financial statements and relating to the structured entity	Corresponding item in Balance Sheet liabilities	Maximum exposure to loss risk

KPMG S.p.A.
Revisione e organizzazione contabile
Via Vittor Pisani, 25
20124 MILANO MI
Telefono +39 02 6763.1
Email it-fmauditaly@kpmg.it
PEC kpmgspa@pec.kpmg.it

(Translation from the Italian original which remains the definitive version)

Independent auditors' report pursuant to article 14 of Legislative decree no. 39 of 27 January 2010, article 10 of Regulation (EU) no. 537 of 16 April 2014 and article 102 of Legislative decree no. 209 of 7 September 2005

To the shareholders of
Eurovita S.p.A.

Report on the audit of the financial statements

Opinion

We have audited the separate financial statements of Eurovita S.p.A. (the "company"), which comprise the statement of financial position as at 31 December 2018, the income statement and the statements of comprehensive income, changes in equity and cash flows for the year then ended and notes thereto, which include a summary of the significant accounting policies.

In our opinion, the separate financial statements give a true and fair view of the company's financial position as at 31 December 2018 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 90 of Legislative decree no. 209 of 7 September 2005.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the "*Auditors' responsibilities for the audit of the separate financial statements*" section of our report. We are independent of the company in accordance with the ethics and independence rules and standards applicable in Italy to audits of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the separate financial statements of the current year. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Measurement of financial instruments

Notes to the separate financial statements:

Section 5.B – Accounting policies. "Investments";

Section 5.E – Information on the statement of financial position as at 31 December 2018: "4 Investments (caption 4 of assets)" and "4.1 Financial liabilities at fair value through profit or loss - derivatives" (caption 4.1 of liabilities)

Section 5.H – Annexes and supplementary schedules: Financial assets and liabilities and breakdown by fair value level

Key audit matter	Audit procedures addressing the key audit matter
The separate financial statements at 31 December 2018 include financial instruments of €16,273.3 million, accounting for approximately 89% of total assets, and derivative liabilities at fair value through profit or loss of €3.1 million, recognised in the caption "financial liabilities at fair value through profit or loss" under liabilities. Measuring financial instruments, particularly those unquoted on active markets or illiquid (classified at fair value levels 2 and 3), requires estimates, including by using specific valuation methods, which may present a high level of judgement and are, by their very nature, uncertain and subjective. For the above reasons, we believe that the measurement of financial instruments is a key audit matter.	Our audit procedures included: — understanding the process for the measurement of financial instruments and the related IT environment and assessing the design and implementation of controls and performing procedures to assess the operating effectiveness of material controls; — analysing the significant changes in financial instruments and in the related income statement items compared to the previous years' figures and discussing the results with the relevant internal departments; — checking the measurement of all quoted financial instruments in portfolio at 31 December 2018; — checking, on a sample basis, the measurement of unquoted financial instruments (fair value levels 2 and 3), by analysing the reasonableness of input data and parameters used; we carried out these procedures with the assistance of experts of the KPMG network; — assessing the appropriateness of the disclosures about financial instruments.

Measurement of technical provisions

Notes to the separate financial statements:

Section 5.B – Accounting policies: "Technical provisions";

Section 5.E – Information on the statement of financial position as at 31 December 2018: "3 Technical provisions (caption 3 of liabilities)"

Section 5.H – Annexes and supplementary schedules: Technical provisions

Key audit matter	**Audit procedures addressing the key audit matter**
The separate financial statements at 31 December 2018 include technical provisions of €9,794.6 million, accounting for about 54% of total liabilities. The company measures this caption using appropriate actuarial valuation techniques which entail, in certain instances, a high level of complex and subjective judgement relating to past and future internal and external variables with respect to which any changes in the underlying assumptions may have a significant impact on the measurements of these liabilities. For the above reasons, we believe that the measurement of technical provisions is a key audit matter.	Our audit procedures included: — understanding the process for the measurement of technical provisions and the related IT environment and assessing the design and implementation of controls and performing procedures to assess the operating effectiveness of material controls; — analysing the significant changes in technical reserves compared to the previous years' figures and discussing the results with the relevant internal departments; — checking, on a sample basis, the valuation models adopted and the reasonableness of the input data and parameters used; we carried out these procedures with the assistance of experts of the KPMG network; — checking the appropriateness of the methods used to calculate the shadow accounting liability included in the technical provisions and to check the adequacy of the technical provisions using the liability adequacy test (LAT). We carried out these procedures with the assistance of experts of the KPMG network; — checking the compliance of the calculation of the overall technical provisions with the applicable laws and regulations and correct actuarial techniques. We carried out this procedure with the assistance of experts of the KPMG network; — assessing the appropriateness of the disclosures about technical provisions.

Capital requirement

Notes to the separate financial statements:

Section 5.E – Information on the statement of financial position as at 31 December 2018

Key audit matter	Audit procedures addressing the key audit matter
On 20 February 2019, IVASS (the Italian supervisory body for private insurance) notified the company of the outcome of the inspection carried out between 1 October and 21 December 2018 into the company's risk measurement policies and the role of its internal control departments in the implementation of the Solvency II Directive. The IVASS report includes a number of findings in relation to the methods adopted and checks carried out as part of the implementation of the Solvency II framework and, specifically, those used to calculate the company's best estimate technical provisions (BEL - best estimate of liabilities) and the solvency capital requirement (SCR). Indeed, the supervisory body believes that these should be strengthened. Based on the findings of IVASS' report and the supervisory body's guidance, the company firstly calculated its 2018 actual and 2019-2020 projected solvency ratios. At the same time, considering the supervisory body's requests, it prepared an action plan in order to remedy the weaknesses identified during the inspection, as well as a capital plan setting out the measures necessary to bring its SCR back above the risk appetite threshold of 150% and to ensure its compliance on an ongoing basis. Moreover, the capital plan approved by the company's board of directors today, which will be provided to IVASS in the next few days, includes a new capital policy providing for an increase in the minimum solvency II ratio for dividend payments to 165%, a dividend temporary stop and a subordinated bond issue to be included in own funds as Tier 2 capital up to €65 million. This aims to bring the company's solvency II ratio back to at least 150% as early as in the second quarter of 2019. Due to the importance of achieving and maintaining a solvency ratio above the company's risk appetite framework threshold and of the compliance therewith on an ongoing basis, we believe that the analysis	Our audit procedures included: — understanding the process adopted to prepare the Capital Plan and the actions reported in the remediation plan; — analysing the content of the company's capital and action plans, including the 2018 solvency ratio disclosed in the notes to the 2018 financial statements; — analysing the events after the reporting date that provide information useful for an assessment of the company's current and prospective solvency position; — assessing the appropriateness of the disclosures provided in the notes including about the supervisory body's requests made as a result of its inspection carried out during the last quarter of 2018 and the consequent commitments of the controlling shareholder.

Key audit matter	Audit procedures addressing the key audit matter
of its capital requirement is a key audit matter.	

Other matters - Management and coordination

As required by the law, the company's directors disclosed the key figures from the latest financial statements of the company that manages and coordinates it in the notes to its own separate financial statements. Our opinion on the separate financial statements of Eurovita S.p.A. does not extend to such data.

Responsibilities of the company's directors and board of statutory auditors ("Collegio Sindacale") for the separate financial statements

The directors are responsible for the preparation of separate financial statements that give a true and fair view in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulation implementing article 90 of Legislative decree no. 209 of 7 September 2005 and, within the terms established by the Italian law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the company's ability to continue as a going concern and for the appropriate use of the going concern basis in the preparation of the separate financial statements and for the adequacy of the related disclosures. The use of this basis of accounting is appropriate unless the directors believe that the conditions for liquidating the company or ceasing operations exist, or have no realistic alternative but to do so.

The *Collegio Sindacale* is responsible for overseeing, within the terms established by the Italian law, the company's financial reporting process.

Auditors' responsibilities for the audit of the separate financial statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA Italia 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 separate financial statements.

As part of an audit in accordance with ISA Italia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

— identify and assess the risks of material misstatement of the separate financial statements, 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 in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control;
- 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 the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the company to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance, identified at the appropriate level required by ISA Italia, 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.

We also provide those charged with governance with a statement that we have complied with the ethics and independence rules and standards applicable in Italy and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current year and are, therefore, the key audit matters. We describe these matters in our auditors' report.

Other information required by article 10 of Regulation (EU) no. 537 of 16 April 2014

On 20 April 2016, the company's shareholders appointed us to perform the statutory audit of its separate financial statements as at and for the years ending from 31 December 2016 to 31 December 2024.

We declare that we did not provide the prohibited non-audit services referred to in article 5.1 of Regulation (EU) no. 537 of 16 April 2014 and that we remained independent of the company in conducting the statutory audit.

We confirm that the opinion on the separate financial statements expressed herein is consistent with the additional report to the *Collegio Sindacale*, in its capacity as audit committee, prepared in accordance with article 11 of the Regulation mentioned above.

Report on other legal and regulatory requirements

Opinion pursuant to article 14.2.e) of Legislative decree no. 39/10

The company's directors are responsible for the preparation of a directors' report at 31 December 2018 and for the consistency of such report with the related separate financial statements and its compliance with the applicable law.

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion on the consistency of the directors' report with the company's separate financial statements at 31 December 2018 and its compliance with the applicable law and to state whether we have identified material misstatements.

In our opinion, the directors' report is consistent with the company's separate financial statements at 31 December 2018 and has been prepared in compliance with the applicable law.

With reference to the above statement required by article 14.2.e) of Legislative decree no. 39/10, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Opinion pursuant to article 102.2 of Legislative decree no. 209 of 7 September 2005

The company appointed us to perform the check required by article 102.2 of Legislative decree no. 209/2005 of the technical provisions, calculated in relation to contracts issued on the basis of the provisions of ISVAP regulation no. 22 of 4 April 2008, recognised under liabilities and included in the disclosures presented in its separate financial statements at 31 December 2018.

The directors are responsible for the sufficiency of the technical provisions recognised to cover the obligations arising from insurance and reinsurance contracts.

Based on the procedures carried out in accordance with article 102.2 of Legislative decree no. 209/2005, ISVAP regulations no. 7 of 13 July 2007 and no. 22 of 4 April 2008 and the Clarification published by IVASS on its website on 31 January 2017, the above technical provisions recognised under liabilities and included in the disclosures presented in the company's separate financial statements at 31 December 2018 are sufficient in conformity with the applicable laws and regulations and correct actuarial techniques, in accordance with the requirements of ISVAP regulations no. 7 of 13 July 2007 and no. 22 of 4 April 2008.

Milan, 15 April 2019 (at 9.00 pm)

KPMG S.p.A.

(signed on the original)

Paolo Colciago
Director of Audit