Unipol GRUPPO

Innovating today to mark our future

2018
Draft Annual Report

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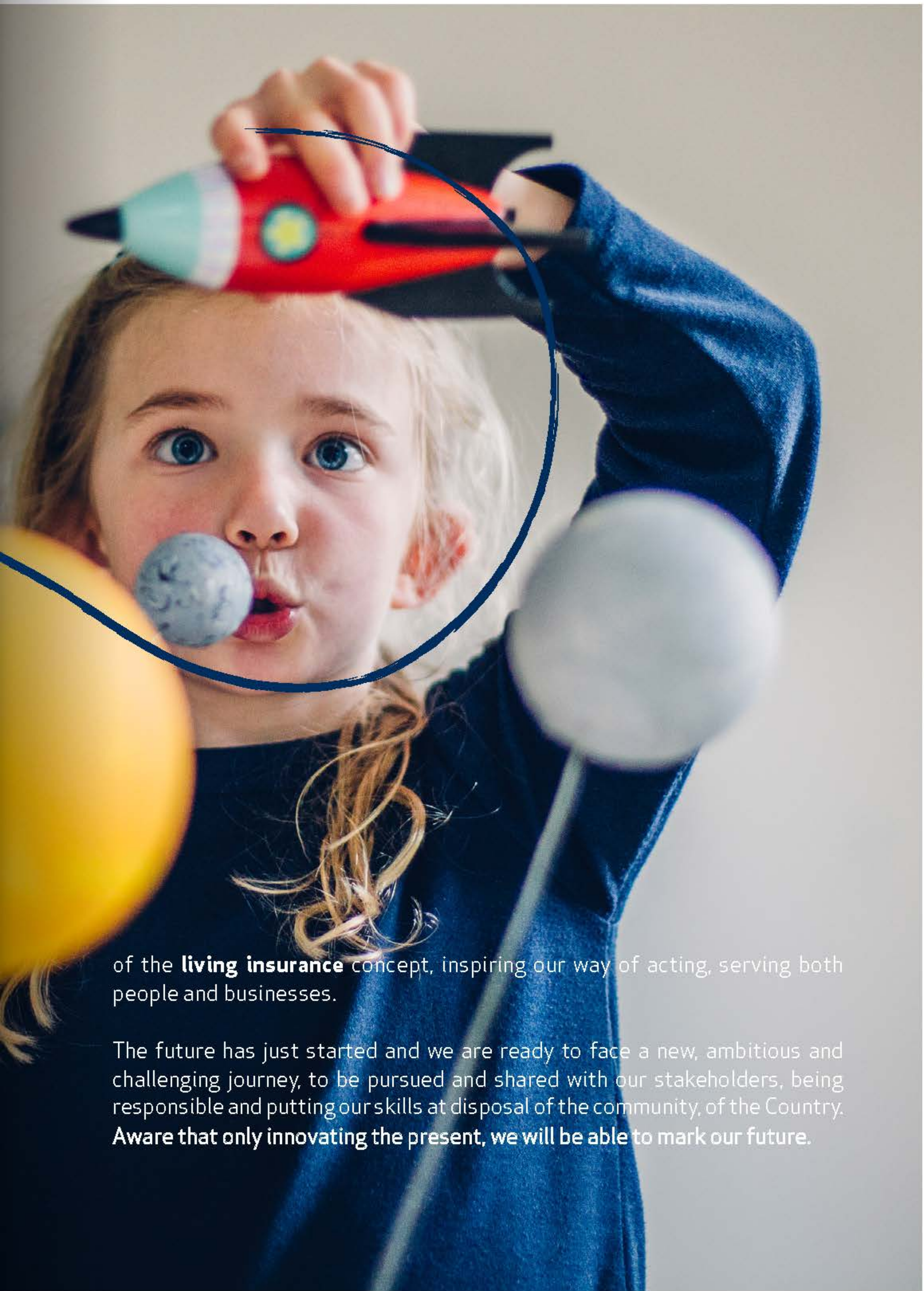
Annual Report

2018

Translation from the Italian original soleley for the convenience of international readers.

Innovating today to mark our future

The expansion of the **insurance and financial offer** is increasingly oriented towards **service, innovation** and the **excellence of the operating machine**. These are the objectives achieved by the Unipol Group in the last three years, a path made of commitment, professionalism and passion, in order to consolidate the role of market leader.
A **leader close to the people**, an **innovative leader**, able to listen constantly, who, by investing in telematics, knows how to become a better interpreter



of the **living insurance** concept, inspiring our way of acting, serving both people and businesses.

The future has just started and we are ready to face a new, ambitious and challenging journey, to be pursued and shared with our stakeholders, being responsible and putting our skills at disposal of the community, of the Country. **Aware that only innovating the present, we will be able to mark our future.**

Summary

Company bodies

	HONORARY CHAIRMAN	Enea Mazzoli	
BOARD OF DIRECTORS	CHAIRMAN	Pierluigi Stefanini	
	VICE CHAIRMAN	Maria Antonietta Pasquariello	
	CHIEF EXECUTIVE OFFICER AND GENERAL MANAGER	Carlo Cimbri	
	DIRECTORS	Gianmaria Balducci	Claudio Levorato
		Francesco Berardini	Pier Luigi Morara
		Silvia Elisabetta Candini	Antonietta Mundo
		Paolo Cattabiani	Milo Pacchioni
		Ernesto Dalle Rive	Annamaria Trovò
		Patrizia De Luise	Adriano Turrini
		Massimo Desiderio	Rossana Zambelli
		Anna Maria Ferraboli	Carlo Zini
		Daniele Ferrè	Mario Zucchelli
		Giuseppina Gualtieri	
	SECRETARY OF THE BOARD OF DIRECTORS	Roberto Giay	
BOARD OF STATUTORY AUDITORS	CHAIRMAN	Mario Civetta	
	STATUTORY AUDITORS	Silvia Bocci	
		Roberto Chiusoli	
	ALTERNATE AUDITORS	Massimo Gatto	
		Chiara Ragazzi	
MANAGER IN CHARGE OF FINANCIAL REPORTING		Maurizio Castellina	
INDEPENDENT AUDITORS		PricewaterhouseCoopers SpA	

Introduction

Macroeconomic background and market performance

Macroeconomic background

The global economy has shown signs of a general slowdown. The world economy is facing several critical challenges: deceleration of international trade driven by tensions between the United States and China; fear of a disorderly exit of the United Kingdom from the European Union; normalisation of international monetary policies and uncertain results from upcoming European elections.

The **Euro Area** recorded GDP growth of around **1.8%**, roughly 0.7% lower than 2017. The slowdown in growth is attributable to various factors, such as: the downturn in international trade, the reduction in support from the ECB, uncertainty relating to Brexit developments and the deceleration of the German *automotive industry*. The unemployment rate continued to fall, reaching around 8% in December 2018.

The ECB has progressively decreased its monetary stimulus, even if against a background of economic slowdown and with the presence of an inflation below the 2% objective (trend rate in December was 1.8%, with a forecast of a further downturn in 2019). The ECB has recently confirmed that the official discount rate will remain anchored at the current level until at least the summer of 2019. In October 2018, purchases related to the quantitative easing declined from €30bn to €15bn a month while subsequently falling to zero beginning with January 2019 (although capital at maturity continues to be reinvested).

In the **United States**, economic activity grew at a rate of close to **2.9%** (2.2% in 2017), due to the good performance of domestic demand, also driven by the effects of the Trump Administration's tax reform. In an economic context of sustained growth characterised by full employment (3.8% unemployment rate in December) and with a change in consumer prices standing at 2.2% in December, the Federal Reserve hiked the rate on *Fed funds* four times during the year, reaching 2.5% in December and continuing with a progressive decrease in the total bonds held.

Thanks to the continuation of unconventional monetary policies and the contribution from exports in the first half, **Japan** registered weak growth (around **0.8%**) within a context of full employment (in December, the unemployment rate was 2.4%). The trend inflation rate in December stood at 0.9%.

China showed signs of a slowdown in the second half of 2018, despite recorded growth of **6.5%** on an annual basis. The slowdown is mostly to be attributed to a deceleration in international trade and to the trade war with the United States, as well as to slower internal demand. The trend inflation rate in December stood at 2.3%.

The year 2018 was essentially positive, from an economic perspective, for the **emerging countries** although the slowdown in international trade and the fall in oil prices and commodities are affecting future development prospects.

In 2018, the **Italian economy** showed a significant slowdown compared with the previous year, with a positive **growth rate** of about **0.8%** on an annual basis, due to several factors: decline in net exports because of the slowdown in the global trade, a progressive decline in investments, the normalisation of the monetary policy and a deceleration in employment (with an **unemployment** rate standing at 10.6% at the end of the year). The effects of an uncertain budgetary policy and rising tensions have negatively impacted the internal demand and have caused an increase in the cost of loans as well as a deterioration of companies and households expectations. In December, the trend **inflation rate** stood at **1.4%.**

In 2019, after two years of growth, the international economic cycle should confirm its expansionary trend, although at a more moderate pace than in 2018.

Financial markets

The conclusion of the bond purchase programme by the ECB (*Quantitative Easing*), eagerly awaited by the markets, did not translate, in 2018, into significant changes in the forward interest rate curve on the monetary and interbank markets. Euribor and Swap rates in the Euro Area remained in negative territory with maturity up to 3 years, whereas the 3-month Euribor increased less than 40 basis points versus the same figures at the end of 2017.

The ECB, based on a gradual normalisation of the monetary policy, could implement, in the first half of 2020, a 25 basis point increase on deposit rates and subsequently, at the end of 2020, on the main refinancing rate. The market rates should precede these actions with a gradual increase in the maturity structure, even if in the direction of values that would still be quite compressed.

In Italy, the curve of the maturity structure of interest rates has been substantially stable for over two years due, on the one hand, to the compression of the long term rates implemented by the ECB's *Quantitative Easing* and on the other hand to the anchoring of short term rates resulting from policy rate stability. The anticipation of an intervention that would raise both the deposit rate and the MRO (*Main Refinancing Operations*) should drive a gradual increase in government rates also on the shortest-term segment of the curve; at the same time, if the ECB maintains the security stock in the portfolio, the compression of long term rates should continue even if the uncertainties resulting from the presentation of the tax policy have contributed to maintaining the spread with the German Bund on values greater than 250 basis points, up by more than 60 basis points versus the spread at the end of 2017.

The year 2018 ended with significant losses in the global equity indexes. At the end of 2018, the Eurostoxx 50 index of the European stock markets was down by 15% compared with 2017. Some uncertainties about the Italian budgeting policy and the widening of the Btp-Bund spread have affected the Italian stock prices, in particular in the banking sector, showing an 18% drop in the FTSE MIB index compared with 2017.

The correction in the stock prices was more modest in the United States where the S&P 500 index was down by 6%. However, stock prices remained historically high with respect to corporate fundamentals. The drop in US equity valuation is to be partially attributed to the normalisation of the monetary policy adopted by the Fed, which is materialising through gradual increases in the *policy* rate. Communication from the Fed has changed its tone many times during the year, appearing more restrictive in the last quarter of 2018 and more accommodating at the beginning of 2019, thus contributing to an increase in the implicit volatility of the option prices (the VIX index increased by 4 percentage points compared with the end of the 2017 values) The expected slowdown in the international economic cycle and the more restrictive monetary policy adopted in the United States have also caused a decline in the emerging stock markets, with the Morgan Stanley Emerging index showing an 18% downturn in the reference period.

Insurance Sector

In 2018, total premiums of the Italian direct business stood at €135bn (+3% compared with 2017). The market share of the top five companies was stable at around 60%.

Premiums in the Life business stood at €102bn (+2.5%). The growth was driven by the Class I (+5.5%), while the Class III was down by 4.6%. A positive development was recorded in Class VI **Pension Funds** (**+7.8%** according to Prometeia forecast data). Also growing was **Class IV** (**+22.5%**, data updated in the first half of 2018 based on the IVASS statistical bulletin), although to a limited extent.

As for the distribution, the banking channel showed an increase (+3%) as did the direct sales channel (+25%), whereas the agency channel declined (-1.8%) as did the financial advisors (-3.3%). The technical result of the Life business was down from €1.7bn in the first six months of 2017 to almost zero in the first six months of 2018. These negative results are primarily attributable to the significant drop in net gains on investments.

The Non-Life business showed a 2.1% growth. As for the distribution, the decline trend of the agency channel continued with a -60 basis points in the first three quarters of 2018. The broker share was also down from 9.3% to 8.4%. Conversely, the banking channel showed a 57 basis points increase and the direct business an almost 100 point increase. As regards the MV classes, the agency channel had an 83.2% impact in the first three quarters of 2018, although decreasing by 60 basis points compared with 2017. By contrast, the impact of direct business, the second top channel, is up standing at 8.9% (+17 basis points). Brokers and bank branches also rose by 21 and 31 basis points respectively. In the first six months of 2018, the overall technical balance of the Non-Life direct business improved versus the same period of 2017, while the *combined ratio* declined by 29 basis points.

The average premium of MV TPL renewable contracts remained substantially unchanged between the third quarter of 2018 and the same period of 2017, while the average premium for vehicles declined by 0.6%[1]. In the same period of time, the number of policies requiring the installation of a black box slightly increased (+0.3%) standing at 20.6%; the *retention* rate recorded a decline in all categories of transport means between one and two percentage points[2].

The decrease trend in claims continued. In the third quarter of 2018, the percentage of managed claims was down by 4% compared with the third quarter of 2017. The frequency of claims regarding vehicles decreased from 5.9% to 5.7% (-0.2%), while trucks recorded a 1% decline and the MV an 8% decline. The average cost of claims in the third quarter of 2018 was up by about 3.6% compared with the same period of 2017[3].

In the first six months of 2018, the top five Italian groups reported a significantly higher ROE. The combined ratio, although remaining on values above 90% for the companies of the same groups operating in the Non-Life business, showed a slight decrease (except for one group) while for the companies operating primarily in the Life sector, the decrease was significant.

The changes in the insurance sector, unless otherwise indicated, refer, for 2018, to the ANIA forecast data.

Pension funds

In 2018, the existing positions increased by 448 thousand units while the number of members remained stable due to an increase in the number of those participating simultaneously in multiple pension schemes (about 17%).

The total supplementary pension schemes continued the declining trend of the last few years. As a result of the stability of a number of occupational pension funds, both closed and open, and of Personal Pension Funds (PIP), a reduction in open and pre-existing pension funds, especially the independent ones, still representing 62% of the total, should be noted. The recomposition of the market is confirmed by the performance of the memberships in 2018 with a greater increase in the occupational closed funds (+7%) and a drop in the pre-existing pension funds. The greater contribution came from the new closed fund "Previambiente" reserved for workers in the environmental health sector.

In 2018, due to a worse performance of the financial markets, aggregate net returns were, on average, negative: -2.5% for the occupational closed funds, -4.5% for the open funds and -6.5% for the *Unit-Linked* PIPs. Only the PIPs of Class I showed a positive performance (+1.7%).
The Individual Savings Plans (PIR), established in 2017 as long-term open asset management funds, were initially positioned as an alternative savings instrument. Conceived as an industrial policy instrument, they were subject to a tax credit. In 2017, 11 billion was collected in premiums, but only 20% of these were invested in *Full Equity* funds, allocating less than 1% to the Aim segment (mid- and small-sized capitalisation).

According to Assogestioni, the PIR premiums in 2018 amounted to only 4 billion. The drop, by approximately 70%, was the result of the negative performance of the Italian stock market which made the PIRs unattractive. In fact, the equity PIRs very often recorded returns lower than management costs, especially when the capital was invested, to a greater extent, in the Star segment with medium capitalisation. The new reform, providing incentives to investments in the Aim segment and in venture capital, could make these investments attractive again, thus restoring a growth in premiums.

Banking Sector

In Italy, the strengthening of the banking sector continued, even if showing a slowdown in 2018 due to the tensions arising in the market of the Italian sovereign debt. The decline in the prices of government bonds and the decline in bank stock valuation caused a drop in capital reserves and liquidity, in addition to an increase in the cost of wholesale funding and an increase in capital costs. Therefore, the Italian banking sector confirms its exposure to the price volatility of government bonds and to the risks related to the sustainability of public finance.

[1] Adjusted data.
[2] Adjusted data.
[3] The data on frequency and average cost of claims have been adjusted.

A recovery of credit to the private sector is confirmed, although at a slower pace than the average recovery in the Euro Area. Growth in loans to households remained substantially in line with that of the European financial intermediaries, while loans to businesses grew at a lower than 2% rate on an annual basis, more than two percentage points less compared with the EMU average. In a survey carried out with financial intermediaries, some signs of a slight tightening of the credit conditions for the private sector have emerged.

The flow of new impaired loans, measured in relation to the total of performing loans, stands currently at 1.7%, after dropping, in the second quarter of the year, to the lowest value since 2006. Improvements in credit quality were positively impacted by the lower rates on loans and the greater growth pace experienced by the Italian economy in the last two years. Overall, in the first half of 2018, the amount of gross impaired loans was down by 13%, thanks in particular to sales transactions. The sales carried out in the first half of the year were in line with the containment actions planned by the intermediaries for 2018 and communicated to the market.

From the end of last year, the coverage rate of impaired loans increased by almost four points, to 54.3%, a greater level compared with the average of the EU banks, thanks also to the transition to the to new accounting standard IFRS 9, which requires that value adjustments must reflect also the sale scenarios, thus reducing the gap between the carrying amount of assets (held for sale) and market prices.

The cost of credit remained at historically low levels. The rate on new loans to companies stood at 1.5% in November, while the rate on new loans to households for the purchase of homes, was about 2%. Compared with previous episodes of financial tension, the transfer of the greater gross premium costs recorded beginning last summer, to the interest rates applied to households and companies has been, to date, less intense due primarily to a more stable composition of the intermediaries' liabilities and a greater capitalisation of the banking system as a whole.

Real Estate market

The Real Estate Market Observatory (Tax Authorities and Bank of Italy) reported that in 2018 the sale of homes in the residential segment continued the growth that began in 2014, thus reabsorbing almost completely the losses of 2012. In the third quarter, a trend change of 6.7% was recorded, a percentage point above the same figure of the first and second quarters of 2018 (4.3% and 5.6% respectively). However, considering the top eight Italian cities, the average growth rate stood at 3.9%, significantly below the national figure, with better results from the real estate market of smaller towns.

A weaker recovery in the market of properties for non-residential use was noted. In the third quarter of 2018, sales in the commercial-tertiary sector recorded a slight decline (-0.3%) and those of the production sector, a more substantial decline (-6.5%) compared with the third quarter of 2017. This decline indicated a reversal in the positive trend of 2016. In fact, in the first and second quarters of 2018, the sale of properties intended for tertiary and commercial activities grew by 5.9% and 8.5% respectively, while the properties intended for production activities grew by 8.2% and 1.3% respectively.

In 2018, based on the Eurostat *House Price Index*, the inflation of home prices continued to show a decreasing trend: the change was respectively -0.5%, -0.4% and -0.8% in the first three quarters of 2018. This data is even more significant if compared with the consumer price index; in fact the decline in the third quarter of 2018 was actually -2.1%. Italy is the only European country still showing a deflation in home prices, with an European average change that in the third quarter of 2018, stood at 4.3% in nominal terms and 2.6% in real terms.

The prices of new homes continue to show a sustained growth, respectively by +1%, +1.2% and +1.4% in the first three quarters of 2018, in line with the other European countries. The growth in rents remained positive, equal to 0.4% in 2018. Conversely, indicators of the Italian residential real estate market still show some fragility. In fact the change in the *Price-to Rent* and the Price-to-Income ratios remained negative, respectively at -1.2% and -3.2% in the third quarter of 2018.

The economic survey carried out on the housing market, in October, by the Bank of Italy, has identified a growing number of operators expecting stability in property prices and showing lower expectations for a deflation. At the same time, the demand is perceived to be stable due to better loan conditions. In fact, the number of real estate agents reporting a difficulty in obtaining a mortgage as the main reason for suspending sales requests, remained quite contained.

Introduction

Main regulatory developments

National accounting standards OIC

It should be noted that, on 1 August 2018, the Italian Accounting Body (OIC) circulated several proposals for amendments to certain accounting standards, by publishing the same and on a consultation basis until 1 October 2018. These legislative changes, applicable from 1 January 2018, regarded:

- OIC 7 "Green Certificates": abrogation of the standard as it refers to cases that no longer exist since 2018;
- OIC 28 "Shareholders' equity": a disclosure on the fair value of the warrants issued is now required to be included in the financial statements, by virtue of the need of investors to understand the potential dilutive effect of the future exercise of said warrants;
- OIC 32 "Financial derivatives": the OIC has clarified how so-called "simple" hedging derivatives should be recognised in the accounts, specifying, in particular, the cases in which the cash flow hedge reserve should be released, in the event in which the company does not envisage recovering the entire loss or part of the reserve in one or more future years. The body also indicated a different Income Statement item (B13 "*Other provisions*") for the recognition of the cost of the contract.

On 28 January 2019, the OIC gave its final approval of the wording of amendments that regard the above accounting standards.

Relevant primary regulations for the insurance sector

<u>Legislative Decree 68 of 21 May 2018</u>
Issued by way of implementation of the Directive (EU) 2016/97 by the European Parliament and the Council (Insurance Distribution Directive or also "IDD"), the Decree sets forth significant changes to the current regulations in the area of insurance distribution, introducing changes to the Private Insurance Code (Codice delle Assicurazioni Private or CAP) and to the Consolidated Law on Finance (Testo unico sull'intermediazione finanziaria or TUF).
Some of the changes set forth in the Decree are:

- alignment, between CAP and TUF, of the definitions of "insurance investment product";
- inclusion of the companies carrying out direct distribution activities in the definition of "distribution" introduced by CAP;
- extension of the supplementary regulations introduced by the IDD, referring exclusively to insurance investment products (IBIPs), to all the other insurance products as regards conflicts of interest;
- introduction of the obligation of drawing up and delivering the Precontractual Information Document (Documento Informativo Precontrattuale or DIP) applicable to the insurance contracts for the Non-Life business;
- transposition of the regulations set forth in the IDD as regards the product oversight and governance (POG);
- addition of a new chapter to the CAP that sets out internal systems and procedures for reporting violations (whistleblowing);
- addition of IVASS to the authorities involved in ADR processes;
- changes to Title XVIII of the CAP related to disciplinary profile;
- introduction of the possibility, for IVASS and CONSOB, upon obtaining an opinion from the main associations representing insurance intermediaries, insurance companies and consumers, of defining the standard methods that guarantee a more reliable customer profiling.

<u>Decree Law 119 of 23 October 2018</u>, converted, as amended, with Law no. 136 of 17 December 2018
Upon the conversion of the Decree, Art. 20-quater was introduced, inter alia, setting forth provisions for the temporary suspension of capital losses from short-term securities.
As regards the turbulent situation of the financial markets in 2018, the article in question introduces a temporary exemption from the criteria adopted in the financial statements for the measurement of securities not intended to be retained in the long-term in the company's assets. This enables the companies that have not adopted the international accounting standards, to measure these securities based on the value recognised in the most recent and approved Financial Statements rather than the value resulting from the market performance, with the exception of impairment losses.
The companies that choose this option must allocate to an unavailable profit provision an amount corresponding to the unrecognised capital losses, net of their related tax effect.
For the companies in the insurance sector, IVASS has governed the implementation of said measures with Regulation no. 43 of 12 February 2019.

It should be noted that none of the companies of the Unipol Group has used the exemption under Art. 20-quater of the Decree in the preparation of the Financial Statements covering the period ended 31 December 2018.

Main Regulations, Measures and Letters to the market issued by IVASS

Following is a summary of the main regulatory documents issued by IVASS in 2018.

<u>IVASS Measure no. 68 of 14 February 2018</u> and subsequent Letter to the market of 21 December 2018
The IVASS Measure 68/2018 has introduced new provisions in the area of segregated funds amending IVASS Regulation no. 38/2011 and, to a lesser extent, IVASS Regulations no. 14/2008 and no. 22/2008. In particular, the amendments to Regulation 38/2011 have introduced elements that ensure the necessary flexibility in the determination of the average rate of return from the aggregated funds, thus allowing the insurance companies to:

- set aside, for the new contracts only, the net realised capital gains in a specific "profit provision" that can be used to determine the average rate of return for a maximum period of eight years from the date when the net capital gains were realised;
- suspend the recognition of gains and losses resulting from the periodic trading (typically on an interim basis) of particular types of derivatives, contemplating the allocation of the net income to an item adjusting the financial results of each period of observation of the segregated funds until the closing date of the transaction.

With a Letter to the market dated 21 December 2018, IVASS has provided instructions for the electronic transmission of the Summary statements and the Report on segregated funds where the "Profit provision", pursuant to this Measure, has been set up.

<u>Letter to the market of 19 March 2018</u>
IVASS has provided updated instructions on the transmission to the competent authorities of the information set forth in the Solvency II Directive and in the Regulations EU no. 1374/2014 and no. 2015/730 issued by the ECB (regarding the obligation of statistical reporting from the insurance companies), as well as the Regulations applicable to Financial Stability.

<u>IVASS Regulation no. 37 of 27 March 2018</u>
This Regulation sets forth the criteria and the methods to be used by the Insurance Companies to determine the mandatory discounts within the scope of TPL for motor vehicles under Art. 132-ter, paragraphs 2 and 4 of Legislative Decree 209 of 7 September 2005 (Private Insurance Code) as amended by Legislative Decree 74 of 12 May 2015 and by Law 124 of 4 August 2017.
This Regulation provides for two types of mandatory discount:

- the first, upon proposal by the company and upon acceptance by the contracting party and if at least one of the following three conditions is met: i) preliminary inspection of the vehicle at the expense of the insurer; ii) installation or presence in the vehicle of electronic mechanisms that record its activity, such as a black box or equivalent mechanism; iii) installation or presence in the vehicle of electronic mechanisms that prevent the starting of the engine if the blood alcohol level of the driver exceeds the legal limits;
- the second, additional and applicable to the subjects who in the last four years have not caused any accident for which they were liable, insofar as they have installed or they are installing electronic mechanisms that record the activities of the vehicle, such as a black box or similar mechanism, and reside in provinces with a greater claim rate and greater average premiums, as identified by IVASS.

This Regulation intends to achieve the primary regulatory objective which, on the one hand, aims at guaranteeing to the policyholders the recognition of discounts based on a reduction of the risks to which the company is exposed, and, on the other hand, the progressive reduction of the differences in MV TPL premiums applied, within the national territory, for the same level of risk, to the virtuous policyholders residing in the provinces with a greater claim rate and greater average premiums.

<u>IVASS Measure no. 72 of 16 April 2018</u>
This Measure, issued in implementation of Art. 3, paragraph 3, of IVASS Regulation no. 9/2015 and governing the certified risk database and the certification on risk status, contains adjustments to the identification criteria and to the differential premium system of the universal conversion merit category for the MV TPL insurance.

<u>IVASS Measure no. 74 of 8 May 2018</u>
With this measure, some amendments were made to the ISVAP Regulation no. 7/2007, regarding IAS/IFRS financial statements, following the entry into effect of IFRS 9, "Financial Instruments", and related deferral options for the

insurance sector, introduced through the amendments to the IFRS 4 "Insurance Contracts". Following is a summary of the main changes:

- the preparation standards have been supplemented with the indication of the layout to be used by the companies that adopt different options permitted for the transition to IFRS 9 for the Consolidated Financial Statements and the Half-yearly Financial Report;
- for the companies that have adopted IFRS 9 (including the application of the so-called "overlay approach"), the following statements were added in order to include the new categories of financial instruments and the recognition of the related value adjustments: statement of financial position, income statement, comprehensive income statement, statement of cash flows and notes to the financial statements;
- for the companies that continue temporarily to apply IAS 39, due to the so-called "deferral approach", the pre-existing tables remain valid;
- for the conglomerates that use the option of a joint application of IFRS 9 and IAS 39, thus not applying IFRS 9 to their companies operating in the insurance sector, no predefined financial statement layout is required, but it is still necessary to add to the Financial Statements and the related Notes all the different items included in the new tables created for the companies that have adopted IFRS 9.

Letter to the market of 5 June 2018
IVASS has provided instructions for the calculation of the best estimate of the technical provisions related to Life insurance contracts (*Best Estimate of Liabilities*) within the scope of the Solvency II prudential supervision. More specifically the document addresses first-pillar aspects (standards and rules related to the calculation of technical provisions) and second-pillar aspects (*governance* and risk management).

IVASS Regulation no. 38 of 3 July 2018
This Regulation applies to the corporate and Group governance system pursuant to the Guidelines issued by EIOPA on this matter and, at the same time, drawing from the ISVAP Regulation no. 20/2008 (on internal controls, risk management, *compliance* and outsourcing), to the ISVAP Regulation no. 39 of 9 June 2011 (on remuneration policies) as well as to the ISVAP Circular no. 574/2005 on outwards reinsurance, which have therefore been repealed. The set forth provisions should be read jointly with the Letter to the market issued by IVASS on 5 July 2018 (see below) with which IVASS analyses in depth the proportionality principle, in accordance with the provisions of *Solvency II*, where it is established that the prudential provisions are applicable based on the risk profile of the company determined by the nature, scope and complexity of the risks arising from the activity at issue.

Letter to the market of 5 July 2018
In this document, IVASS guidelines on the application of the principle of proportionality stated in the corporate governance system are defined along with the identification of three possible models - strengthened, ordinary and simplified - pursuant to a self assessment process structured on a dimension analysis, based on qualitative/quantitative parameters that identify the risk and complexity level of the business and of the transactions carried out.

IVASS Regulation no. 40 of 2 August 2018
This Regulation governs, on a unified level, the insurance distribution activities pursuant to title IX (General provisions on distribution) of Legislative Decree no. 209 of 7 September 2005 – Private Insurance Code.
The revision and the rationalisation of the provisions applicable to the sector originate from the changes introduced by Directive (EU) no. 2016/97 – Insurance Distribution Directive (IDD). This Regulation takes the form of a comprehensive set of rules, broken down into the following macro areas:

- the requirements for accessing and exercising distribution activities, especially as regards the requirement for the registration of intermediaries, the performance of activities by the distribution operators, the employees of companies directly involved in the distribution and the operators of the call centres of companies and intermediaries;
- the training and professional refresher courses based on which the relevant topics are adjusted in compliance with the new minimum requirements of professional knowledge and expertise, as set forth in the Directive;
- the rules of conduct and pre-contractual disclosures;
- the promotion and placement of insurance contracts through remote communication techniques.

IVASS Regulation no. 41 of 2 August 2018
The Regulation updates the provisions governing reporting, advertising and development of the insurance products by transposing the principles of the IDD European Directive and the consequent reform of Legislative Decree 209 of 7 September 2005 – Private Insurance Code.
In particular, the Regulation provides for:

- a review of the contractual information of all the products through the preparation of new, simplified and standardised documents that replace the current information note and summary data sheet;
- an enhancement of the digitalisation to be implemented with both the so-called home insurance functionalities (reserved areas in the websites of the companies) and the replacement, upon request by the customer, of paper communications with digital communications and also the reduction of the current obligation to publish in newspapers.

A strengthening of the systems for the protection of the contracting party will be also carried out, in particular as regards the information during the contracting phase and the methods for drawing up the contractual documents, with provisions aimed at facilitating a contractual simplification, at guaranteeing comparability of the contract conditions and at reducing the phenomenon of dormant policies.

IVASS Regulation no. 42 of 2 August 2018
This Regulation, applicable beginning 2018, falls under the scope of the Solvency II framework and determines the content of the "Solvency and financial conditions report" ("SFCR") of the company and the group which is subject to audit by the independent auditor or auditing firm, as well as all related execution methods (external audit). In particular, with this Regulation, IVASS has broadened the scope of the auditing activity, with regard to the content in the Letter to the market of December 2016, extending it also to capital requirements, in order to increase the quality and reliability of the information disclosed to the public. Hence, starting from the SFCR for the year 2018, an audit, conducted by an external auditing firm, is required on the quantitative templates (Quantitative Templates – "QRT") and on the sections of SFCR providing information concerning:

- the financial position for solvency purposes and the related measurement criteria (QRT S.02.01.02 "Balance Sheet" for companies and groups, as well as Section D of the SFCR);
- the own funds (QRT S.23.01.01 and S.23.01.22 "Own Funds" respectively for companies and groups, as well as Section E.1 of the SFCR);
- the solvency capital requirement (SCR), regardless of the calculation method adopted for its determination (standard formula or internal model) and the minimum capital requirement (MCR) (QRT S.25.02.01 and S.25.02.22 "Solvency Capital Requirement" respectively for companies and groups that use the partial internal model, QRT S.28.02.01 "Minimum Capital requirement" for the companies and Section E.2 of the SFCR).

However, the determinations adopted by IVASS in carrying out its supervisory functions – with reference to the elements of the SFCR listed above, including those related to the solvency capital requirement calculated through the use of parameters specific of the company or the Group or through an internal model (partial or complete), in order to avoid duplications between the required audits and the process for the authorisation to be issued by the Authority of interest – are not subject to an assessment of compliance or to conclusions from a limited auditing.
The audit engagement may be entrusted to the same auditor who carries out the auditing of the annual and consolidated accounts.

It should be noted that on 31 October 2018, IVASS has published an explanatory document containing clarifications on the methods used to apply the transitional measure on technical provisions (Misura transitoria sulle riserve tecniche or "MTRT"), as required by the Private Insurance Code, so as to allow for a gradual transition from the existing prudential framework (Solvency I) to the Solvency II framework. This document clarifies the methods for the calculation and submission of the request for authorisation as well as the corporate governance and risk control measures that are necessary for the application of the MTRT. The Companies of the Group did not use the MTRT regarding the calculation of the Solvency ratio at 31 December 2018.

Main documents issued by the European Bodies within the Solvency II framework

On 28 February 2018, the public consultation on the second set of opinions for the revision of the Standard Formula by EIOPA, through the publication of the final Set of Advice, was completed. In particular, to be noted are: the treatment of Risk Margin (through any necessary revision of the methods and assumptions used for the related calculation), the capacity for absorption of the deferred tax losses and the Interest Rate Risk (not considering it adequate to address a context characterised by low interest rates).

On 28 March 2018, EIOPA started an additional consultation (concluded on 12 May) on possible changes to the Implementing Technical Standards (ITS) in the area of reporting and disclosure, concerning EU Regulations nos. 2015/2450 (about the submission of information to the supervisory authorities) and no. 2015/2452 (about the procedures, formats and templates of the solvency and financial condition report).

On 9 November 2018, the EU Commission issued, in public consultation (concluded on 7 December 2018), the draft of some proposals for the amendment of the Delegated Acts as regards several aspects of the Solvency II provisions, such as:

- some changes to and simplifications of the calculations of the SCR using the standard formula with reference to the counterparty risk and related mitigation techniques, to the market risk and to the underwriting Non-Life risk;
- classification of own funds;
- application of the "look through" approach, extended to the investees which carry out asset management activities on behalf of insurance companies.

The proposals for amendments also contain:

- further clarifications on the methods, the principles and the techniques for determining the structure of the risk-free curve;
- the criteria for the recognition of the guarantees issued by regional governments and local authorities;
- some additional principles for the calculation of the capacity to absorb deferred tax losses;
- a method for calculating the adjustment factor for the non-proportional reinsurance as a unit specific parameter (USP).

On 6 December 2018, the EU Parliament sent again a letter to the Commission with which, after acknowledging a delay in submitting the proposals for amendments to the Delegated Acts of Solvency II by the EU Commission (initially planned for no later than December 2018), restated, among several priorities, the necessity for less rigorous criteria regarding the application of the treatment of the new asset class of long-term equity investments and the necessity for improving the functioning of the Volatility Adjustment.

On 19 December 2018, EIOPA published a request for input on the reporting and disclosure requirements set forth in Solvency II, still taking into account the revision of the European solvency framework planned for 2020, with expiry date set on 19 February 2019.

Regulatory developments regarding taxation

Decree Law 87 of 12 July 2018 converted by Law 96 of 9 August 2018 (so called Dignity Decree). Among the tax provisions, to be noted is the introduction of provisions on VAT which have provided for the postponement of the dispatch of a communication on invoices, both issued and received – "spesometro" (expense reporting system); the exemption from the regulations of Split Payment (operation for splitting payments entailing the payment of the VAT debited, in the invoice, directly to the Tax Authority rather than to the supplier) for contracted workers; and the exemption from the obligations of entering into the VAT register the invoices, both issued and received, coinciding with the application of the electronic invoicing mechanism.

Decree Law 119 of 23 October 2018 converted by Law 136 of 17 December 2018 ("Connected to the 2019 Budget Law"). Introduces VAT provisions on the issuing and entry of invoices receivable, the registration of purchase invoices and deductions applicable, in part, from the publication date, in addition to provisions on tax simplification for the implementation of an electronic invoicing system starting in 2019, anticipating the non-application of sanctions in the first six months of the entry into effect. The decree contains the implementing provisions of "fiscal pacification", including the facilitated settlement of tax audit reports, of tax assessment deeds, of tax collection notices entrusted to the Tax Collection Agent, of tax disputes pending before the various levels of proceedings. The decree provides for the Italian Tax Police to be guaranteed free access to the registry of financial statements and for some changes made to the online tax process. Finally, the decree introduces an exemption to the criteria applied to the measurement, in the financial statements, of the securities recognised under total current assets which enables the subjects who prepare the financial statements in compliance with the provisions of the Civil Code (Articles 2423-2435-ter of the Civil Code) and the Italian accounting standards issued by the OIC (including the insurance companies in the individual financial statements) to retain, in the 2018 financial statements, the same figures of the previous statements.

Legislative Decree 142 of 29 November 2018 published in the Official Journal of 28 December 2018 and in effect since 12 January 2019. This decree implements the European Delegation Law for the period 2016-2017 (L. 163/2017) in order to transpose the Directive EU 2016/1164 which introduces provisions to counteract tax avoidance practices that affect the functioning of the internal market (so-called Atad 1), as amended by Directive EU 2017/952 (so-called Atad 2). In particular, the approved decree introduces new provisions on the deductibility of interest expense, exit taxation, non-resident subsidiaries, taxation of hybrid financial instruments, foreign subsidiaries, as well as dividends and capital gains.

Law 145 of 30 December 2018 (so-called "2019 Budget Law") sets forth, inter alia, the following:

- the repeal, effective from the 2019 tax period, of the Aid to Economic Growth (ACE) while the usability of the surplus amounts accrued at 31 December 2018 is maintained;
- the postponement, for insurance companies and credit and financial institutions, of the deductibility contemplated in the 2018 period of the non-deducted portion of write-downs and impairment losses on receivables, and of amortisation of the goodwill and of other intangible assets that have entailed the recognition of deferred tax assets in the financial statements;
- the introduction of new preferential taxation regulations regarding the reinvested profits, commensurate to investments in operating assets and new staff hired on permanent contracts;
- the splitting into instalments over 10 years, with respect to the planned full deduction in 2018, of the deductibility of impairment losses on loans calculated upon the first time application of the IFRS9 standard, for credit and financial institutions and insurance companies;
- amendments to the regulations concerning PIR, long-term individual savings plans, to provide an incentive to investments in venture capital funds and financial instruments issued by SMEs;
- the maintenance of blocking of any VAT rate increase also for 2019;
- the increase in rates for the payment of the tax advance on insurance borne by companies, to 85% as of 2019, to 90% as of 2020 and to 100% for subsequent years starting from 2021;
- the extension of deductions for energy and earthquake-proofing upgrades;
- the extension of the hyper-amortisation scheme (super amortisation is not being reproposed);
- reopening of the terms for the revaluation of the corporate assets and for the realignment of the civil and fiscal values.

Other regulations

Lastly, it should also be noted that Art. 1, paragraph 1073, of the 2019 Budget Law introduced an amendment to Legislative Decree 254 of 30 December 2016, aimed at strengthening the communication of information of a non-financial nature, thus broadening the disclosure by companies and groups subject to the regulations applicable to the management of corporate and environmental risks, both generated and suffered, in compliance with the increasing focus placed by the sector- and non-sector-related national and international regulations.

1

MANAGEMENT REPORT

Share performance

Information on share performance

At the end of December 2018, the official price of the ordinary Unipol share was €3.52, in the last 12 months recording a decrease of 10% against a decline in the FTSE Italia All-share banks index of 4.1%.

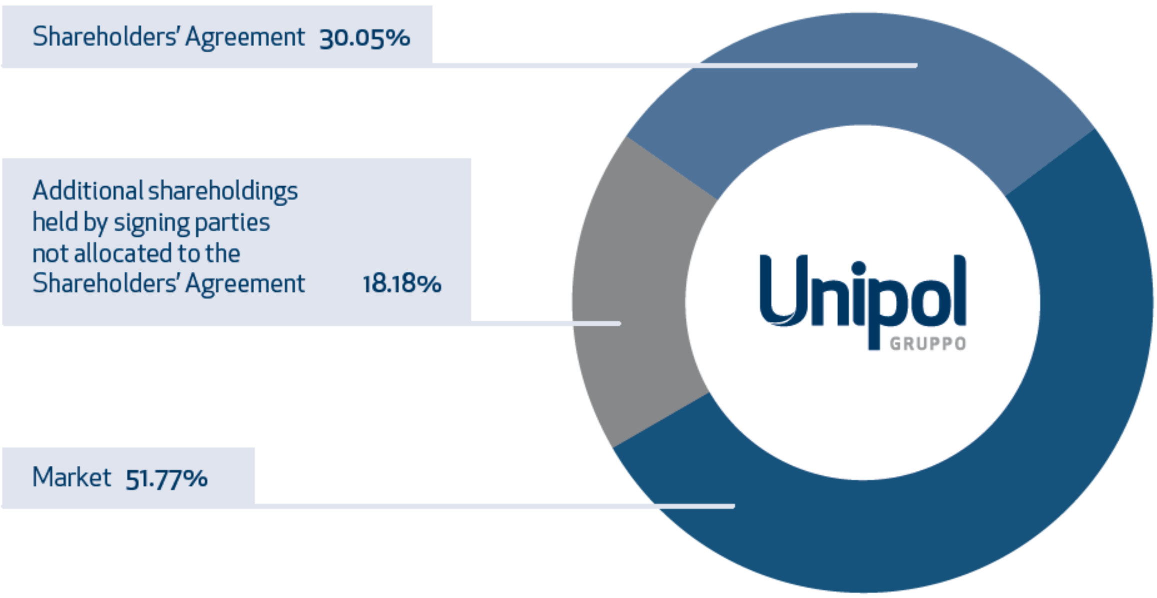
Capitalisation values

Total capitalisation was €2,524m at the end of December 2018 (€2,805m at 31/12/2017).

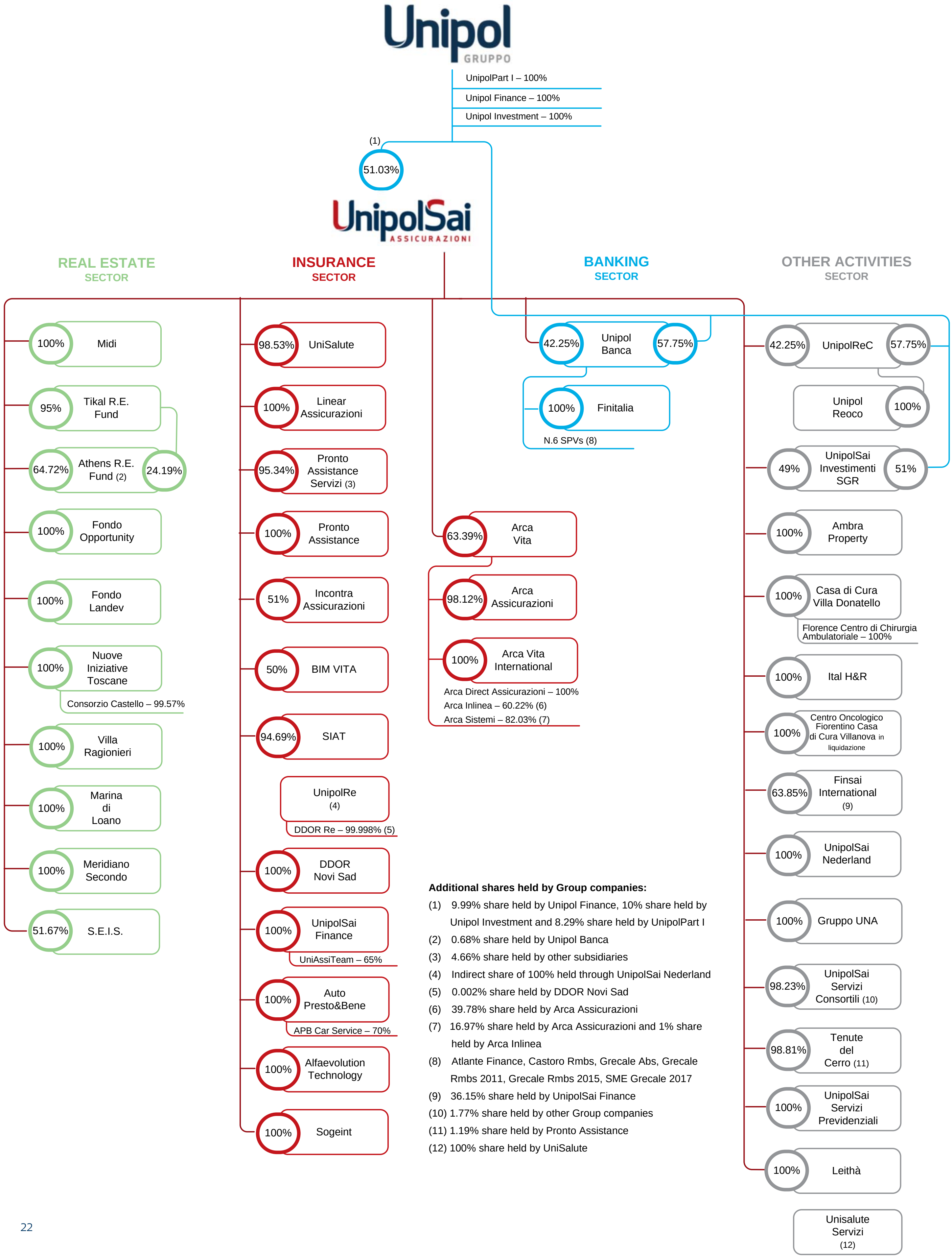
Shareholding structure

The shareholding structure of Unipol Gruppo at 31 December 2018 was unchanged with respect to 31 December 2017. As then rendered public according to current legislation, 16 beneficiary companies signed a shareholders' agreement relating to Unipol Gruppo. That agreement, which entered into force on 15 December 2017, regarded 215,621,214 ordinary shares, representing 30.053% of the share capital of Unipol Gruppo.

The shareholding structure is shown in the chart below:



Group structure at 31 December 2018 (direct holding out of total share capital)



Additional shares held by Group companies:

(1) 9.99% share held by Unipol Finance, 10% share held by Unipol Investment and 8.29% share held by UnipolPart I
(2) 0.68% share held by Unipol Banca
(3) 4.66% share held by other subsidiaries
(4) Indirect share of 100% held through UnipolSai Nederland
(5) 0.002% share held by DDOR Novi Sad
(6) 39.78% share held by Arca Assicurazioni
(7) 16.97% share held by Arca Assicurazioni and 1% share held by Arca Inlinea
(8) Atlante Finance, Castoro Rmbs, Grecale Abs, Grecale Rmbs 2011, Grecale Rmbs 2015, SME Grecale 2017
(9) 36.15% share held by UnipolSai Finance
(10) 1.77% share held by other Group companies
(11) 1.19% share held by Pronto Assistance
(12) 100% share held by UniSalute

Management Report

Dear Shareholders,

2018 was the last year of the 2016-2018 business plan and was also the year in which two important projects were completed, which involved the Group's insurance and banking sectors, launched in 2017.

Positive conclusion of the three-year plan 2016-2018

The year 2018 was the last year covered in the 2016-2018 Business Plan during which the activities of the Group strongly focused on implementing the following directives:

- further development of the operating machine, following an increase in the size of the Group due to the merger with Fondiaria-SAI, through the intensification and simplification of the relationships with customers and agents, the extension of the offering of Health and Pension products, the innovation of products with a particular focus on the use of ICT and the consolidation of the operating and business processes;
- strengthening and relaunching of bancassurance partnerships with the Group BPER Banca and Banca Popolare di Sondrio (through Arca Vita, Arca Vita International and Arca Assicurazioni) and with Unicredit (through Incontra);
- completion of the corporate rationalisation of the Group with the concentration of all insurance assets under UnipolSai control;
- restructuring of the banking sector with a decisive strengthening of the hedging of the impaired loans of Unipol Banca and the separation of performing assets from the impaired assets through the establishment of UnipolReC. This operation has enabled the creation of conditions for the requalification of the strategy of the Group in the banking sector which will be completed in 2019, after obtaining the necessary authorisations, with the announced sale of Unipol Banca to BPER and the consequent exit from the direct business of a medium sized bank, in order to take on the role of a long-term stable investor of one of the main Italian banking groups.

The Group ends the three year Plan exceeding the objectives of profitability set in the 2016-2018 Business Plan, after reaching a cumulative net consolidated profit, both at the Unipol Group level and at the consolidated UnipolSai level, equal to more than €1.8bn, against the Plan's target of €1.5 - €1.7bn for Unipol Gruppo and €1.4 - €1.6bn for UnipolSai.
In addition to approximately €400m of cumulative dividends distributed over the three years, the remuneration objectives of the shareholders of Unipol Gruppo were achieved and exceeded at the level of UnipolSai with cumulative distributed dividends of approximately €1.2bn against the Plan's objective of €1bn.
The adopted strategy, the achieved results and the compliance with the dividend policy indicated in the Plan have ensured to our shareholders, at the end of the reference three year period, a performance, in terms of Total Returns, that was positive and exceeding the performance recorded in the same period by the main market indexes.
The compliance, as on a number of previous occasions, with the targets stated in the Plan confirms the construction in these years of a sustainable profitability over time that creates a solid platform for the next 2019-2021 Business Plan which will be presented to the financial markets this coming May.

Project for streamlining the Group's insurance sector

During the year, the project to streamline the insurance sector of the Unipol Group was completed (the "Project"), approved by the Boards of Directors of Unipol and UnipolSai on 29 June 2017, as part of which the sale to UnipolSai of the equity investments in UniSalute and Linear was finalised in 2017.
On 22 March 2018, the Board of Directors of Unipol approved the transfer to UnipolSai of the investment held in Arca Vita S.p.A., equal to 63.39% of the share capital, for a price of €475m (the "Sale").
As part of the Project, in addition to the sales of investments in UniSalute S.p.A. and Linear S.p.A., finalised on 16 November 2017, it was envisaged that if certain conditions and requirements were met the investment held by Unipol Gruppo in Arca Vita (and with it the subsidiaries, particularly the insurance companies Arca Vita International DAC and Arca Assicurazioni S.p.A.) would also be transferred to UnipolSai Assicurazioni.
These requirements were satisfied on the early renewal of the strategic bancassurance partnership between Unipol Gruppo, BPER Banca S.p.A. and Banca Popolare di Sondrio S.c.p.A. in the Life and Non-Life segments and the signing on 8 November 2017 of a new five-year agreement, expiring on 31 December 2022 and renewable if agreed by the parties.
The Disposal was finalised on 7 August 2018 after obtaining the necessary legal authorisations.

Disposal of the subsidiary Popolare Vita

On 11 January 2018, UnipolSai signed the agreement for the disposal of the investment in Popolare Vita (21,960,001 shares, equal to 50%+1 share of the share capital) to the banking partner Banco BPM, following failure to renew the distribution agreements and subsequent exercise of the put option envisaged in the Shareholders' Agreement. On 29 March 2018, following fulfilment of the contractually envisaged conditions precedent, the shares were transferred and the price of €535.5m was collected.

Banking sector restructuring plan

The first half of the year saw the completion of the banking sector Restructuring Plan, announced to the market at the end of June 2017, a full disclosure on which was provided in the 2017 Financial Statements. The final phases of this plan implemented in the first few months of 2018 can be summarised as follows:

a) on 16 January 2018, the agreement was signed for the proportional partial spin-off (the "Spin-Off") of Unipol Banca S.p.A. ("Unipol Banca" or the "Company Divided") through the establishment of a new company, beneficiary of a corporate complex (the "Complex involved in the division"), amongst other things including the entire portfolio of bad and doubtful loans of Unipol Banca at the approval date of the Half-yearly Financial Report 2017, except for loans deriving from lease transactions and unsecured loans (the "Bad and Doubtful Loans");

b) on 31 January 2018, before the Spin-Off became effective, Unipol and UnipolSai disbursed a **shareholder loan** to Unipol Banca for €173m and €127m, respectively, and therefore a **total of €300m** which, as envisaged in the Spin-Off Plan, was included in the Complex involved in the division transferred to the Newco;

c) on 1 February 2018 (the "**Effective Date**"), the proportional spin-off took effect of Unipol Banca to UnipolReC S.p.A. (**"UnipolReC" or the "Beneficiary Company")**, a credit recovery company operating pursuant to Article 115 of Italian Royal Decree 773 of 18 June 1931 (TULPS), established on the same date. UnipolReC has the same shareholders as Unipol Banca in the same proportions, i.e., Unipol holds 57.75% and UnipolSai 42.25%, and is an ancillary services undertaking of the Unipol Banking Group. The Complex involved in the division was transferred from Unipol Banca to UnipolReC for a shareholders' equity value of €313.2m, comprising €290.1m share capital and around €23m capital reserves. As a result of the Spin-Off, the share capital and capital reserves of Unipol Banca reduced by corresponding amounts, with no change in the number of Unipol Banca shares without nominal value outstanding. Pursuant to the contractual agreements in force, the put/call option, in place between Unipol and UnipolSai and involving Unipol Banca shares, was automatically extended to UnipolReC shares issued at the time of the Spin-Off for a share corresponding to 27.49% of UnipolReC's total share capital, without triggering any changes on the total put exercise price;

d) on 15 March 2018, Unipol Banca and UnipolReC entered into a dedicated deed recognising the exact amount of the statement of financial position asset and liability elements transferred to the Beneficiary Company at the Effective Date, which lays out an adjustment in cash of €32.2m, due to UnipolReC from Unipol Banca. Indeed, the Spin-Off deed calls for the differences arising in the amount of the statement of financial position asset and liability elements constituting the Complex involved in the division between 30 June 2017 and the Effective Date, resulting from company trends and/or a more specific identification of such elements, to be settled between the Company Divided and the Beneficiary Company with debit and credit items and/or with adjustments in cash, without entailing changes in the equity value of the Complex involved in the division. The amount of Bad and Doubtful Loans included in the Complex involved in the division at the Effective Date was €2,900.8m gross of value adjustments and €553m net of value adjustments.

e) on 11 December 2018, Unipol Banca and UnipolReC entered into another dedicated deed in order to include under those capital items assigned to UnipolReC, due to the Spin-Off, also a portion of the DTAs resulting from the 2017 financial statements of Unipol Banca and transformed into a tax credit in 2018. This inclusion, made necessary from the outcome of an appropriate request for a ruling sent to the Tax Authorities, has involved the transfer in favour of UnipolReC of a tax credit from the Tax Authorities for a total amount of €34.2, upon an adjustment in cash of an equal amount. This tax credit may be used to offset the disbursements due by UnipolReC or sold to other companies of the Group.

Acquisition of BPER Banca shares

On 21 June 2018, Unipol Gruppo informed the market of its intention to purchase a total of 25,000,000 shares of BPER Banca S.p.A. ("**BPER**" or the "**Bank**"), equal to approximately 5.2% of the Bank's share capital (the "Transaction"). The

Transaction was finalised a few days later through a reverse accelerated bookbuilding procedure, targeting qualified investors and foreign institutional investors, and additional market purchases. Then on 29 June 2018, Unipol Gruppo disclosed to the market its direct and indirect overall interest in BPER amounting to 72,500,000 shares, equal to 15.06% of the Bank's share capital.
The Transaction forms part of the Unipol strategy, as institutional investor, to contribute to the medium/long-term development plans of the Bank with which, amongst other things, it has for many years had a business partnership in the Non-Life and Life bancassurance sectors.
As it already holds an approximate 9.87% interest in BPER share capital through the subsidiary UnipolSai Assicurazioni S.p.A., Unipol obtained the necessary authorisations and permissions from the European Central Bank and the competent Italian Supervisory Authorities to acquire a qualified investment exceeding 10% of BPER share capital. Considering the applicable regulations on such matters and the authorisations received, the direct or indirect investment that Unipol can hold in BPER cannot exceed approximately 19.9% of the latter's share capital (the "**Maximum Permitted Investment**"), to be exercised by June 2019.

Agreements with BPER for the disposal of Unipol Banca and the acquisition of a NPL portfolio

Following the restructuring of the banking sector, as illustrated above, in 2018, the Unipol Group began working on the preliminary activities to undertake strategic transactions in said business, entering into discussions with BPER Banca as a potential counterparty, with a view to verifying the feasibility of a project that would entail:

- the transfer of shares, representing the entire share capital of Unipol Banca, to BPER;
- the acquisition by UnipolReC of a portfolio of bad and doubtful loans of BPER.

Given the importance of the transaction and the investments held in BPER by Unipol Group, at the end of 2018, both Unipol and UnipolSai, within their respective scopes of responsibility, voluntarily launched the preliminary analysis and decision-making process envisaged by the procedures adopted respectively to perform transactions with related parties and with reference to Unipol and UnipolReC, also to the procedure for related party transactions of the Unipol Banking Group.
Following the preliminary activities conducted and the negotiations held, on 7 February 2019, the Boards of Directors of Unipol and of UnipolSai, within their respective scopes, approved the transaction regarding the banking sector of the Unipol Group (the "Transaction"), to be carried out in a unique setting, which envisages:

- the transfer to BPER Banca of the entire equity investment held by Unipol, also through UnipolSai, in Unipol Banca, equal to the entire share capital of the latter, for a cash consideration of €220m (the "Unipol Banca Disposal"); and
- the purchase from the BPER Group, by UnipolReC, of two separate portfolios comprised of bad and doubtful loans, one owned by BPER Banca and one by Banco di Sardegna for a gross book value of €1.3bn against a consideration in cash of €130m equal to approximately 10% of the portfolio's gross value.

For the Unipol Group, the Transaction:

- completes the process of requalification of its strategy in the banking sector, by exiting from the direct business of a medium sized bank, in order to take on the role of a long-term stable investor of one of the main Italian banking groups;
- increases the scale of operations of UnipolReC, by enhancing its expertise in debt collection;
- emphasises the focus on the core insurance business;
- enhances the investment held in BPER Banca.

On 7 February 2019, following approval also by the other companies involved, the contractual agreements governing the Transaction were signed. The implementation of these agreements, subject to the fulfilment of some conditions precedent of primarily a regulatory and authorisation nature, is expected to occur no later than the beginning of the second half of 2019.

In consideration of the preparatory activities undertaken at the beginning of 2018, as well as all the other subsequent resolutions issued and agreements executed:

- as the long-term investment strategy is no longer applicable, the investment held in Unipol Banca was reclassified under current assets and was written down by €195.9m, in order to align the value with the expected price of sale to BPER;
- the risks fund set up for the put option granted to UnipolSai for 27.49% of Unipol Banca's share capital and extended in 2018 also to UnipolReC, was coherently increased by €87.3m Note that on 14 February 2019 UnipolSai notified that it had exercised this option. For information in this regard, please refer to the section entitled Significant events after the reporting period of the Notes to the Financial Statements.

Other events

Rating assigned by Fitch and Moody's
On 9 May 2018, Fitch Ratings announced its upgrade of the Long-Term Issuer Default Rating (IDR) assigned to Unipol Gruppo S.p.A. and UnipolSai Assicurazioni S.p.A. to "BBB" from "BBB-", with stable outlook. Consequently, the ratings of the debt securities issued by the Unipol Group were also upgraded: the Unipol Gruppo S.p.A. senior loans to "BBB-" from "BB+", the subordinated loans with maturity of UnipolSai Assicurazioni S.p.A. to "BBB-" from "BB+" and the perpetual bond loan of UnipolSai Assicurazioni S.p.A. to "BB+" from "BB". At the same time, the rating agency confirmed the Insurer Financial Strength (IFS) rating of UnipolSai Assicurazioni S.p.A. as "BBB" with stable outlook.
On 31 May 2018, Moody's Investor Services announced the upgrade of the Long-Term Issuer Rating assigned to Unipol Gruppo S.p.A. (Unipol Gruppo) from "Ba2" to "Ba1".
Subsequently, on 23 October 2018, rating agency Moody's, as a result of the reduction in Italy's sovereign rating, revised UnipolSai Assicurazioni S.p.A.'s Insurer Financial Strength Rating from "Baa2" to "Baa3" and the Long-term Issuer Rating assigned to Unipol Gruppo S.p.A. from "Ba1" to "Ba2".
At the same time, the rating agency improved the outlook on said companies, changing it from "negative watch" to "stable".

Gran Premio Sviluppo Sostenibile 2018
On 13 December 2018, Unipol Gruppo was awarded the 'Gran Premio Sviluppo Sostenibile 2018'.
Unipol is the financial group that is making an increasing contribution to Italy's achievement of the Sustainable Development Goals of the UN 2030 Agenda for Sustainable Development.
A result which emerged during the 12th edition of GGB 2030 - Gran Premio Sviluppo Sostenibile, the project for banks, insurance companies and financial companies that Assosef, Associazione Europea Sostenibilità and Servizi Finanziari, has organised since 2007, with the goal of promoting the dissemination of a green and sustainable finance culture and practices.
The complete and significant awareness of the need to integrate Sustainable Development Goals into the strategy and operating application was particularly appreciated. A prospect that, both at domestic and international level, opens new pathways for the creation of value, innovation and competitiveness.

2018 'Oscar di Bilancio'
The Unipol Group was one of the top award winners in the 54th edition of the 'Oscar di Bilancio': the 2017 Integrated Report of Unipol Gruppo won the Oscar in the Core Category "Listed Financial Companies" and also received a special mention in the "Integrated Reporting" category.
A prestigious award for our Group, made possible thanks to the daily commitment of all of the people that are part of it. The award, promoted by Ferpi, Borsa Italiana and the Bocconi University, is an important point of reference for the economic-financial and non-financial community. For over 50 years, the most virtuous companies in terms of reporting and in the attention paid to relations with their stakeholders have been rewarded, with the objective of contributing to the creation and dissemination of a company culture that understands the value of good financial communication.

Unipol Group and UnipolSai in the Italian Top 10 of companies that create value
Between 2013 and 2017, the Unipol Group and UnipolSai guaranteed average profitability (TSR – Total Shareholders Return) of 27% and 23% respectively, surpassing the global industry average of 17.5%, sitting at 6th and 7th in the Italian Top 10.
The parameter, measured by Boston Consulting for the twentieth year in a row on 2,500 companies worldwide, is calculated using sophisticated financial methods, useful for investors in calculating the outcome of their allocations. It is based primarily on three elements: the dividend allocated to shareholders, company profits and the stock market price with reference to price/earnings in particular.

Operating performance

The Financial Statements of Unipol for the year ended 31 December 2018, hereby submitted for your review and approval, closed with **net profit of €66.2m** (€213.4m in 2017), to which the following made an important contribution:
- dividends received by the companies of the Group for €330m (€280.5m in 2017);
- capital gains on the sale to the subsidiary UnipolSai of the equity investment held in Arca Vita S.p.A. for €115.8m;
- write-down of €195.9m of the equity investment held in Unipol Banca (€445.1m in 2017);
- an allocation to provision for risks on options of €87.3m (€212m in 2017) in relation to the put/call option in place with UnipolSai, with a stake of 27.49% in the share capital of Unipol Banca and UnipolReC as underlying.

As regards Group performance in the various segments, it should be noted that, in the **Non-Life business**, direct premiums at 31 December 2018 amounted to €7,953m (+1.1% compared to €7,867m in 2017). Premiums in the MV business stood at €4,183m (+0.3% compared to €4,169m in 2017). In the Non-MV business, premiums amounted to €3,770m (a +2% increase compared with €3,698m in 2017), thanks to the development of the Health and the Retail business sectors.
As regards the main companies, UnipolSai recorded premiums, in the MV business, amounting to €3,940m, a slight increase (+0.1% over 2017) thanks to the uptrend recorded in the accessory guarantees to the MV TPL business where the pressure from the competition has not yet allowed for a growth in premiums. In the Non-MV business, UnipolSai direct premiums amounted to €2,958m, in line (-0.2%) with the €2,964m at 31 December 2017 and recovering from the figures of the previous quarters, characterised by the non-renewal of some important agreements.
The other main companies of the Group recorded, on the whole, a significant increase in premiums. In particular:

- UniSalute continued to develop its business model with premiums amounting to €410m, an increase of 10.5%;
- Linear, the other main company of the Group, operating in the MV segment, totalled €180m in premiums, a 4.4% growth, a notable success of the new business brokered by the aggregator websites;
- Arca Assicurazioni, operating in the Non-Life bancassurance channel, thanks to a strong impulse from the renewal of the distribution agreements with the banking partners, recorded premiums amounting to €120m, up by 9.2% compared to 2017;
- Incontra, thanks to the renewal of the 2017 agreements with the Unicredit distributor and having extended, in the last part of 2018, its commercial offering with the launch of a Health product with unique characteristics, increased its turnover by more than 27%, reaching €136m;
- SIAT, which specialises in the Sea Vehicles segment, recorded €127m in premiums, substantially in line with the same figure of 2017.

As regards the Non-Life business, during the year that just closed, a further improvement in the MV TPL class, in terms of a reduction in the frequency of claims and cost containment, was recorded. Our leadership, at the European level, in the sector of black boxes installed in vehicles was confirmed, rising from 3.5m in 2017 to 3.8m in 2018. In the Non-MV segment, 2018 was characterised by a significant presence of claims from atmospheric events and by claims for significant amounts, recovered, to a greater extent than the previous year, by re-insurance cover.
Within this context, at 31 December 2018, the Unipol Group recorded a combined ratio, net of reinsurance, of 94.2% compared to 96.4% in 2017 (the combined ratio of direct business is 94.4%, compared to 95.1% in 2017). The loss ratio, net of reinsurance, stood at 66.8% (69% at 31/12/2017) and the expense ratio, again net of reinsurance, stood at 27.4%, in line with the previous year.

In the **Life business**, the Unipol Group recorded, in 2018, a significant growth in turnover reaching, on a like-for-like basis[4], direct premiums amounting to €4,292m (+15.4% compared to €3,719m in 2017), driven by the bancassurance sector after renewing the Arca Vita's distribution agreements with the main placing banks. In fact, the strong growth of Arca Vita S.p.A. which, with its subsidiary Arca Vita International, earned direct premiums of €1,077m, up 51.4% compared to 31 December 2017, was confirmed. UnipolSai recorded direct premiums of €3,129m (+8.2%).
New business in terms of APE, net of non-controlling interests, amounted to €397m, up +17.5% compared to €338m at 31 December 2017 on a like-for-like basis, of which €337m contributed by traditional companies and €59m by bancassurance companies.

As regards financial **investment management**, 2018 was characterised by global financial market volatility arising from geopolitical tensions and, in Italy, by the tensions related to domestic government bonds due initially to the political instability which preceded the new Government and later by the approval of the Budget Law. Despite this context, the gross profitability of the Group's insurance financial investments portfolio was confirmed, also for the period in question, at significant levels, standing at 3.8% of the invested assets (3.7% in 2017) of which 3.3% relating to the coupon and dividend component.

In the **Banking sector** Unipol Banca, together with the subsidiary Finitalia, recorded direct deposits at 31 December 2018 of €10.1bn, compared to €12bn at the end of 2017. The decrease is due to reduced intercompany and institutional customer deposits, and the repayment of securitisation notes. Loans to customers, net of loans to the Parent, amounted to €7bn, down compared to €7.9bn at the end of 2017, also thanks to close control of risk. The

[4] The figure on a like-for-like basis was calculated, for both of the periods compared, by excluding the amounts contributed by Popolare Vita and The Lawrence Life

decrease is due, for €0.6bn, to the spin-off to UnipolReC of Unipol Banca's portfolio of bad and doubtful loans. The stock of net impaired loans, at 31 December 2018, totalled €405m, with a coverage ratio of impaired loans at excellent levels in the Italian banking system, equal to 72% for bad and doubtful loans and 46% for unlikely to pay and a cost of risk of 74 basis points.

Real estate **management** continued to focus on the renovation of a number of properties, particularly in Milan, in order to seek out opportunities to increase value or generate income, as well as structures intended for business use. In 2018, divestments continued, although to a more limited extent, with the conclusion, inter alia, of a major transaction started in the previous year. Among the negotiations already started, to be noted is the execution of a preliminary sales agreement for the lands located in the so-called Castello Area with Toscana Aeroporti S.p.A., pending fulfilment of certain conditions.

The operations of the companies of the **other sectors** in which the Group carries out business, particularly the hotels sector (UNA Group), focused on the consolidation of its marketing positioning and on the redefinition of development strategic guidelines applied to the business.
UnipolReC closed 2018 positively, the first year of business, with a net profit of €6.9m. The amount of the portfolio of gross impaired loans fell by €311m (10% of the stock) in relation to collections of €95m, with a recovery ratio of 31%.

As regards the Group's **solvency ratio,** note that on 24 April, IVASS authorised Unipol, starting from the registration of the annual figures at 31/12/2017, to use the Partial Internal Model, to calculate the Group's Solvency Capital Requirement in accordance with Solvency II regulations. In application of the Partial Internal Model, at 31 December 2018, the ratio between own funds and capital required was 163%, down on the 166% of 31 December 2017 due in particular to the widening spread on Italian government bonds.

The Financial Statements of Unipol are audited by the independent auditors PricewaterhouseCoopers S.p.A. (PwC), which has been appointed to audit the financial statements for the 2012-2020 period.

Salient aspects of business operations

The economic figures that best summarise the operating performance of the Company are the following:

- Gains on investments: these were €452.1m (€1,025m in 2017) and mainly represent dividends approved and collected during the year from subsidiaries (€330m) and capital gains realised on the sale to UnipolSai of the equity investment in Arca S.p.A. (€115.8m).
- Other revenue and income: these amounted to €18.8m (€31.1m in 2017) and represent for €15.8m the recovery of costs for personnel seconded to Group companies (€15.4m at 31/12/2017) and for the remaining €3m mainly remuneration paid to Company executives holding corporate offices in other Group companies (€3.2m at 31/12/2017).
- Costs of production: these were €57.4m (€158.1m in 2017) and included €105.4m in charges incurred for terminating the credit indemnity agreement stipulated with the subsidiary Unipol Banca) and operating costs relating to ordinary operations of the holding.
- Other financial income/expense: these came to -€78.5m (-€60m at 31/12/2017). The item includes interest expense on bond loans issued for €61.4m (€45.9m at 31/12/2017).
- Value adjustments to financial assets: these were negative for €290m (-€655.8m at 31/12/2017), of which €195.9m relating to write-down of the investment directly held in the subsidiary Unipol Banca, in addition to €87.3m in adjustments due to the measurement of the put option on Unipol Banca and UnipolReC shares granted to UnipolSai.
- Pre-tax profit: €45.1m (€182.1m at 31/12/2017).
- Income tax: this had a positive impact on the income statement for €21.1m (€31.2m at 31/12/2017) relating to the benefits resulting from the remuneration of the tax losses encompassed in the tax consolidation scheme.
- 2018 profit for the year: €66.2m (€213.4m at 31/12/2017).

Shareholders' Equity of the Company at 31 December 2018, including profit for the year, was €5,511.6m (€5,567.3m at 31/12/2017). The change results from a €128.6m decrease in distributed dividends and a €66.2m increase in profits for the year, as well as a reduction in treasury shares held.

Asset and financial management

Property, plant and equipment and intangible assets

In 2018, the balance of property, plant and equipment and intangible assets, net of depreciation/amortisation, went from €4.2m to €3.1m, with a €1.1m decrease with respect to the previous year, due mainly to the depreciation/amortisation for the year.
The breakdown of property, plant and equipment and intangible assets and the changes on the previous year is provided in the table below.

Amounts in €m

			Changes	
	31/12/2018	31/12/2017	value	%
Property, plant and equipment				
- Plant and equipment	0.0	0.1	(0.0)	(55.2)
- Other assets	0.7	0.9	(0.2)	(19.4)
Total	**0.8**	**1.0**	**(0.2)**	**(22.1)**
Intangible assets				
- Concessions, licences, trademarks and similar rights	2.3	3.0	(0.7)	(24.2)
- Other		0.2	(0.2)	(100.0)
Total	**2.3**	**3.2**	**(0.9)**	**(27.8)**
TOTAL PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS	**3.1**	**4.2**	**(1.1)**	**(26.4)**

For details of fixed assets, reference should be made to Annexes 4 and 5 of the Notes to the Financial Statements.

Financial fixed assets

The breakdown of financial fixed assets, with changes on the previous year, is provided in the following table.

Amounts in €m

			Changes	
	31/12/2018	31/12/2017	value	%
Financial fixed assets				
-Investments				
-Subsidiares	6,193.8	6,412.7	(218.9)	(3.4)
-Other companies	119.2		119.2	
Total	**6,313.0**	**6,412.7**	**(99.7)**	**(1.6)**
-Receivables				
- Subsidiaries	149.6		149.6	
-Other companies	0.2	0.3	(0.0)	(15.4)
Total	**149.8**	**0.3**	**149.5**	**55,840.6**
Other securities	550.6	8.8	541.8	6,160.0
TOTAL FINANCIAL FIXED ASSETS	**7,013.4**	**6,421.8**	**591.6**	**9.2**

For details of the investments, reference should be made to the table in the Notes to the Financial Statements (Annex 6).

The breakdown of investments by business segment and changes compared to the previous year was as follows:

Amounts in €m

	2018	Changes compared to 2017
Insurance	4,527.7	(359.2)
Banks and financial services	129.9	(384.6)
Other investments	1,655.4	644.0
	6,313.0	**(99.7)**

Investment in Banks and financial services, following the reclassification of the equity investment in Unipol Banca among current assets, were represented at 31 December 2018 by the investment in BPER Banca and in UnipolSai Investimenti SGR. Other investments included UnipolReC S.p.A., Unipol Finance S.r.l., Unipol Investment S.p.A. and UnipolPart I S.p.A. (established in 2018).

Over the year, the investments held were subject to the following changes:

Newly-established Equity Investments

UnipolReC S.p.A.
On 1 February 2018, the proportional spin-off took effect of Unipol Banca to UnipolReC SpA, a credit recovery company operating pursuant to Article 115 of Italian Royal Decree 773 of 18 June 1931 (TULPS), established on the same date. UnipolReC has the same shareholders as Unipol Banca in the same proportions, i.e., Unipol holds 57.75% and UnipolSai 42.25%, and is a special purpose vehicle of the Unipol Banking Group. The Complex involved in the division was transferred from Unipol Banca to UnipolReC for a shareholders' equity value of €313.2m, comprising €290.1m share capital and around €23m capital reserves.
The value of the investment in UnipolReC at 31 December 2018 was €180.8m.

UnipolPart I S.p.A.
On 14 June 2018, a new joint-stock company was established called UnipolPart I, in which Unipol Gruppo is the sole shareholder. The company was enrolled on the Company Register on 20 June 2018. The company's purpose is to acquire interests and investments in other companies, not from the public, as well as the trading of financial instruments in general, for investment purposes. The share capital initially paid up is €50,000, divided into 50,000 shares with a nominal value of €1 each.

Subscription and acquisitions

BPER Banca S.p.A.
On 29 June 2018, based on prior obtainment of the necessary authorisations, Unipol Gruppo purchased a total of 25,000,000 shares of BPER Banca S.p.A., equal to approximately 5.2% of the Bank's share capital.
The purchase cost of the investment (€119.2m) was recognised in Financial Fixed Assets as the investment is considered strategic for the reasons illustrated in the "Management Report" paragraph.

Contributions to future share capital increases and/or capital of subsidiaries

UnipolPart I S.p.A.
On 22 June 2018, the holding company, Unipol Gruppo made a payment for a future capital increase of €75m.
On 26 September 2018, the company's Extraordinary Shareholders' Meeting approved the share capital increase against payment of €4,050,000, achieving said increase by issuing 4,050,000 new shares with a nominal value of €1 each and with a share premium of €401,097,600. The share capital increase was entirely subscribed by the sole shareholder Unipol Gruppo, through the transfer to UnipolPart I of 204,620,000 ordinary shares of UnipolSai Assicurazioni S.p.A., which represent 7.231% of the share capital of the investee.

Disposal of controlling investments

Arca Vita S.p.A.
On 7 August 2018, having obtained the necessary authorisations from IVASS, the sale of the investment in Arca Vita S.p.A. equal to 63.39% of the share capital, to the subsidiary UnipolSai Assicurazioni S.p.A. was finalised. The consideration, collected in full, for the sale of the investment amounted to €475m, with a capital gain of €115.8m.

Write-downs and decreases

UnipolPart I S.p.A.

On 26 September 2018, the Ordinary Shareholders' Meeting of UnipolPart I approved the reclassification of the payment for the future share capital increase of €75m made to the Company by the holding company Unipol Gruppo S.p.A. on 22 June 2018, by transforming €58m of the same into a capital account payment. The Shareholders' Meeting also approved to return the residual amount of €17m to the holding company. The repayment was made on 27 September 2018.

Following all of the transactions performed on the investment in UnipolPart I, the carrying amount of the same was €463.2m at 31 December 2018.

Unipol Banca S.p.A.

Following the proportional spin-off of Unipol Banca into UnipolReC on 1 February 2018, the share capital and capital reserves of the bank were reduced by €290.1m and €23m respectively, resulting into a total reduction of shareholders' equity of €313.2m, without changing the number of shares outstanding. As a result, the value of the investment in Unipol Banca was reduced by €180.8m, with the consequent increase of the investment held in UnipolReC by the same amount.

Furthermore, as commented upon above, with regard to the cited planned sale of the investment held in Unipol Banca to BPER, the value of the investment in Unipol Banca transferred at 31 December 2018 into current assets, was written down by €195.9m and, at the same time the provision for liabilities and charges, created on 31 December 2013, was also increased by €87.3m against the put and call option contract taken on 27.49% of the investment currently held by UnipolSai Assicurazioni in Unipol Banca.

Receivables from subsidiaries recognised under fixed assets

This item includes the shareholder loan that Unipol Gruppo granted to Unipol Banca on 31 January 2018 of €173.3m, which, as envisaged in the Spin-Off Plan, was included in the Complex involved in the division transferred to the newly-established company UnipolReC S.p.A. The shareholder loan accrued annual interest of 3.25%, expires on 16 January 2028 and is to be paid back in 8 annual instalments of an equal amount starting from 16 January 2021. In any event, UnipolReC has the option, at any time, of repaying, even partially, the residual debt, in advance.

At 31 December 2018, the loan was €149.6m due to the early repayment of €28m on 10 December 2018.

Treasury shares and shares of the holding company

At 31 December 2018, 747,799 treasury shares were held, for a value of €2m. These shares were purchased to serve the compensation plans based on financial instruments (performance share type) intended for Managers. In July the third and last tranche of shares was allocated in implementation of the compensation plan for the period 2013-2015.

At 31 December 2018, Unipol Gruppo also indirectly held a total of 1,255,500 treasury shares through:

- UnipolSai Assicurazioni: 1,189,999 Unipol shares;
- Linear Assicurazioni: 14,743 Unipol shares;
- Arca Assicurazioni: 18,566 Unipol shares;
- SIAT: 19,576 Unipol shares;
- Finitalia: 12,616 Unipol shares.

With regard to treasury shares, the Shareholders' Meeting of 24 April 2018 approved, pursuant to Articles 2357 and 2357-*ter* of the Civil Code, the renewal for 18 months of the authorisation to purchase and use treasury shares within the limits set with a maximum expenditure limit of €200m.

Current financial assets

These amount to €150.1m, a decrease of €14.7m on the previous year. This change was mainly the result of a reduction due to the transfer of 204,620,000 shares of the subsidiary UnipolSai to the newly-established UnipolPart I on one side, and on the other, to the increase due to the reclassification of the investment in Unipol Banca of the Financial fixed assets to Current financial assets.

The decreases also include the liquidation of the subsidiary Unipol Part, completed on 5 November 2018, and the cancellation of the company from the Company Register.

The breakdown of the item was as follows:
- listed corporate bonds for €20.7m (€40.2m at 31/12/2017);
- listed shares of UnipolSai for €1.5m (€118.5m at 31/12/2017);
- unlisted shares (private equity fund units) for €0.8m (€2.4m at 31/12/2017);
- unlisted shares of Unipol Banca for €127m (none at 31/12/2017). These shares were classified under this item following the agreement to sell the entire investment to BPER Banca S.p.A., which was illustrated above.

The list of shares and securities recognised as current assets at 31 December 2018 is provided in Annex 7 of the Notes to the Financial Statements.

Financial operations

Financial operations in 2018 were consistent with the Investment Policy guidelines adopted by the Company and with recommendations of the Group Investments Committee and Financial Investments Committee.
The criteria of high liquidity of investments and prudence were the guidelines of the investment policy, which applied the criteria of optimising the portfolio's risk-return profile.
Management activities mainly focused on the bond sector, where the exposure to high-rating government bonds in euros was increased as well as that to industrial corporate issuers, against a decrease of the exposure to financial corporate issuers.
There was also a marginal decrease in exposure to alternative investments.
Operating activities were characterised by maintaining a strong level of liquidity at the end of the year.
The volatility of share and bond prices throughout 2018 offered trading opportunities; these activities aimed to achieve the profitability objectives.
At 31 December 2018, the duration of the portfolio was equal to 1.48 years, up compared to 2017 (0.13 years) and within the limits set by the Investment Policy.

Cash and cash equivalents

At 31 December 2018, bank deposits and cash were €1,092.7m, with an increase of €328.3m with respect to the balance at 31 December 2017.

Share capital

No transactions were carried out on the share capital in 2018. At 31 December 2018, the breakdown of the share capital, subscribed and fully paid-up, was as follows:

	Share capital at 31/12/2018		Share capital at 31/12/2017	
	No. of shares	Euro	No. of shares	Euro
Ordinary shares	717,473,508	3,365,292,408.03	717,473,508	3,365,292,408.03
Total	**717,473,508**	**3,365,292,408.03**	**717,473,508**	**3,365,292,408.03**

Debt

At 31 December 2018, the bonds issued by Unipol were €1,811m (€1,802.3m at 31/12/2017) and represent three senior unsecured bond loans, listed on the Luxembourg Stock Exchange:
- €1,000m nominal value, 3% interest rate, 2025 maturity (same amount at 31/12/2017);
- €317.4m nominal value, 4.375% interest rate, 2021 maturity (same amount at 31/12/2017);
- €500m nominal value, 3.5% interest rate, 2027 maturity (same amount at 31/12/2017).

The issues described above were implemented as part of the Euro Medium Term Notes (EMTN Programme), with a maximum total nominal amount of €2bn, established in December 2009 with the latest renewal in November 2017.
Other current payables include the payable, due to Unipol Banca for the deferred payment of the amount due following the early termination of the credit indemnity agreement in 2017. That payable, remunerated at fixed rate of 2.75% annually, amounted to €450m at 31 December 2018, plus interest, and was entirely classified under current payables, because it is payable in the next 12 months, as part of the planned sale of the investment.
There were also current financial payables to the subsidiary UnipolSai Assicurazioni S.p.A. for €267.8m (the same as in 2017), all or part of which repayable on demand at the request of UnipolSai Assicurazioni S.p.A., with an interest rate equal to 3M Euribor rate plus 100 b.p.

Taking account of the decrease in liquidity (€1,245.2m at 31 December 2018 compared with €1,585.9m at 31 December 2017), net debt (summarised in Annex 9 to the Notes to the Financial Statements) rose from €1,041.8m in the previous year to €1,331.8m at the end of 2018.

Risk management policies (Art. 2428 of the Civil Code)

Financial risk is managed through the regular monitoring of the main indicators of exposure to interest rate risk, credit risk, equity risk, and liquidity risk.

Interest rate risk

The overall duration of the investment portfolio, an indicator of the Company's interest rate risk exposure, was 1.48 years at 31 December 2018; with specific reference to the bond portfolio, the duration was 4.50 years.
The table shows the sensitivity of the bond portfolio to a parallel shift in the yield curve of reference for the financial instruments.

Amounts in €

Risk Sector	Breakdown	Duration	10 bps increase	50 bps increase
Government	92.35%	4.48	(2,383,610)	(11,918,048)
Financial	5.33%	4.46	(137,007)	(685,037)
Corporate	2.33%	5.26	(70,561)	(352,805)
Bonds	**100%**	**4.50**	**(2,591,178)**	**(12,955,890)**

Credit risk

With specific reference to the bond portfolio alone, as shown in the table below, the investments in the bond portfolio include investment grade securities for 95.63% of the portfolio. Specifically, 73.82% of bonds had an AA rating, 10.98% had an A rating, and 10.82% had a BBB rating.

Credit risk is monitored by measuring the portfolio's sensitivity to changes in benchmark credit spreads. The following table shows the *sensitivity* at 31 December 2018.

Amounts in €

Rating	Breakdown	1 bps increase	10 bps increase	50 bps increase
AA	73.82%	(199,349)	(1,993,489)	(9,967,443)
A	10.98%	(28,939)	(289,387)	(1,446,935)
BBB	10.82%	(23,106)	(231,060)	(1,155,298)
NIG	4.37%	(14,742)	(147,418)	(737,092)
Bonds	**100.00%**	**(266,135)**	**(2,661,354)**	**(13,306,768)**

Equity risk

Equity risk is monitored by analysing the equity portfolio's sensitivity to changes in the reference markets represented by sector indices.
The following table shows the *sensitivity* at 31 December 2018.

Amounts in €

Sector	Breakdown	Beta coefficient	Shock -10%
Funds	1%	1.00	(83,576)
Finance	99%	1.18	(8,410,000)
Equity	100%	1.18	(8,493,576)

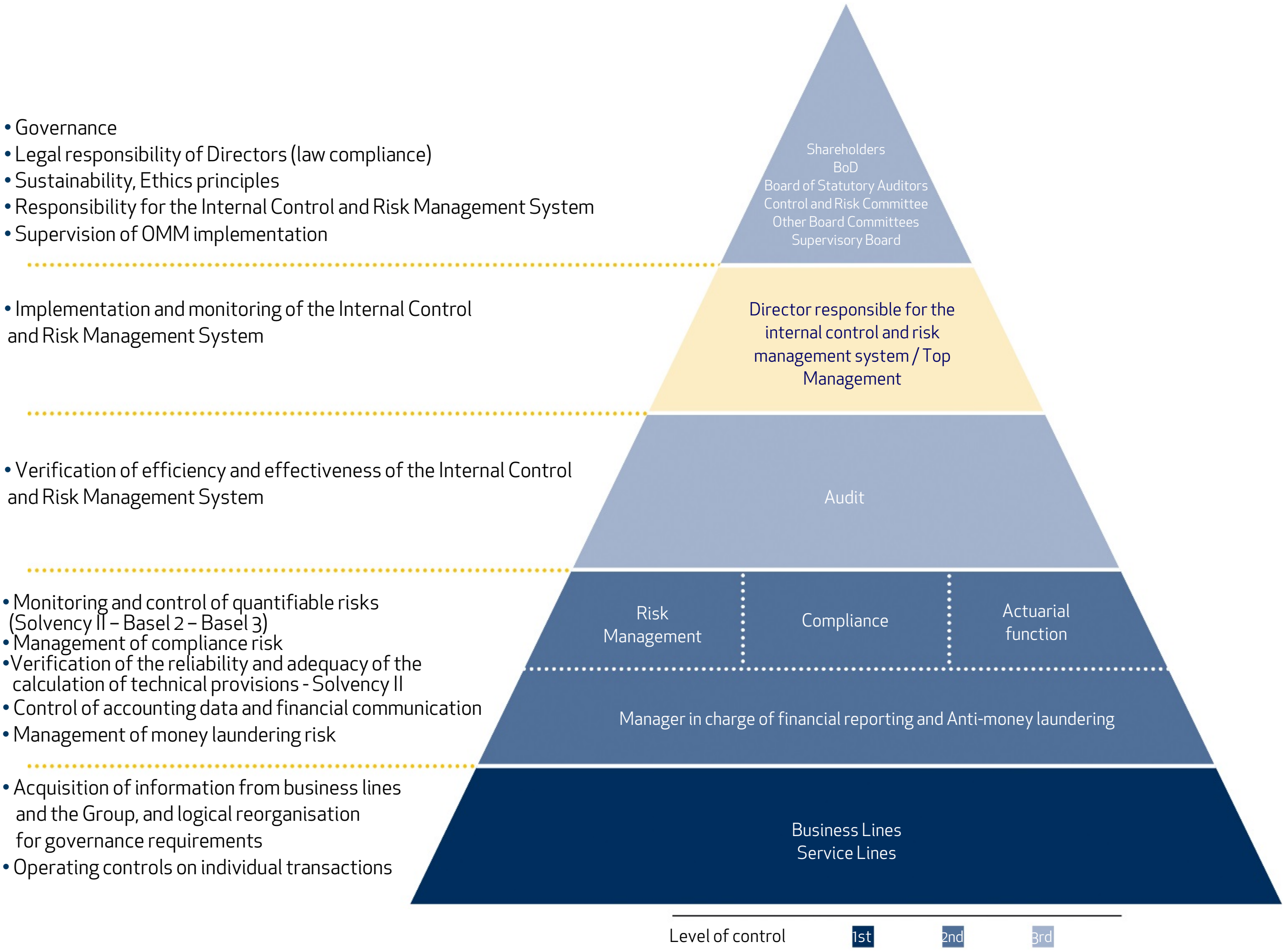
Liquidity risk

In the construction of the investment portfolio, priority is given to financial instruments that can be quickly transformed into cash and quantitative limits are specified for the purchases of securities that do not guarantee a rapid sale and/or a sale at fair conditions, because of their type or specific terms.

Internal Control and Risk Management System of the Unipol Group

The internal control and risk management system (the "System") is a fundamental element in the overall corporate governance system. The System is defined in the relevant directives ("SCI Directives") approved by the Unipol Board of Directors in December 2008 and periodically updated.

By way of a non-exhaustive example, the Unipol Group's Risk and Control Governance model is shown below.



In relation to the corporate governance system, the Parent equips the Group with an internal control and risk management system suited to the structure, the business model and the nature, the scope and complexity of risks, current and future, relating to the activities of the Group and the companies that make up the group, which enables the sound and prudent management of the Group and which takes account of the interests of the companies that form part of the group. This system incorporates a set of strategies, rules, procedures and organisational structures targeted at ensuring the correct functioning and solid performance of the individual companies and the Group, as well as keeping the risks to which the companies and the Group are exposed to a level consistent with the available of capital.

In general, the Company Bodies and top management of the Group companies promote the dissemination of a culture of control which, at all levels, make staff aware of their role, also in reference to the control activities, and encourages the involvement of all company departments in pursuing the business objectives and creating value.

The **Board of Directors**, after obtaining an opinion from the Control and Risk Committee, defines i) the guidelines for the Internal Control and Risk Management System; ii) performs an assessment, at least annually, of the adequacy of the current and forward-looking Internal Control and Risk Management System with respect to the characteristics of the Parent and the Group and to the defined risk appetite, as well as its effectiveness and capacity to adapt to evolving corporate risks and the interaction between them.

The **Board of Statutory Auditors** is responsible for supervising the completeness, functionality and adequacy of the organisational, administrative and accounting structure adopted and the comprehensive internal control and risk management system, and is required to ascertain that all functions involved in the system are adequate.

The **Risk Control Committee** plays a propositional, advisory, investigative and support role to the Board of Directors in relation to the Board's assessments and decisions mainly concerning the Internal Control and Risk Management System.

The **Supervisory Board** ("SB") has the task of monitoring the functioning and updating of the Organisational, Management and Control Model ("OMM"), a well-structured and organic prevention, determent and control system aimed at developing awareness of being able to give rise to sanctions not only for themselves, but for the Unipol Group Companies as well, if offences are committed by parties who either directly or indirectly work on sensitive activities (directors, managers, employees and partners) (see in-depth analysis below).

The **Director responsible** for the Internal Control and Risk Management System, handles the identification of the main company risks, taking account of the characteristics of the activities carried out by the Company and its subsidiaries, periodically subjecting them to review by the Board of Directors; he also implements the guidelines defined by the Board of Directors, overseeing the design, implementation and management of the internal control and risk management system, and constantly verifying its adequacy and effectiveness.

Top Management supports the Director in charge of designing and implementing the Internal control and risk management system, including therein those deriving from non-compliance with the regulations, in line with the directives and the risk governance policies defined by the Board.

The **Board committees** are formed within the Board of Directors. They offer advice and make suggestions, and play a role in the internal control and risk management system, particularly regarding relations with the Audit, Risk Management, Compliance, Anti-money laundering and Actuarial functions.
The Control System assigns suitable positioning to the organisational units that, through consistent structuring, guarantees the segregation of duties in the process activities and, within the Parent and the regulated companies[5], is divided across multiple levels.

<u>Line controls (so-called "first-level controls")</u>, aimed at ensuring transactions are carried out correctly, are performed by the same operating structures (e.g. hierarchical, systematic and sample controls), also through the different units which report to the managers of the operating structures, or carried out as part of back office activities; as far as possible, they are incorporated in the IT procedures. The operating structures are the primary bodies responsible for the risk management process and must ensure compliance with the adopted procedures for implementing the process and compliance with the established risk tolerance level.

<u>Risk and compliance controls (so-called "second-level controls")</u> aim to ensure, among other things, the correct implementation of the risk management process, the implementation of activities assigned to them by the risk management process, the observance of the operating limits assigned to the various departments, the compliance of company operations with the regulations, the reliability and adequacy of the calculation of the Solvency II technical provisions. The departments responsible for these controls are separate from the operating functions; they help define the risk governance policies and the risk management policy.

[5] The companies subject to monitoring.

Internal review (so-called "third-level controls") is the verification of the completeness, functionality and adequacy of the Internal Control and Risk Management System (including the first- and second-level controls) and that business operations comply with the System.

The **Key Functions** (Audit, Risk Management, Compliance and Actuarial function), responsible for second-level and third-level controls, have separate organisations and report directly to the Board of Directors, operating under the coordination of the Director responsible for the Internal Control and Risk Management System.

The Key Functions are provided at Group level and in the regulated companies of the Group in proportion to the nature, scope and complexity of the risks relating to company activities, according to an organisational model, described in the SCI Directives, which guarantee their efficiency, reliability, independence and autonomy of judgment, also in the case of outsourcing.

The Parent, through its Key Functions or the use of company departments established for said purpose, guarantees the performance of control activities and integrated risk management, also with reference to unregulated companies, according to a risk-based approach, in order to ensure the implementation of the guidelines and the policies laid down by the same and verify their observance.
The Key Functions established at the Parent are attributed not only the task of carrying out the activities within their area of competence for Unipol, but also management and co-ordination of the subsidiaries.

The **Audit** Function is responsible for assessing the completeness, function, reliability and adequacy of the Internal Control and Risk Management System in relation to the nature of business activities and the level of risks undertaken, as well as its updating, also through support and advisory activities provided to other company departments.
The tasks and responsibilities of the Audit Function are defined and formalised in the "Audit Function Regulations", enclosed with the SCI Directives.
The Function's tasks include:
- audit process (insurance, operations, financial, IT and banking);
- preparation of regulatory reports and performance of related activities;
- audits of insurance agencies, bank branches, financial advisors and settlement services;
- investigation of internal fraud by employees, trustees and persons pertaining to the sales networks;
- collaboration with the Control and Risk Committee, the independent auditors, the Board of Statutory Auditors and the Supervisory Board pursuant to Legislative Decree 231/2001.

The Audit Function verifies, on an ongoing basis, in relation to the specific needs and in compliance with international standards, the functionality and suitability of the internal control and risk management system, through an audit plan approved by the Board of Directors, based on a structured process of analysis and prioritisation of the main risks.

The **Risk Management** Function is responsible for ensuring an integrated evaluation of the various risks at Group level, supporting the Board of Directors, the Director responsible for the Internal Control and Risk Management System and Top Management in the evaluation of the structure and effectiveness of the Risk Management System, and reports its conclusions to said bodies, highlighting any deficiencies and suggesting ways of resolving them.
Within the risk management system, Risk Management is in charge of continuously identifying, measuring, assessing and monitoring the current and prospective risks at individual and aggregated level which the Company and the Group are or may be exposed to and the relevant interdependencies.
In the exercise of its role, the Risk Management Function develops, implements and maintain the risk measurement and control systems. Among these, particular relevance is given to the definition and the use of tools aimed at assessing the capital needed against the risks identified.
The Risk Management Function, together with the other control departments, provides its support for the dissemination and strengthening of a culture of risk within the Group which, at all levels, make staff aware of their role, also in reference to the control activities, and encourages the complete involvement of all company departments in pursuing the Group business objectives. The year 2018 saw the involvement, in classroom-based and distance learning courses on Risk Management, of 6,700 Unipol Group employees, for a total of 6,880 attendances.
The **Emerging and Reputational Risks Observatory** is also part of Risk Management and involves the main support departments for managing such risks, which meet as a specific Technical Panel, and the business divisions. As regards reputational risks in particular, mapping activity, conducted on the basis of the analysis of internal and external drivers, entailed the identification of 52 basic reputational risk scenarios, deriving from past experience or plans in place, which were enhanced with 10 "what if" scenarios, or risk/opportunity scenarios that can be useful for strategic purposes.

The **Compliance and Anti-Money Laundering** Function is responsible for evaluating the suitability of procedures, processes, policies and internal organisation according to a *risk-based* approach in order to prevent compliance risk, defined as the risk of incurring judicial or administrative sanctions, substantial financial losses or reputational damages as a result of failure to observe laws, regulations or measures of the Supervisory Authority or internal regulations such as by-laws, codes of conduct or corporate governance codes, internal policies and corporate communication documents.
The Compliance Function operates through:

- constantly identifying applicable legal regulations and the evaluation of their impact on corporate processes and procedures;
- assessing the adequacy and effectiveness of the measures adopted by the company to prevent compliance risk, and recommending the implementation of organisational and procedural changes aimed at ensuring such risk is effectively monitored;
- assessing the adequacy of organisational adjustments (i.e. to structures, processes, procedures) deriving from the suggested changes;
- arranging information flows addressed to the bodies and structures involved.

With reference to **Anti-money laundering and Anti-terrorism**, the Function is responsible for applying the Anti-money laundering regulations falling under Legislative Decree 231/2007, as amended (the "Decree"), that are implemented within the Unipol Group for the Insurance Companies operating in the Life business, banking sector companies and asset management companies. Anti-money laundering monitoring activities are targeted at guaranteeing correct compliance with the provisions of the Decree regarding customer due diligence obligations, storage and reporting obligations and personnel training.

The **Actuarial** Function is responsible for coordinating the calculation of the technical provisions, assessing the adequacy of the methods, models and assumptions which provide the basis for said calculation and evaluating the adequacy and quality of the data used. The Function expresses an opinion on the overall risk underwriting policy and the adequacy of the reinsurance agreements and provides a contribution to the risk management system, also with reference to their modelling underlying the calculation of the capital requirement.

The **Manager in charge of financial reporting** is responsible for certifying the correspondence to documented accounting results, books and entries of the documents and communications distributed by the company to the market and relating to accounting information, including interim. The Manager in charge of financial reporting is responsible for managing compliance risks relating to the financial statement assumptions within the scope of administrative/accounting procedures and the relative key controls.

Internal Control and Risk Management System

The principles and processes of the System as a whole are governed by the following Group policies: "Risk Management Policy", "Current and Forward-looking Risk Assessment Policy", "Operational Risk Management Policy" and "Group-level Risk Concentration Policy".
The policies setting the principles and guidelines below are an integral part of this System: (i) management of specific risk factors (e.g. Investment Policy with regard to market and liquidity risks, and the "Credit Policy"), (ii) risk management as part of a specific process, (iii) risk mitigation and (iv) risk measurement model management.

The risk identification, assessment and monitoring processes are performed on an ongoing basis, to take into account any changes in their nature, business volumes and market context, and any insurgence of new risks or changes in existing risks.
These processes are carried out using methods that guarantee an integrated approach at Group level. The Parent ensures that the risk management policy is implemented consistently and continuously within the entire Group, taking into account the risks of each Group company included in the scope of supervision and their mutual interdependencies.

Risk Appetite and Risk Appetite Framework

The Risk Management System adopted by the Group is inspired by an *enterprise risk management* logic. This means that is based on the consideration, with an integrated approach, of all the current and prospective risks the Group is exposed to, assessing the impact these risks may have on the achievement of the strategic objectives and replies on a fundamental element, i.e. the Risk Appetite.
In quantitative terms, the Group's Risk Appetite is determined on the basis of the following elements:

- capital at risk;

- capital adequacy;
- Liquidity/ALM ratios.

Furthermore, quality objectives are defined in reference to compliance, strategic, emerging, reputational and operational risks.

The Risk Appetite is formalised in the Risk Appetite Statement (with criteria that are differentiated for the insurance business and for the banking business, in compliance with applicable regulations), which indicates the risks that the Group and/or the individual company intends to assume or avoid, sets the quantitative limits and the qualitative criteria to be taken into account for the management of unquantified risks.

The Risk Appetite forms part of a reference framework - the Risk Appetite Framework (RAF). The RAF is defined in strict compliance and prompt reconciliation with the business model, the strategic plan, the ORSA process for the insurance sector, ICAAP and ILAAP for the banking sector, the budget, company organisation and the internal control system.

The RAF defines the Risk Appetite and other components ensuring its management, both in normal and stress conditions. These components are:
- Risk Capacity;
- Risk Tolerance;
- Risk Limits (or operational risk limits);
- Risk Profile.

The activity to define RAF components is dynamic and progressive, and reflects the risk management objectives associated with the objectives of the Strategic Plan. Verification is performed annually as part of the process of assigning Budget objectives. Further analyses for preventive control of the Risk Appetite, and capital adequacy in particular, are performed when studying extraordinary transactions (such as mergers, acquisitions, disposals).
The RAF is broken down into several analysis macro areas with the aim of guaranteeing continuous monitoring of risk trends and capital adequacy. The main analysis macro areas are risk type, total risk, individual company and group.

Lastly, the solvency objectives are defined.

The ORSA, ICAAP and ILAAP processes

Under their own risk management systems Unipol and the companies that fall within the scope of the current and forward-looking risk assessment policy use the following to assess the effectiveness of the risk management system in terms of capital adequacy and liquidity management governance:
- ORSA for the insurance business;
- ICAAP-ILAAP for the banking business.

The Own Risk and Solvency Assessment (ORSA), the Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP) aim, on a current and forward-looking basis, to assess the overall risk profile of the Insurance Group and the Banking Group in relation to corporate strategy, the market context and business development.

Capital management policy

The capital management strategies and objectives of the Unipol Group are outlined in the "Capital management and dividend distribution policy", which describes the reference context and the process for managing capital and distributing dividends also in terms of the roles and responsibilities of the players involved. The document also identifies the principles of capital management and the distribution of dividends or other elements of own funds, in line with the capital return objectives and the risk appetite defined by the Board of Directors.

The general aims pursued by the "Capital management and dividend distribution policy" are:
- ex ante definition of the return objectives on allocated capital, consistent with the profitability targets and in line with the risk appetite;
- maintaining a sound and efficient capital structure, considering growth targets and risk appetite;
- outlining the capital management process for the definition of procedures to ensure that:
    - the elements of own funds, both at the time of issue and subsequently, satisfy the requirements of the applicable capital regime and are correctly classified;
    - the terms and conditions for each element of own funds are clear and unequivocal;

- ex ante definition of a sustainable flow of dividends, in line with the profit generated, free cash flow and risk appetite, identifying and documenting any situations in which the postponement or cancellation of distributions from an element of own funds could arise;
- outlining the dividend distribution process for the definition of procedures to ensure sound and efficient capital management, considering that the growth and profitability targets are in line with the risk appetite;
- defining the roles, responsibilities and reporting in relation to capital management and the distribution of dividends or other elements of own funds.

The capital management and dividend distribution process is divided into five steps, in close relation with other corporate processes:
- final measurement of available capital and the capital required;
- preparation of the mid-term capital management plan;
- monitoring and reporting;
- management action on capital, including any contingency measures;
- distribution of dividends or other elements of own funds.

Insurance Sector

Partial Internal Model
The Unipol Group and the subsidiaries UnipolSai Assicurazioni and Arca Vita are authorised to use the Partial Internal Model for calculating the solvency capital requirement.

The Partial Internal Model is used to assess the following risk factors:
- Non-Life and Health technical Insurance risks relating to the catastrophe component referring to earthquakes;
- Life technical insurance risks;
- Market risk;
- Credit risk;
- Risk aggregation process.

The modules currently included in the Partial Internal Model were defined on the basis of the following criteria:
- Relevance of the module, taking into account the specific characteristics of the Companies;
- Level of progress reached in the development of measurement methodologies for the individual risk modules.

There is a plan to extend the Partial Internal Model to include all measurable risk modules and reach a Full Internal Model type configuration.

Market Wide Standard Formula
For Group companies other than UnipolSai Assicurazioni and Arca Vita, risk is measured using the Market Wide Standard Formula.

As regards the Group's **solvency ratio**, in application of the Partial Internal Model, at 31 December 2018, the ratio between own funds and capital required was 163%, down on the 166% of 31 December 2017 due in particular to the widening spread on Italian government bonds.

Banking Sector

With reference to Pillar I risks, in compliance with the provisions of Bank of Italy Circular no. 285 of 17 December 2013, standardised approaches were adopted for credit, counterparty and market risks, and the basic approach for operational risk.
In line with their class 2 allocation, the indications and approaches defined in the aforementioned Circular are adopted for Pillar II risks. The procedural solutions for easily calculating capital requirements available to banking intermediaries in its class were adopted, applying decisions compliant with regulatory practices in such a way as to encourage maximum dialogue with the Supervisory Authority. Internal approaches not used for regulatory purposes were also adopted to measure certain types of risk.

At the level of the Unipol Banking Group, the **CET 1** was **30.5%** (31.5% at 31/12/2017).

Report on corporate governance and ownership structures pursuant to Art. 123-bis of Legislative Decree 58 of 24 February 1998

The information required by the Art. 123-*bis*, Legislative Decree 58 of 24 February 1998 as amended is included in the Annual Report on corporate governance, approved by the Board of Directors and published together with the Management Report.
The annual corporate governance report is available in the "Governance" section of the Company's website (**www.unipol.it**).

Performance of directly controlled companies

The key figures of directly controlled companies are provided below. Reference should be made to their respective financial statements for details of companies under their direct control.

The financial statements of (direct and indirect) subsidiaries and associates were filed pursuant to Art. 2429 of the Civil Code.

UnipolSai Assicurazioni S.p.A.

Registered office: Bologna
Share capital: €2,031,456k
Carrying amount: fixed assets €4,527,708k; current assets €1,518k
% holding: 79.30% - Direct holding of 51.03% and an indirect holding of 28.28% in the share capital

The company is authorised to operate as insurer and reinsurer in the Non-Life, Life and Capitalisation sectors. It may also set up and manage open pension funds.

UnipolSai closed 2018 with a net profit €412.8m (€577.2m at 31/12/2017). The aspects best characterising the operating performance in the year ended at 31 December 2018 were the following:

- Premiums in direct business up 2.4%. At the end of 2018, premiums were €10,037.7m, of which €10,026.6m in direct business, with breakdown as follows:

Amounts in €m

Premiums	Non-Life	Life	**Total 2018**	Total 2017	*% var.*	*Variation on 2017*
Direct business	6,897.5	3,129.1	10,026.6	9,792.9	2.4	233.7
Indirect business	10.8	0.3	11.1	9.5	16.0	1.5
	6,908.3	**3,129.4**	**10,037.7**	**9,802.5**	**2.4**	**235.2**
Premiums ceded	427.9	6.1	434.0	418.0	3.8	16.0
Premiums retained	**6,480.4**	**3,123.3**	**9,603.7**	**9,384.5**	**2.3**	**219.2**
% breakdown	67.5	32.5	100.0			

  The net retention of acquired premiums was 95.7%, in line with the previous year (95.7%).
- The loss ratio for direct business (including the balance of the other technical items) was equal to 66.8% against 68.1% at 31 December 2017.
- The result from technical insurance management, which also includes operating expenses and allocation of the share of gains on investments, was overall positive for €516.6m (€705.9m in 2017) of which €63.7m for the Life business and €452.9m for the Non-Life business.
- Total operating expenses (including acquisition and collection commissions and other acquisition and administrative expenses) came to a total of €2,078.2m (-1.1%), with an incidence on (Life and Non-Life) premiums of 20.7% (21.4% in 2017). Net of reinsurers' commissions, total operating expenses were equal to €1,927.9m (-1.1%).
- Total technical provisions for the Life and Non-Life sectors reached €43,523m at the end of 2018 (+1%). Net of the reinsurers' share, they came to €42,886.8m (+0.9%). The technical provisions-premiums ratio was 199.5% in the Non-Life business (206% in 2017) and 950.4% in the Life business (998.2% in 2017).

The shareholders' equity of UnipolSai, including the profit for the year, was €5,765.9m (€5,752.8m at 31/12/2017).

Unipol Banca S.p.A.

Registered office: Bologna
Share capital: €607,261k
Carrying amount: €127,047k (current assets)
% holding: 100% - Direct holding of 57.75% and indirect holding 42.25%

At 31 December 2018, direct deposits fell by 16.1%, amounting to around €10bn, due to the reduction in the volumes of deposits attributable to Unipol Group companies (€642m), the reduction in the volumes of institutional customers (€510m) and the reimbursement of some notes placed with third parties, for a decrease of €512m.

Indirect deposits totalled €48.6bn at 31 December 2018, down by 1.6% compared to the previous year, due to the reduction in the volumes of the Unipol Group companies (-1.6%) and ordinary customers, which highlighted a decrease of 4.2%, amounting to €5.5bn. Healthy results were recorded in assets under management (+8.0), which only partly offset the decrease in funds under custody (-15.8%).

Gross loans to customers, excluding government bonds classified according to the Held to Collect business model under the item "loans to customers" for an amount of €821m, fell by 4.9% at 31 December 2018, sitting at €8bn (€7.6bn net of valuation reserves).

As regards credit quality, limited to the loans as defined above, stage 3 (identified by the collection of impaired loans), amounted to €755m, a decrease of 16.6% from the start of the year, thanks to various loan transfers (mainly bad and doubtful loans and unlikely to pay) and the write-off of a number of accounts, written down significantly over time, for which all possible actions were carried out. More specifically, bad and doubtful loans fell by €18m (-18.2%), unlikely to pay by €88m (-12.3%) and lastly, impaired past due loans by €44m (-51.4%). The overall coverage for stage 3 is 47.3% (+2.1% compared to the start of the year), with impaired past due loans going from 14.4% at the start of the year, to 15.4% at the end of 2018 and unlikely to pay from 44.1% to 46.1%. Positions classified as bad and doubtful maintained high levels of coverage (72.6%).

The 2018 income statement of Unipol Banca closed with a profit of €30m (loss of €752m in 2017 due to the effects of the Banking sector restructuring plan).
The gross operating income amounted to €347m (+16%), thanks in particular to the improvement in net commission income (+17.4%) and gains on disposal of €10m (losses of €17m in 2017).
Operating expenses came to €257m, down by 16.6% compared to 2017.

Unipol Investment S.p.A.

Registered office: Bologna
Share capital: €5,180k
Carrying amount: €528,577k
% holding: 100% held directly

The company's purpose is to acquire interests and investments in other companies, not from the public, as well as the trading of financial instruments in general, for investment purposes.

At 31 December 2018 the company recorded profit for the year of €42.3m (€36.5m at 31/12/2017), particularly due to dividends received from the associate UnipolSai Assicurazioni S.p.A., a subsidiary of Unipol Gruppo. The aspects best characterising the operating performance in the year ended at 31 December 2018 were the following:

- Gains on investments of €41m (€35.4m at 31/12/2017).
- Costs of production of €0.1m (€0.4m at 31/12/2017).
- Financial fixed assets of €534.1m (unchanged compared to 31/12/2017), relating to the 9.99% investment in the associate UnipolSai Assicurazioni.

The shareholders' equity of the company, including profit (loss) for the year, was €571.9m (€565.6m at 31/12/2017).

Unipol Finance S.r.l.

Registered office: Bologna
Share capital: €5,000k
Carrying amount: €482,800k
% holding: 100% held directly

The company's corporate purpose is to acquire interests and investments in other companies, not from the public, and increase their value for long-term investment purposes, rather than for placement or brokerage with the public.

At 31 December 2018 the company recorded profit of €41m (€35m at 31/12/2017), particularly due to dividends received from the associate UnipolSai Assicurazioni S.p.A., a subsidiary of Unipol Gruppo. The aspects best characterising the operating performance in the year ended at 31 December 2018 were the following:

- Gains on investments of €41m (€35.3m at 31/12/2017).
- Costs of production of €0.2m (unchanged compared to 31/12/2017).
- Financial fixed assets of €481.6m (unchanged on 31/12/2017), representing the 9.99% investment in the affiliate UnipolSai Assicurazioni (unchanged on 31/12/2017).

The shareholders' equity of the company, including profit (loss) for the year, was €487.8m (€482.1m at 31/12/2017).

UnipolSai Investimenti SGR S.p.A.

Registered office: Turin
Share capital: €3,914k
Carrying amount: €10,710k
% holding: 100% - Direct holding of 51% and an indirect holding of 49% in the capital

UnipolSai Investimenti SGR manages the real estate investment funds Tikal, Athens, Fondo Opportunity and, since 7 August 2018, the new Landev fund.

The company's performance recorded profit for the year of €3.7m, compared to profit of €3.8m at 31 December 2017. The aspects best characterising the operating performance in the year ended at 31 December 2018 were the following:

- €7.6m commission income for fees received for the management of closed real estate investment funds Tikal, Athens, Opportunity and Landev (€7.3m at 31/12/2017).
- €2.3m costs for services and miscellaneous (€2.1m at 31/12/2017), of which €1.8m due to UnipolSai Assicurazioni S.p.A. for seconded staff and miscellaneous services.
- €7.7m gross operating income (€7.5m at 31/12/2017, +2.73%).
- €5.3m net operating income (€5.4m at 31/12/2017).

The shareholders' equity of the company, including profit for the year, was €18.1m (unchanged compared to 31/12/2017).

UnipolPart I S.p.A.

Registered office: Bologna
Share capital: €4,100k
Carrying amount: €463,198k
% holding: 100% held directly

The purpose of the company, established on 14 June 2018, is to acquire interests and investments in other companies, not from the public, as well as the trading of financial instruments in general, for investment purposes.

On 22 June 2018, the subsidiary received a payment for a future capital increase of €75m. On 26 September 2018, the Extraordinary Shareholders' Meeting of UnipolPart I resolved on a share capital increase with share premium, subscribed through assignment by the holding company Unipol of 204,620,000 UnipolSai shares for a total of €405.1m, of which €4.1m as principal and €401.1m as share premium. The assigned shares were valued according to the weighted average price, determined by Borsa Italiana S.p.A., at which the shares were traded on the regulated market in the six months prior to assignment, in compliance with Art. 2343-*ter* of the Civil Code. The Shareholders' Meeting also resolved to classify €58m of the payment for the future share capital increase of €75m made to the Company by

Unipol Gruppo as a capital account payment, and to partially repay the contribution received in June, reimbursing €17m to the holding company having completed the share purchase plan on the basis of which that payment had been disbursed.

At 31 December 2018, the company recorded a profit of €10k after just 6 months of business activity. The company's income statement does not show any significant amounts. Financial fixed assets of €462.4m relating to the 8.29% investment in the associate UnipolSai Assicurazioni were recorded.

The shareholders' equity of the company, including profit for the year, was €463.2m.

UnipolReC S.p.A.

Registered office: Bologna
Share capital: €290,123k
Carrying amount: €180,813k
% holding: 100% - Direct holding of 57.75% and indirect holding 42.25%

UnipolReC S.p.A. was established on 1 February 2018 as part of the proportional partial spin-off of Unipol Banca to the same UnipolReC. The company's business is credit collection for third parties and directly, including acquiring full rights to receivables classified as non-performing loans from banks or other financial intermediaries under the supervision of the Bank of Italy, the out-of-court management, the collection, control, due diligence and assessment of receivables, the preparation, negotiation and conclusion of agreements with debtors aimed at early termination and/or delay of payment terms, conducting checks and enquiries of various kinds at private and public records offices, the provision of technical, administrative, IT and managerial services, and any other transaction, including the sale of receivables, with a view to credit collection, both in Italy and abroad, in the forms and within the limits envisaged by the law (with particular, but not exclusive, reference to the provisions of Art. 2, paragraph 2, letter b) of the Decree of the Ministry of Economy and Finance no. 53 of 2 April 2015) and subject to maintaining the licence envisaged by Art. 115 of Royal Decree no. 773 of 18 June 1931.

At 31 December 2018, the company recorded a profit of €6.9m. The aspects best characterising the operating performance in the year ended at 31 December 2018 were the following:

- Financial revenue of €55.5m resulting from credit collection activities.
- Financial costs of €31.8m, of which €8.8m relate to interest expense on loans from group companies, and €23m resulting from credit collection activities.
- Financial assets at amortised cost, recognised in the financial statements for €490.1m, of which €2,589.7m of bad and doubtful loans, and €2,099.5m in valuation reserves.
- Financial liabilities of €259m relating to a shareholder loan granted by the holding company Unipol (€149.6m) and by the associate UnipolSai (€109.4m).

The shareholders' equity of the company, including profit for the year, was €320.1m.

UnipolPart S.p.A.

The Company no longer exists, as it was removed from the Register of Companies on 5 November 2018.

UnipolPart had been established on 15 December 2017 following the total non-proportional spin-off of Finsoe S.p.A., in which context the following assets and liabilities elements had been assigned:

- Assets totalling € 22.6m, of which € 22.5m referring to 2,259,773 Unipol Gruppo shares;
- Liabilities totalling €4.7m, almost exclusively referring to a maturing bond loan (subsequently repaid, using the liquidity deriving from the shareholder loan of €4.8m disbursed to UnipolPart by Unipol Group as sole shareholder);
- Shareholders' equity €17,9m.

In February 2018 UnipoPart sold all of the shares it held in the holding company on the market, realising a capital loss of €13.2m. On 23 March 2018, the cash collected from the sale was partially used to estinguish the bond loan received from the holding company.
On 14 June 2018, the Extraordinary Shareholders' Meeting of UnipolPart retained that it had achieved its corporate purpose and therefore approved the voluntary liquidation of the Company, which became effective on 20 June 2018 with the registration in the Bologna Register of Companies. From the final liquidation financial report as at 30

September 2018 a net asset of €4.7m emerged, consisting almost exclusively of liquidity and assigned to the sole shareholder Unipol.

Relations with Group companies and related party transactions

As the investment and services holding company and Parent of the Unipol Insurance Group (registration no. 046 in the Insurance Groups Register) and Parent of the Unipol Banking Group (entered in the Register with no. 20052 pursuant to Art. 64 of the Consolidated Law on Banking), Unipol carries out management and coordination activities pursuant to Art. 2497 et seq. of the Civil Code.

It should be noted that none of the shareholders of Unipol carries out management and coordination activities in accordance with Art. 2497 et seq. of the Civil Code.

The "Procedure for related Party Transactions" (the "Procedure Party Transactions"), prepared in accordance with Art. 4 of Consob Regulation no. 17221 of 12 March 2010 and subsequent amendments (the "Consob Regulation"), was approved by Unipol's Board of Directors lastly on 8 February 2018 with effect from that date. The Procedure is published on Unipol's website (www.unipol.it), in the Governance/Related party transactions Section.
The Procedure defines the rules, methods and principles that ensure the transparency and substantive and procedural fairness of the transactions with related parties executed by Unipol, either directly or through its subsidiaries.

In relation to related party transactions "**of major significance**", it should be noted that, on 22 March 2018, the Boards of Directors of Unipol Gruppo S.p.A. and UnipolSai Assicurazioni S.p.A. ("UnipolSai" or the "Company"), assisted by their respective financial advisors Mediobanca - Banca di Credito Finanziario S.p.A. and JP Morgan Limited, approved the disposal to UnipolSai of the equity investment held by Unipol in Arca Vita S.p.A., equal to 63.39% of the share capital, and - indirectly - of the interests held by the latter in the share capital of Arca Assicurazioni S.p.A., Arca Vita International DAC and a number of auxiliary companies (the "Disposal"), a transaction completed on 7 August 2018 and outlined in the chapter "Significant events during the year", to which reference should be made.

Considering that Unipol controls UnipolSai, the Disposal was qualified:
- by both parties as a related party transaction "of major significance" pursuant to Consob Regulation and to the Related Parties Procedure adopted, respectively, by Unipol and UnipolSai;
- by Unipol, also as a transaction with an associated party "of major significance" pursuant to Bank of Italy Circular no. 263 of 27 December 2006, Title V, Chapter 5 and the "Procedure for the management of transactions with Unipol Banking Group associated parties" (the "Associated Parties Procedure") applicable to Unipol in its capacity as Parent of the Unipol Banking Group.

Given the characteristics of the Disposal, to further guarantee the substantive and procedural fairness of the entire decision-making process, Unipol decided to apply, on a voluntary basis, the corporate and procedural oversight mechanisms established for transactions with related parties and with associated parties "of major significance", although the exemptions of Art. 13 of the Related Parties Procedure and Art. 5.4.3 of the Associated Parties Procedure apply, respectively, since the Disposal was arranged with a subsidiary of Unipol in the absence of significant interest of other related parties or associated parties.
The Disposal was therefore submitted by Unipol and by UnipolSai to the respective Committees for Transactions with Related Parties for approval. Both parties were respectively supported, for valuation aspects, by Towers Watson Italia S.r.l. and by Deloitte Financial Advisory S.r.l., and for legal aspects by Studio Legale Chiomenti and Studio BonelliErede.
In addition, as regards verification of the fairness of the principles and estimation methods applied to the transaction by the financial advisors appointed by the Board of Directors and the Related Party Transactions Committee as regards the standards commonly adopted for similar transactions, Unipol has obtained the independent opinion of Colombo & Associati S.r.l., and UnipolSai the opinion of Studio Laghi S.r.l.

The Unipol Related Party Transactions Committee expressed on a voluntary basis its favourable opinion on Unipol's interest in the Disposal, as well as on the cost effectiveness and substantial fairness of the conditions applied.

In turn, the UnipolSai Related Party Transactions Committee expressed its favourable opinion on the Company's interest in acquiring Unipol's investment in Arca Vita S.p.A., as well as on the cost effectiveness and substantial fairness of the relative conditions. For further information, please refer to the Information Document on Related

Party Transactions of Major Significance, prepared by UnipolSai pursuant to Art. 5 of the Consob Regulation published on 29 March 2018 on the website www.unipolsai.com in the "*Governance/Related Party Transactions*" section.

In 2018, Unipol carried out no transactions with related parties "**of minor relevance**".

Exempt transactions included the following:

- on 26 September 2018, the increase in the equity investment held by Unipol in the subsidiary UnipolPart I S.p.A. was resolved, due to the conferral in favour of said entity of 204,620,000 UnipolSai shares, equal to 7.231% of share capital.

The types of intragroup services provided in 2018 and the providing company are summarised below.

UnipolSai Assicurazioni provides services relating to the following areas:

- Governance (services supporting internal control, risk management and compliance);
- Finance;
- Chief Innovation Officer;
- Communications and Media relations;
- Assessment of Investments;
- Human Resources and Industrial relations (external selection, development and remuneration systems, personnel management, trade union relations and disputes, employee welfare, safety, personnel administration);
- Organisation;
- Training;
- Claims Settlement;
- Insurance (distribution network regulations, MV tariffs and portfolio management, reinsurance, bancassurance Life business unit);
- Legal (corporate affairs, group legal, anti-fraud, institutional response, legal insurance consulting, privacy, general legal and disputes, corporate legal, complaints and specialist assistance to customers, management of investments, anti-money laundering and anti-terrorism, 231 monitoring, institutional relations);
- IT services;
- Actuarial Function Validation and Calculation;
- Administration (accounting, tax, administrative and financial statements services, economic management control, purchases and general services);
- Real estate (coordination of urban planning processes, real estate asset and investment management, portfolio trading, value added, portfolio core, project & construction management, tenders and contracts, logistics and real estate services, facility management, tax and duty property management, real estate appraisals and property management).

UniSalute provides the following services to the other companies of the Group:

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

The services provided by UniSalute and its subsidiary Unisalute Servizi mainly concern the following areas:

- Administration and budget;
- Planning and management control;
- Marketing;
- IT services;
- Suppliers;
- Human resource monitoring;
- Training process support;
- Commercial and welfare development.

SIAT performs the following services in favour of UnipolSai:

- Technical assistance in the negotiation and stipulation of transport and aviation contracts;

- Portfolio services for agreements in the transport sector;
- Administrative support in the relationships with insurance counterparties.

Auto Presto & Bene provides car repair services to a number of Group companies.

UnipolSai Servizi Previdenziali, performs administrative management of open pension funds on behalf of a number of Group companies.

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

UnipolRe carries out administrative and accounting services for inwards and outwards reinsurance on behalf of UnipolSai.

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

Alfaevolution Technology provides the following supply and management services to a number of Group companies:
- black boxes associated with MV TPL policies, confirming the Unipol Group as leader in the global market. For these devices, Alfaevolution also provides the data analysis and reconstruction of the crashes;
- telematic kits associated with insurance policies for the protection of homes, apartments, commercial offices and hotels;
- telematic devices associated with insurance policies for pet protection;

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

The consortium **UnipolSai Servizi Consortili** manages a few supply and service agreements:
- leasing of facilities;
- real estate logistics and organisational services;
- communications, image and Unipol Group brand management.

Ambra Property provides reception and booking services to Ital H&R.

Arca Vita provides the following services to Group companies:
- human resource management and development, training, organisation, corporate affairs, purchasing, legal services and complaints, secretariat and general services, security and privacy, administration, management control for Arca Inlinea, Arca Sistemi and Arca Direct Assicurazioni;
- provision of workstations and general services necessary and functional to the outsourcing of internal control, anti-money laundering and anti-terrorism functions for UnipolSai;
- provision of parking spaces in the car park in Via del Fante 21, Verona, to UnipolSai;

- leasing of premises in the property in Via del Fante 21, Verona, and the related parking spaces at the underground car park in Lungadige Capuleti, Verona, to Arca Assicurazioni, Arca Direct Assicurazioni, Arca Sistemi and Arca Inlinea.

Arca Inlinea provides sales support services to Arca Assicurazioni, Arca Vita, Arca Direct Assicurazioni and Arca Vita International.

Arca Sistemi provides the following services:
- design, development and management of IT systems for Arca Vita, Arca Assicurazioni, Arca Inlinea and Arca Direct Assicurazioni;
- design, development and management of alternative storage for Arca Vita and Arca Assicurazioni;
- services as IT architecture provider for Arca Vita International.

In 2018, **UnipolReC**, in its capacity as an agent, conducted credit collection, out-of-court recovery of receivables due from Customers, such as, by way of example, the analysis of the receivables assigned, the sending of dunning letters by post and/or credit collection by phone, monitoring the responses received, checking payments and reconciliating the same, searching for individuals that are difficult to trace and any other activity required or related to said services on behalf of Gruppo Una.

No atypical or unusual transactions were carried out in the execution of these services.

Fees are mainly calculated on the basis of the external costs incurred, for example the costs of products and services acquired from suppliers, and the costs resulting from activities carried out directly, i.e. generated by their own staff, and taking account of:
- performance objectives set for the provision of the service to the company;
- strategic investments required to ensure the agreed levels of service.

The following elements are specifically taken into consideration:
- personnel costs;
- operating costs (logistics, etc.);
- general costs (IT, consultancy, etc.).

As regards services rendered by Leithà and Ambra Property, the consideration was determined to the extent equal to costs, as previously defined, to which a 5% mark-up was applied, which is the operating margin for the service rendered.

The costs for financing activities are calculated by applying a fee on managed volumes. The services provided by UniSalute (except operating services provided to Unisalute Servizi for which the costs are split), Auto Presto & Bene, UnipolSai Investimenti SGR and UnipolRe involve fixed prices.

Unipol Gruppo, UnipolSai and Unipol Banca second staff to the Group companies in order to optimise synergies within the Group.

Financial and commercial transactions between Unipol Banca, Finitalia and other Group companies, were the usual types of transaction carried out by a complex group and related to services, deposit accounts or corporate financing and finance lease agreements. Agreements were also entered into for the sale and/or management of banking, financial and insurance products and services and the provision of auxiliary banking services in general. These transactions were usually carried out at the market terms applied to prime customers.

Tax regime for taxation of group income (so-called "tax consolidation")

The Parent Unipol renewed the Group tax consolidation option governed by Title II, Chapter II, Section II of Italian Presidential Decree 917/86 (the Consolidated Income Tax Act, Articles 117 et seq.) as consolidating entity for the three-year period 2018-2020. All companies in the Unipol Group that meet the regulatory requirements take part in this regime as consolidated companies.

The information required by Consob Communication DEM/6064293/2006 is contained in the paragraph on transactions with related parties in the Notes to the financial statements.

Social and environmental responsibility

Sustainability is directly handled within the Unipol Group by the holding company for all Group companies in order to guarantee policy uniformity and consistency. The operating structure is made up of the staff reporting to the Chairman to guarantee conformity with the values and completeness of vision on the activities carried out, while the policy function is carried out by the Sustainability Committee of the Unipol Group Board of Directors, which examined and evaluated the path taken throughout the entire year, and issued its judgments on the process adopted and on the main sustainability decisions taken by the Group.
The Unipol Group's attention to social responsibility starts with the Charter of Values and the Code of Ethics of the Unipol Group, based on the Vision and Mission, illustrated anew in the 2016-2018 Business Plan, which, for the first time incorporates Sustainability objectives and measures.
In March 2018, the Group’s Board of Directors approved the Sustainability policy, which seeks to identify and monitor the ESG risks in the various sectors, committing to achieving its Sustainable Development Goals. At the same time, Unipol has signed the United Nations Global Compact.
Convinced of the importance of integrating sustainability in business processes to develop long-term competitiveness, the Group decided to integrate it with the economic and financial aspects both at planning stage and reporting stage.
Of particular note among the projects included in the Plan are:

- The commitment to increase the resilience of SMEs to climate change-related risks through the DERRIS project, funded through the European Life Fund, to define a model of public-private partnership to improve the resilience of industrial areas with a high concentration of SMEs against natural catastrophes. In 2018, 11 cities were involved with training courses addressed to both administrative staff and to businessmen and women. 128 adaptation plans were drawn up thanks to the Cram tool, which was made available to the public.
- The Life insurance products of the Pension range are certified according to the Book of Unipol Values, in addition to the Investment and Savings ones already certified.
- A range of products addressed to the Third Sector was developed, both in Banking and Insurance areas.
- The activities of “Eos, Conoscere l’Assicurazione” addressed to schools were structured further, and activities relating to “Per Gioco Non Per Azzardo” (For Fun not for Gambling) continued.

In order to monitor compliance with the commitments undertaken, 10 outcome indicators have been identified. Among these, it is worth noting the Group’s commitment to achieving and maintaining a sound reputation, through an integrated approach which aims (i) on one hand, to identify and mitigate the risks deriving from events that could have a negative impact on reputation and, thus, on the value of the Unipol Group and, (ii) on the other, to contribute to the growth of that value, starting by measuring and analysing the current reputation, up to implementing an action plan in line with the Group’s needs and objectives, capable of consolidating that reputation.

Research and development activities

In response to a market scenario undergoing constant technological evolution, the Unipol Group makes investments to develop and accelerate innovation and meet the new needs of customers.
In 2018, the monitoring of innovation processes to add distinction to the product mix continued by extending the integrated service model to new products, the development of predictive analysis in **Leithà**; the outsourcing of the entire telematic device portfolio for Group customers to **Alfaevolution**; the testing of additional telematics devices for health and safety. The Group frequently involved and leveraged the contribution of innovative start-ups, universities and research networks in the innovation processes.

With reference to the products that supplement the telematics tools, in 2018, Alfaevolution invested in the creation of its own **TSP** (Telematics Service Provider) platform, for the transmission and direct management of the data registered by telematics devices (79 TB of telematic data) for both MV and Non-MV business, in order to improve control of the processes, reduce the costs of providing services and enhance the flexibility of the service model. As regards motor vehicles, elements like the accelerometer and the sensor that detects the presence of children were also integrated in the telematics devices.

As regards other insurance products, an important innovation regarded the UnipolSai App GO for the sale of micro-policies for travel which can be taken out in real time using a smartphone, which, in addition to covering baggage, assistance and injury, also now include coverage of medical expenses, making the product more complete, especially for trips out of Europe. A promotional mode was also experimented with this product, which valorises the data provided by the Internet of Things (IoT).

Innovation bolstered by technology also concerns internal processes; for example, the evolution of the "electronic settlement" process continued, which innovatively uses the information contained in the black box for the claims of the MV classes. With the support of Leithà, projects were launched regarding the telematic reconstruction of claims, modernisation of management of the UniSalute call centre, tariff innovation, through the application of innovative machine learning methods in tariff-setting activities and the provision of new databases for the technical areas. New digital agency support solutions are being tested, aimed at increasing the effectiveness of the sales offer.

Privacy obligations (Legislative Decree 196/2003)

In order to guarantee that personal data processing (data of customers, policyholders, beneficiaries and employees) complies with relative laws, the company has established dedicated organisational controls, in particular with regard to information security, access to data by third parties, generation of documents required by law, and targeted training for employees and agents.
With reference to Regulation (EU) 2016/679 on the protection of personal data (the "GDPR"), - which entered into force on 25 May 2018 - the company launched a project in 2017 to adapt to the regulatory provisions of the GDPR. The project led to a substantial revision of the privacy architecture, by appointing a single Group Data Protection Officer - who carries out the tasks relating to the Parent and to the companies controlled by the same whose registered office is in Italy - (i) the establishment of Registers of data processed envisaged by article 30 of GDPR, (ii) the revision of all privacy forms, adapting the consensus and disclosure formulas, (iii) the revision of service supply agreements, both between Group companies, and between the latter and external suppliers and (iv) the issue of numerous company communication documents, aimed at setting out guidelines and procedures for the correct management of personal data and to ensure that processing complies with the law.

Human resources

The Company's workforce at 31 December 2018 numbered 20 employees (22 at 31/12/2017). Even if calculated as full time equivalent (FTE), that is, considering the number of hours actually worked, the number of employees would still be 20.

	31/12/2018			31/12/2017		
	Average	Final	FTE	Average	Final	FTE
Permanent	20	20	20	20	22	22
Total	**20**	**20**	**20**	**20**	**22**	**22**

Training

To support the achievement of its strategic objectives, the Unipol Group makes use of a number of tools regarding human capital, ranging from training to organisational model simplification, from development plans to contractual harmonisation. The strengthening of internal skills supports the service model evolution plan. For this purpose, UNICA, the Unipol Group's Corporate Academy, is focused on professional training and skills for all Group structures in Italy, with the goal of increasing knowledge over an extensive area, reinforcing the corporate culture and sharing the managerial model. The direct and indirect investment in training totalled €17.7m in 2018, marking an increase of 16% compared to 2017 (direct investments for employees and agents came to €6.2m, while indirect investments amounted to €11.5m.
Overall, **1 million and 224 thousand** training hours were completed, of which 73% for the agency network and 27% for employees (growth of 32% over the previous year).
With reference to Group employees, training hours totalled 327,953 (+43% over 2017), of which 59% provided to men and 41% to women; a total of 964 training courses were provided (673 in the classroom and through webinars, 291 through FAD). A total of 7,381 employees were directly involved in classroom-based training and webinars, while distance learning courses were provided to 82% of the workforce.

Share-based compensation plans

The Unipol Group pays additional benefits (long-term incentives) to the Chief Executive Officer and Key Managers and other senior executives under closed three-year, share-based compensation plans by which Unipol and UnipolSai shares (performance shares) are granted if specific targets of Gross Profit and solvency capital requirement, as well as individual and consolidated targets, are achieved.

The compensation plan based on financial instruments (Unipol shares) for the period 2013-2015 ended on 31 December 2015. The first tranche, comprising 1,964,855 shares, was paid to those entitled on 1 July 2016, the second tranche, comprising 2,006,741 was paid to those entitled on 3 July 2017 and the third and last tranche, for 2,005,667 shares, was paid on 1 July 2018.

The 2016-2018 compensation plan based on financial instruments (performance share type), if the prerequisites are met, envisages the assignment of UnipolSai and Unipol shares over three years with effect from April 2019.

The Information Documents, prepared pursuant to Art. 114-*bis* of the Consolidated Law on Finance and Art. 84-*bis* of the Consob Issuer's Regulation no. 11971/1999, are available on the relevant websites, in the Governance/Shareholders meetings section.

IT services

The Information & Communication Technology (ICT) Plan, as outlined in the 2016-2018 Business Plan, focuses in particular on business innovation and support activities, with the progressive growth of technological innovation initiatives linked to the re-design and creation of new IT architectures, processes and methods for interacting with Agencies, Customers and the ecosystem of external Partners and improving operational efficiency and service quality.

The main activities carried out over the course of the year regarding **new technologies and services** may be grouped according to the following **action areas**:
- Digitalisation of Processes and Mobility;
- New IT architectures;
- New "Digital Touch Points";
- Business Process Management;
- Artificial Intelligence and Robotics;
- Telematics and Data.

Internet

www.unipol.it is the Unipol website via which users can access the websites of the various Group companies and obtain information about Unipol itself.

Business outlook

The global economy is showing signs of a slowdown across the board. Already starting in the first few weeks of 2019, as the main macroeconomic data from the last part of 2018 were being posted, many economic observers cut the 2019 growth estimates for the Eurozone. Particularly for Italy, which showed to be in a recession in the second part of 2018, considerable doubts were expressed, by different sides, about the possibility of achieving the targets set by the Italian government, i.e. a +1% growth of the economy for this year.

The external economic situation, together with numerous critical issues that characterise Italy risks the stoking of new tensions in the financial markets with the consequent resumption of the volatility of the spread of Italian government bonds relative to the German Bund. The main stock markets in the first two months of 2019 have shown positive performances, although within a framework of high volatility.
All this reflects on our financial investments and on the financial management, which continues to be aimed at the consistency of assets and liabilities, optimising the risk-return profile of the portfolio and pursuing selectively an adequate diversification of the risks.

With regard to the trends of the business sectors in which the Group operates, there are no particularly significant events to report. As already mentioned, the new 2019-2021 Business Plan, that will focus on the core insurance business, is currently being finalised and will be presented to the financial markets in May.
Excluding unforeseeable events also connected with the reference context, the separate and consolidated operating results for the current year are expected to remain positive.

With reference to extraordinary transactions, it should be noted that, at the beginning of the second half year, subject to the fulfilment of some conditions precedent, especially of a regulatory and authorization nature, the finalisation of the sale to BPER Banca of the equity investment in Unipol Banca held by Unipol and UnipolSai and the purchase, by UnipolReC of two NPL portfolios from the BPER Group, are expected.

Bologna, 14 March 2019

The Board of Directors

2

FINANCIAL STATEMENTS FOR THE YEAR 2018

Unipol Gruppo S.p.A.
Statement of Financial Position

Amounts in €

ASSETS	31.12.2018		31.12.2017	
A) SUBSCRIBED CAPITAL, UNPAID				
- of which called				
B) FIXED ASSETS				
I Intangible assets				
4) Concessions, licences, trademarks and similar rights	2,310,987		3,047,040	
7) Other			151,752	
Total		**2,310,987**		**3,198,792**
II Property, plant and equipment				
2) Plant and equipment	33,351		74,396	
4) Other assets	727,566		902,173	
Total		**760,917**		**976,569**
III Financial fixed assets				
1) Investments in:				
a) subsidiaries	6,193,813,086		6,412,693,688	
d-bis) other companies	119,159,639			
Total investments		**6,312,972,725**		**6,412,693,688**
2) Receivables:				
a) from subsidiaries		149,560,685		
d-bis) from others		226,615		267,761
- of which payable within 12 months	50,783		52,308	
Total receivables		**149,787,300**		**267,761**
3) Other securities		550,625,973		8,795,988
Total		**7,013,385,999**		**6,421,757,438**
TOTAL FIXED ASSETS		**7,016,457,903**		**6,425,932,799**

Unipol Gruppo S.p.A.
Statement of Financial Position

Amounts in €

ASSETS			31.12.2018		31.12.2017
C)	CURRENT ASSETS				
II	Receivables				
1)	from customers		21,630		21,630
2)	from subsidiaries		11,636,710		129,451,657
3)	from associates				8,465
5 -	bis) tax receivables		79,153,535		66,473,673
	- of which payable after 12 months	*78,600,872*		*66,473,673*	
5 -	ter) deferred tax assets		455,224,765		535,321,567
	- of which payable after 12 months	*455,224,765*		*535,321,567*	
5)	quater) from others		898,095		660,616
Total			**546,934,735**		**731,937,608**
III	Current financial assets				
1)	Investments in subsidiaries		128,565,357		121,750,636
6)	Other securities		21,487,127		42,952,515
Total			**150,052,484**		**164,703,150**
IV	Cash and cash equivalents				
1)	Bank and post office deposits		1,092,700,544		1,420,987,323
	- of which from subsidiaries	*1,092,646,122*		*1,420,972,756*	
3)	Cash at bank and in hand		13,948		13,036
Total			**1,092,714,492**		**1,421,000,359**
TOTAL CURRENT ASSETS			**1,789,701,711**		**2,317,641,118**
D)	ACCRUALS AND DEFERRALS				
1)	Accruals		2,473,906		182,786
2)	Deferrals		424,328		544,635
TOTAL ACCRUALS AND DEFERRALS			**2,898,234**		**727,421**
TOTAL ASSETS			**8,809,057,848**		**8,744,301,338**

Unipol Gruppo S.p.A.
Statement of Financial Position

Amounts in €

LIABILITIES			31.12.2018		31.12.2017
A)	**SHAREHOLDERS' EQUITY**				
I	Share capital		3,365,292,408		3,365,292,408
II	Share premium reserve		1,435,734,955		1,435,734,955
IV	Legal reserve		583,000,714		561,665,518
VI	Other reserves		63,367,158		
	- Extraordinary reserve	63,367,158			
IX	Profit (loss) for the year		66,223,514		213,351,962
X	Negative reserve for treasury shares		(2,026,637)		(8,757,921)
TOTAL SHAREHOLDERS' EQUITY			**5,511,592,112**		**5,567,286,921**
B)	**PROVISIONS FOR RISKS AND CHARGES**				
3)	Financial derivative liabilities		426,537,876		339,248,385
4)	Other		7,162,796		3,358,983
TOTAL PROVISIONS FOR RISKS AND CHARGES			**433,700,672**		**342,607,368**
C)	**POST-EMPLOYMENT BENEFITS**		**37,304**		**36,533**
D)	**PAYABLES**				
1)	Bonds		1,811,029,198		1,802,257,799
	- of which payable after 12 months	*1,811,029,198*		*1,802,257,799*	
3)	Payables to shareholders				14,805
5)	Payables to other lenders		515,186		515,186
7)	Trade payables		6,116,136		4,269,348
9)	Payables to subsidiaries		1,027,911,424		1,006,501,025
	- of which payable after 12 months			*679,268,110*	
12)	Tax payables		738,069		4,111,456
13)	Social security charges payable		543,616		504,215
14)	Other payables		16,874,132		16,196,682
TOTAL PAYABLES			**2,863,727,759**		**2,834,370,516**
TOTAL LIABILITIES			**8,809,057,848**		**8,744,301,338**

Unipol Gruppo S.p.A.
Income Statement

Amounts in €

	31.12.2018		31.12.2017	
A) VALUE OF PRODUCTION				
5) Other revenue and income				
b) sundries	18,806,981		31,121,986	
Total other revenue and income		18,806,981		31,121,986
TOTAL VALUE OF PRODUCTION		**18,806,981**		**31,121,986**
B) COSTS OF PRODUCTION				
6) Raw materials, consumables and goods for resale		201,011		277,683
7) Services		18,892,119		18,136,759
8) Use of third party assets		1,275,574		897,546
9) Personnel:				
a) wages and salaries	21,207,754		22,147,794	
b) social security expenses	3,564,254		3,758,534	
c) post-employment benefits	623,701		631,029	
e) other costs	1,731,806		1,674,431	
Total personnel		27,127,515		28,211,789
10) Amortisation, depreciation and write-downs:				
a) amortisation of intangible assets	950,307		1,493,855	
b) depreciation of property, plant and equipment	215,652		324,197	
Total amortisation, depreciation and write-downs		1,165,959		1,818,052
12) Provisions for risks		2,344,883		460,513
14) Sundry operating expenses		6,374,909		108,305,650
TOTAL COSTS OF PRODUCTION		**57,381,970**		**158,107,993**
DIFFERENCE BETWEEN VALUE AND COSTS OF PRODUCTION (A-B)		**(38,574,990)**		**(126,986,007)**
C) FINANCIAL INCOME AND CHARGES				
15) Gains on investments:				
a) in subsidiaries	447,342,286		1,023,355,762	
d) in other companies	4,733,294		1,657,311	
Total gains on investments		452,075,580		1,025,013,072
16) Other financial income:				
a) from receivables recognised under fixed assets		5,102,791		401
1) from subsidiaries	5,102,529			
4) from others	262		401	
c) from securities recognised under current assets		7,548,671		6,129,317
d) other income		551,223		9,353
1) from subsidiaries	12,034		9,349	
4) from others	539,189		3	
Total other financial income		13,202,685		6,139,071
17) Interest and other financial charges:				
a) subsidiaries	15,139,156		8,049,252	
d) others	76,528,762		57,511,639	
Total interest and other financial charges		91,667,918		65,560,891
17-bis) Exchange gains (losses)		12,047		(622,611)
TOTAL FINANCIAL INCOME AND CHARGES		**373,622,394**		**964,968,641**

Unipol Gruppo S.p.A.
Income Statement

Amounts in €

			31.12.2018		31.12.2017	
D)	**VALUE ADJUSTMENTS TO FINANCIAL ASSETS**					
18)	Write-ups:					
	c)	of securities recognised under current assets			1,489,915	
		Total write-ups				1,489,915
19)	Write-downs:					
	a)	of investments	195,872,370		445,065,339	
	c)	of securities recognised under current assets	6,802,838		352,317	
	d)	of financial derivative instruments	87,289,491		211,915,300	
		Total write-downs		289,964,699		657,332,955
TOTAL ADJUSTMENTS				**(289,964,699)**		**(655,843,040)**
PRE-TAX PROFIT (LOSS)				**45,082,705**		**182,139,594**
20)	Income tax for the year: current and deferred					
	a)	Current taxes	(21,373,535)		(171,787,198)	
	b)	Taxes related to prior years	18,761		(322,905)	
	c -	bis) Deferred tax assets	213,965		140,897,735	
		Total income tax for the year		(21,140,810)		(31,212,368)
PROFIT (LOSS) FOR THE YEAR				**66,223,514**		**213,351,962**

Unipol Gruppo S.p.A
Statement of cash flows

Amounts in €

	31.12.2018	31.12.2017
A. Cash flows arising from income management (indirect method)		
Profit (loss) for the year	**66,223,514**	**213,351,962**
Income tax	(21,140,810)	(31,212,368)
Interest expense/(interest income)	61,384,150	45,867,183
(Dividends)	(329,965,836)	(280,475,691)
(Capital gains)/losses arising from disposal of assets	(119,495,524)	(745,782,187)
1.Pre-tax profit (loss) for the year, interests, dividends and capital gains/losses on disposals	**(342,994,505)**	**(798,251,101)**
Adjustments for non-monetary items with no impact on net current assets		
Allocation to provisions	3,949,877	460,513
Depreciation of fixed assets	1,165,955	1,818,052
Write-downs for impairment losses	195,872,370	445,065,339
Value adjustments to financial assets and liabilities relating to financial derivatives, not involving monetary transactions	87,289,491	211,579,418
Other adjustments to non-monetary items	38,666,339	151,727,683
Total adjustments to non-monetary items	*326,944,032*	*810,651,004*
2. Cash flows before adjustments to net current assets	**(16,050,472)**	**12,399,903**
Change in net current assets		
Decrease (increase) in receivables from customers		49,563
Decrease (increase) in trade payables	1,846,788	382,355
Decrease (increase) in prepayments and accrued income	(2,170,813)	43,549
Decrease (increase) in receivables from subsidiaries	117,814,947	(105,078,070)
Other changes in net current assets	85,926,983	(41,237,275)
Total changes in net current assets	*203,417,905*	*(145,839,877)*
3. Cash flows after adjustments to net current assets	**187,367,433**	**(133,439,974)**
Other adjustments		
Interest amounts collected (paid)	(61,384,150)	(45,867,183)
Dividends received	329,965,836	280,475,691
(Use of provisions)	(146,064)	(26,336,287)
Total other adjustments	*268,435,622*	*208,272,220*
Cash flows arising from income management (A)	**455,803,055**	**74,832,247**

Unipol Gruppo S.p.A
Statement of cash flows

Amounts in €

	31.12.2018	31.12.2017
B. Cash flows arising from investing activity		
Property, plant and equipments		
(Investments)		(2,684)
Intangible assets		
(Investments)	(62,502)	(8,131)
Financial fixed assets		
(Investments)	(1,297,437,224)	(740,715,389)
Disposals - realisation values	503,049,896	1,036,191,048
Financial current assets		
(Investments)		(120,232,699)
Disposals - realisation values	139,010,514	50,326,355
Cash flows arising from investing activity (B)	**(655,439,316)**	**225,558,501**
C. Cash flows arising from financing activity		
Loans received		
Loans execution		497,710,000
Repayment of loans		(313,579,350)
Equity		
(Dividends and interim dividends distributed)	(128,649,608)	(128,288,394)
Cash flows arising from financing activity (C)	**(128,649,608)**	**55,842,256**
Increase (decrease) in cash and cash equivalents (A ± B ± C)	**(328,285,868)**	**356,233,004**
Cash and cash equivalents at 1 January	**1,421,000,359**	**1,064,767,356**
of which:		
Bank and post office deposits	1,420,987,323	1,064,756,937
Cash at bank and in hand	13,036	10,419
Cash and cash equivalents at 31 December	**1,092,714,492**	**1,421,000,359**
of which:		
Bank and post office deposits	1,092,700,544	1,420,987,323
Cash at bank and in hand	13,948	13,036

3

NOTES TO THE FINANCIAL STATEMENTS

Structure and contents of the Financial Statements

Unipol 2018 Financial Statements were prepared in compliance with the provisions of the Civil Code and the national accounting standards approved by the OIC (Italian Accounting Standards Setter). In fact, since Unipol qualifies as a mixed financial holding company, with a predominance of insurance business, as identified by Legislative Decree 142/2005 and it is required to prepare consolidated financial statements in compliance with international accounting standards pursuant to Art. 95 paragraph 2-bis of Legislative Decree 209/2005 (Insurance Code), the same international accounting standards cannot be applied to the company's separate financial statements, pursuant to Art. 4 of Legislative Decree 38/2005.
The financial statements include the Statement of Financial Position, the Income Statement, the Statement of Cash Flows and these Notes. They are also accompanied by the Management Report.

As stated in Art. 2423, paragraph 6 of the Civil Code, the amounts in the Annual Report are expressed in Euro, without decimals, except for the amounts indicated in the Notes to the Financial Statements which, unless otherwise indicated, are expressed in €k, as permitted by the provisions of the Civil Code.
The measurement criteria were adopted on the basis of going concern assumptions, in application of the principles of accrual, materiality and significance of the transactions or contracts, pursuant to Articles 2423 and 2423-*bis* of the Civil Code.

The nature and effect on the Statement of Financial Position, Income Statement and Statement of Cash Flows of the main significant events after year end, also as regards, where applicable, the valuations of these annual financial statements, are reported in a special chapter of these Notes.

In order to integrate disclosures provided in the aforementioned mandatory statements, the Income Statement figures were restated in the attached reclassification statement and were accompanied by the Statement of Changes in Shareholders' Equity and the Statement of Cash Flows.

The layout of the financial statements offers a comparison with the figures of the previous year. Where necessary, in the event of a change to the accounting standards, measurement or classification criteria, the comparative data are re-stated and reclassified in order to provide homogeneous and consistent information.

Unipol administrative bodies and the manager in charge of financial reporting have provided the Statement on the financial statements in accordance with Art. 81-*ter*, Consob Regulation 11971 of 14 May 1999, with later amendments and integrations.

These financial statements were audited by PricewaterhouseCoopers SpA, appointed independent auditors by the Shareholders' Meeting for the years 2012-2020.

Measurement criteria

Intangible assets

Intangible assets are recognised at historical acquisition or production cost, including accessory charges, and are amortised over their residual useful lives (3-5-10 years). For projects under development, amortisation is suspended until the year in which they are first used.
Start-up and expansion costs are amortised on a straight-line basis over five years from the effective date of the related transaction, taking into account their future usefulness and their estimated useful life.
Other long-term costs are amortised over their estimated useful lives. If the intangible assets are no longer believed to have future usefulness, the assets are written off and charged to the Income Statement.

Property, plant and equipment

Property, plant and equipment are recognised at acquisition cost and adjusted for the corresponding accumulated depreciation. The carrying amount takes into consideration any accessory charges and direct/indirect costs in the portion reasonably attributable to the asset.

Depreciation is calculated according to the useful life of the asset:

- plant and equipment: useful life of 3 to 7 years;
- movable assets entered in public registers: useful life of 4 years;
- office furniture and machines: useful life of 3 to 8 years;
- data processing centre machines: useful life of 2 to 5 years;
- assets up to €516: fully depreciated over 1 year.

Financial fixed assets

These are mainly represented by controlling interests.
The investments concerned are recognised at purchase or subscription cost or at a value below cost if, on the basis of the financial position of the companies invested in, the investments show evidence of impairment.
The bonds held as investments in the Company's equity are measured at amortised cost, applying the internal effective rate of return (effective interest criterion). The value is adjusted for any impairment losses.
If the reasons for recognition of the value adjustment no longer apply, the value of the security is restored to the extent of the amortised cost, calculated as if the previous adjustments had not been recognised.

Transfers of investments

In the event of a change in strategy decided by the management body regarding the destination of an investment to remain for a longer or shorter length of time in the company's assets, said investment is reclassified among fixed assets (fixed financial assets) and among current assets (current financial assets).
The transfer is recognised on the basis of the value resulting from the application - at the time of said transfer - of the valuation criteria of the original portfolio. Therefore:
a) the transfer of fixed investments to current assets is recognised on the basis of the cost, adjusted if necessary to reflect any impairment losses;
b) the transfer of current investments to financial fixed investments is recognised on the basis of the lesser value between the cost and the sale value based on market performance.

Receivables

Receivables are measured at amortised cost, applying the internal effective rate of return (effective interest criterion), taking into account the time factor, except for current receivables (due in less than 12 months).

Current financial assets

Shares classified as current assets and mutual investment fund units are recognised at the lower of average purchase cost and market value, which for listed securities is the average price recorded in the last month of the year and for unlisted securities a prudent estimated realisable value.
Furthermore, for listed securities, if the December average is not representative of the market value, the average believed to be more representative is used as a prudent measure.
Bonds classed as current are recognised at the lower of the purchase cost and the realisable value estimated from market trends, for listed securities based on the arithmetic mean of prices recorded in December and for unlisted securities on the estimated realisable value at 31 December, calculated on basis of the current value of securities

traded on regulated markets and with similar characteristics. Write-downs in previous years are not maintained if the reasons giving rise to such write-downs should no longer apply.

Financial derivatives

Financial derivatives are recognised and measured at *fair value*. Changes in *fair value* are recognised in the income statement, or if the derivative hedges against the risk of changes in the expected cash flows of another financial instrument, directly in a positive or negative reserve in shareholders' equity. This reserve is recorded in the income statement to the extent and timing corresponding to cash flows occurring or changing from the hedged instrument or if the transaction hedged is performed.
Financial derivatives are used only for hedging purposes, to reduce the risk profile of the assets/liabilities hedged, i.e. to optimise their risk/return profile. Derivative contracts in place at the end of the year are measured in a manner consistent with the assets/liabilities hedged.
The current value of derivative contracts is calculated with the replacement cost method, using prices and rates at the end of the year for the same maturity and comparing these with contractual prices and rates.

Premiums collected or paid for options on securities, shares, currencies or interest rates in place at the end of the year are recognised in items C.III.5) "Financial derivative receivables" and B.3) "Provisions for risks and charges - Financial derivative payables", respectively.
On expiry of the option:

- if exercised, the premium is recorded as an adjustment to the purchase or sale price of the underlying asset;
- otherwise, the premium is recognised under item C) "Financial income and charges".

Income and charges deriving from derivative measurement are recognised in section D. "Value adjustments to financial assets and liabilities".

Accruals and deferrals

Accruals and deferrals are calculated on an accrual basis.

Provisions for risks and charges

Provisions for risks and charges are allocated to cover losses or liabilities of certain or probable existence, but for which the amount or contingency date cannot be reliably determined at the end of the year. The measurement of these provisions complies with general prudent and accrual criteria and the amounts allocated reflect the best possible estimate based on available information.

Post-employment benefits

Post-employment benefits reflect the liability accrued to employees at year end, net of amounts devolved to supplementary pension funds and to the INPS Treasury Fund in accordance with current regulations.

Payables

Payables recognised in the financial statements according to the amortised cost criterion, applying the internal effective rate of return (effective interest criterion) and taking into account the time factor. The amortised cost criterion does not apply to current payables (i.e. due in less than 12 months).

Dividends

Dividends are recognised at the moment in which, following a resolution of the Shareholders' Meeting of the investee to distribute profit or possibly reserves, the investor's entitlement to their collection arises.

Recognition of costs and revenues

Revenues and costs are recognised according to prudent and accrual principles.

Income tax for the year

Income tax for the year is calculated according to current tax regulations and recognised among costs for the year. These comprise charges/income for:

- current tax for the year;
- tax from previous years, the amount of which has changed at the initiative of the taxpayer or the Tax Administration, or due to the closure of disputes;

- deferred tax assets and liabilities arising during the year and usable in future years;
- the portion for the year of deferred tax assets and liabilities generated in previous years.

Pursuant to Art. 117 et seq. of Presidential Decree 917/1986 and Ministerial Decree of 9 June 2004, the Company has renewed the option, as consolidating company, for the IRES tax consolidation regime, with 40 companies, among which UnipolSai, taking part as consolidated companies. Unipol has signed an agreement with these companies regulating the economic and financial aspects governing the regime in question, recognising in its financial position the effects of the transfer of the IRES taxable income of the consolidated companies, calculated pursuant to the law, keeping into account the applicable consolidation adjustments and the tax credits accrued.
In application of Accounting Principle no. 25 of the Italian Accounting Standards Setter, deferred tax assets and liabilities are calculated on the temporary differences between profit (loss) for the year and taxable income. Deferred tax assets are recognised only if it is reasonably certain that they will be recovered in future years.
Deferred tax liabilities are calculated on the basis of the tax rates set by current tax regulations and applicable to the future years in which all or part of the temporary differences that produce them are expected to be reabsorbed.
The disclosure pursuant to Art. 2427, par. 1, no. 14 of the Civil Code, together with the statement of reconciliation between theoretical and effective tax charges, is provided in the section "Income Statement - Income tax for the year: current and deferred".

Translation of balances in foreign currencies

Items expressed in foreign currencies are treated in accordance with the principles of multicurrency accounting.
In compliance with Art. 2426, par. 8-*bis* of the Civil Code, property, plant and equipment, intangible assets and financial assets (held as investments) in foreign currencies are recognised at the spot rate at the time of purchase. Other items expressed in a foreign currency are recognised at the year-end rates. All translation differences are recognised in the Income Statement.

Exchange rates used

The main exchange rates used for the translation into euros are as follows:

Currencies	28/12/2018	31/12/2017
US Dollar	1.1450	1.1993
Pound Sterling	0.8945	0.8872
Swiss Franc	1.1269	1.1702
Yen	125.8500	135.0100
Danish Krone	7.4673	7.4449
Czech Republic Koruna	25.7240	25.5350
Swedish Krona	10.2548	9.8438

Exceptions pursuant to Art. 2423, paragraph 5 of the Civil Code

No exceptions pursuant to Art. 2423, paragraph 5 of the Civil Code were applied.

Uncertainty in the use of estimates

The application of certain accounting standards implies significant elements of judgment based on estimates and assumptions which are uncertain at the time they are formulated.
As regards the 2018 financial statements, it is believed that the assumptions made are appropriate and, therefore, that the financial statements have been drafted clearly and give a true and fair view of the statement of financial position, income statement and statement of cash flows. The relevant paragraphs of the Notes to the Financial Statements provide full details of the reasons underlying the decisions made and the measurements performed. In order to formulate reliable estimates and assumptions, reference has been made to past experience, and to other factors considered reasonable for the case in question, based on all available information.

However, we cannot exclude that changes in these estimates and assumptions may have a significant effect on the statement of financial position and income statement as well as on the potential assets and liabilities reported in the financial statements for disclosure purposes, if different elements emerge with respect to those considered originally.

In particular, a greater use of subjective assessments by company management is required in the following cases:

- calculation of impairment losses on equity investments;

- calculation of the current value of financial assets and liabilities where this cannot be directly observed on active markets. In this case, the subjective elements lie in the choice of measurement models or input parameters that cannot be directly observed on the market;
- definition of parameters used in the analytical assessment of securities investments to verify any impairment. In particular, reference is made to the choice of measurement models and the main assumptions and parameters used;
- assessment of the recoverability of deferred tax assets;
- quantification of provisions for risks and charges where there is uncertainty about the amount required and the contingency periods.

In such cases an explanation is provided with the aim of providing investors with a better understanding of the main causes of uncertainty, but in no way is meant to suggest that alternative assumptions might be appropriate or more valid. In addition, the financial statements measurements are made on the basis of going concern assumptions, as no risks have been identified that could compromise orderly business operations.

Information on the Statement of Financial Position and Income Statement

The items in the Statement of Financial Position and the changes in corresponding balances with respect to the previous year are commented on below, with additional information as required by current regulations.

Statement of Financial Position - Assets

B. Fixed assets

B) I – Intangible assets

Intangible assets totalled €2,311k at 31 December 2018, down by €888k compared to the previous year's balance, almost exclusively due to amortisation for the year.
This item is almost entirely comprised of Concessions, licences, trademarks and similar rights (€3,047k at 31/12/2017), referring to software user licences and accessory costs for related customisation.

The above amounts were recognised as assets with the consent of the Board of Statutory Auditors, where necessary.

B) II - Property, plant and equipment

The item Property, plant and equipment was at 31 December 2018 €761k (€977k at 31/12/2017) and referred to 728k of furnishings, hardware and works of art (€902k at 31/12/2017) and €33 k in plant and equipment (€74k at 31/12/2017).

The changes in intangible asset items, property, plant and equipment items and the related accumulated amortisation/depreciation are described in Annexes 4 and 5 to these Notes to the Financial Statements.

B) III - Financial fixed assets

1) Investments

The total value of investments at 31 December 2018 was €6,312,973k, compared to €6,412,694k at the end of the previous year, recording a decrease of €99,721k (-1.6%).
Details are provided in the table below:

Amounts in €k

Company	Business activities	Share capital	% holding direct	% holding indirect	Carrying amount
Investments in subsidiaries:					
UnipolSai Assicurazioni S.p.A.	Insurance and reinsurance	2,031,456	50.99	28.28	4,527,708
Unipol Investment S.p.A.	Investment holding	5,180	100.00		528,577
Unipol Finance S.r.l.	Investment holding	5,000	100.00		482,800
UnipolPart I S.p.A.	Investment holding	4,100	100.00		463,198
UnipolReC S.p.A.	Credit recovery	290,123	57.75	42.25	180,813
UnipolSai Investimenti SGR S.p.A.	Asset Management	3,914	51.00	49.00	10,710
UnipolSai Servizi Consortili S.c.r.l.	Other	5,200	0.02	99.98	7
Total					**6,193,813**
Investments in other companies:					
BPER	Bank	1,443,925	5.19	9.86	119,160
Total					**119,160**
TOTAL					**6,312,973**

At 31 December 2018, Unipol also held 1,000,000 UnipolSai shares, classified among current financial assets. If these shares are also considered, the direct investment in UnipolSai is 51.03%.
The details of changes in item B.III1) "Investments" are provided in Annex 6 to these Notes to the Financial Statements.

The change in the balance is due to the following transactions carried out in 2018:

- **Arca Vita S.p.A.**
  On 7 August 2018, after having obtained the appropriate authorisations from IVASS and from the Central Bank of Ireland, the sale to UnipolSai of the controlling interest, equal to 63.39% of the share capital, held by Unipol in Arca Vita S.p.A., was finalised for the price of €475m, recognising a profit of €115,842k.

- **UnipolPart I S.p.A.**
  The company UnipolPart I S.p.A. was established on 14 June, with share capital of €50k, wholly owned by Unipol Gruppo S.p.A.
  On 22 June 2018, the subsidiary received a payment for a future share capital increase of €75,000k On 26 September 2018, the Extraordinary Shareholders' Meeting of UnipolPart I resolved on a share capital increase with share premium, subscribed through assignment by the holding company Unipol of 204,620,000 UnipolSai shares - previously allocated in the current assets portfolio - for a total of €405,148k, of which €4,050k as principal and €401,098k as share premium. The Shareholders' Meeting also resolved to classify €58,000k of the payment for the future share capital increase of €75,000k made to the Company by Unipol Gruppo as a capital account payment, and to partially repay the contribution received in June, reimbursing €17,000k to the holding company on 27 September, having completed the share purchase plan on the basis of which that payment had been disbursed.

- **UnipolReC S.p.A.**
  The partial spin-off of Unipol Banca S.p.A. with the newly-established UnipolReC S.p.A. as beneficiary, illustrated in full in the Management Report, led to the recognition in Unipol Gruppo of an investment in UnipolReC and a carrying amount of €180,813k and the reduction in the investment held in Unipol Banca S.p.A. by an equal amount. The carrying amount of UnipolReC was determined by allocating, to the company divided and the beneficiary company, proportionally to their respective net capital on the date of the spin-off, the value of the investment already held in Unipol Banca and recognised at 31 December 2017 for €503,733km.

- **Unipol Banca S.p.A.**
  On 1 February 2018, the value of the investment was reduced by €180,813k (an amount equal to the recognised value of the investment in UnipolReC), standing at €322,920m.
  Subsequently, in 2018, preliminary activities commenced for the disposal of the investment in Unipol Banca which led, on 7 February 2019 to the signing of an agreement with BPER Banca which, if certain conditions precedent are fulfilled, envisages the full disposal of the investment in Unipol Banca, held directly and indirectly through the subsidiary UnipolSai, against a cash payment of €220m. In this regard, the investment was reclassified under current assets and written down by €195,872k to align it to the expected sale price.

- **BPER Banca S.p.A.**
  In June 2018, Unipol Gruppo purchased a total of 25,000,000 shares of BPER Banca S.p.A., equal to 5.19% of the Bank's share capital, for a total of €119,160k.

The following table lists the subsidiaries, indicating the carrying amount and related percentage of shareholders' equity calculated on the basis of the last draft financial statements approved by the subsidiary's Board of Directors.
Any recognised value of the investment in excess of the corresponding portion of the carrying amount of shareholders' equity, refers to the equity, economic and strategic value of the company together with its future profitability.

Amounts in €k

Company	Carrying amount	% holding	Shareholders' equity at 31/12/2018	Portion of shareholders' equity attributable
UnipolSai Assicurazioni S.p.A.	4,527,708	50.99	5,765,853	2,940,008
Unipol Investment S.p.A.	528,577	100.00	571,856	571,856
Unipol Finance S.r.l.	482,800	100.00	487,756	487,756
UnipolPart I S.p.A.	463,198	100.00	463,207	463,207
UnipolReC S.p.A.	180,813	57.75	320,095	184,855
UnipolSai Investimenti SGR S.p.A.	10,710	51.00	18,078	9,220
UnipolSai Servizi Consortili S.c.r.l.	7	0.02	36,106	7
Total	**6,193,813**		**7,662,950**	**4,656,909**

It should be specifically noted that, to assess the value of UnipolSai Assicurazioni, an SOP (Sum of Parts) methodology was adopted, estimating separately the value assigned to assets in the Non-Life and Life businesses, using:

- an excess capital version of a Dividend Discount Model (DDM) in relation to UnipolSai Assicurazioni – Non-Life;
- an Appraisal Value methodology for UnipolSai Assicurazioni - Life.

The investment in **UnipolSai Investimenti SGR** shows a recognised value in excess of the corresponding portion of shareholders' equity, representing goodwill recognised at the time of the acquisition and justified by the profitability expected from that investment.

2) Receivables

Receivables recognised as fixed assets were €149,787k, against €268k at 31 December 2017. The increase is due to the disbursement of a shareholder loan of €173,250k to Unipol Banca on 31 January 2018, which, as envisaged in the Spin-Off Plan, was then included in the Complex involved in the division transferred to the newly-established UnipolReC S.p.A..
The shareholder loan accrues annual interest of 3.25%, expires on 16 January 2028 and is to be paid back in 8 annual instalments of an equal amount starting from 16 January 2021. In any event, UnipolReC has the option, at any time, of repaying, even partially, the residual debt, in advance.
On 10 December 2018 UnipolReC made a partial repayment for the amount of €28,009k in principal plus interest.
On 31 December 2018 the above loan was recognised under "Receivables from subsidiaries", and corresponds to €149,561k (the interest portion of which is €4,319k).

The item "Receivables from others" of €227k (€268k at 31/12/2017), includes:

- €184k for collateralised loans (€202k at 31/12/2017);
- €32k for loans granted to employees guaranteed by Life policies (€55k at 31/12/2017);
- €10k for utility guarantee deposits (€11k at 31/12/2017).

The amounts due after 31 December 2019 are equal to €149,737k, of which €90,776k due after 31 December 2023.

3) Other securities

The item Other securities amounted to €550,626k (€8,796k at 31/12/2017) and includes government bonds for €459,502k and other listed bonds for €91,124k. The decrease on 31 December 2017 is attributable to the sales of bonds in the portfolio during the year.

C. Current assets

C) II – Receivables

The balance of this item at 31 December 2018 came to €546,935k, a decrease of €185,003k compared to 31 December 2017. The breakdown for this item and the comparison with the previous year are shown in the following table:

Amounts in €k

	31/12/2018	31/12/2017
1) Receivables from customers	22	22
2) Receivables from subsidiaries	11,637	129,452
3) Receivables from associates		8
5 bis) Tax receivables	79,154	66,474
5 ter) Deferred tax assets	455,225	535,322
5 quater) Receivables from others	898	661
Total	**546,935**	**731,938**

The amounts due after 31 December 2019 are equal to €533,826k, of which €355,064k due after 31 December 2023.

"Receivables from subsidiaries" amounted to €11,637k (€129,452k at 31/12/2017) and mainly consisted of:

- receivables pertaining to the group tax consolidation, totalling €3,585k (€112,600k at 31/12/2017), due from the subsidiaries that individually have an IRES tax debt, net of advances paid;

- receivables relating to the chargeback of costs for personnel seconded to Group companies;
- receivables from Group companies that participate in the Group consolidated VAT scheme.

"Tax receivables" amounted to €79,154k (€66,474k at 31/12/2017), and mainly consisted of:

- €72,191k for tax receivables for IRES balance deriving from the 2018 Tax Consolidation (€60,185k at 31/12/2017), of which €1,404k relating to foreign tax receivables from previous years. The total receivable can be used to offset taxes within the limits set out by regulations in force;
- €494k in IRAP tax receivables from previous years (€1,194k at 31/12/2017), which can be used to offset taxes within the limits set out by regulations in force;
- €2,129k for other tax receivables, mainly relating to taxes paid in previous years on cases in litigation for which successful outcomes resulting in reimbursement are confidently expected.

The balance of the deferred tax assets at 31 December 2018, equal to €455,225k, shows net decrease of €80,097k with respect to 31 December 2017. The changes during the year are summarised in the following table.

Amounts in €k

Opening balance at 1/1/2018	**535,322**
Increases in the year	16,682
Uses in the year	(96,778)
Closing balance at 31/12/2018	**455,225**

With regard to the statement of temporary differences which led to the recognition of deferred tax assets and liabilities (Art. 2427, paragraph 1, no. 14 of the Civil Code), as well as the movements during the period, reference should be made to Annex 8 to the Notes to the Financial Statements.

Net tax assets are deemed to be recoverable on the basis of the provisional plans of Group companies, taking into account the effects of the tax consolidation and current regulations both on unlimited carry-forward of tax losses to future years, and the transformation into tax receivables of deferred tax assets in cases of statutory loss and/or tax loss in the presence of amortisation of taxable goodwill.

The item "Receivables from others" under Current Assets went from €661k at 31 December 2017 to €898k at 31 December 2018.
This item includes:

- €143k sundry receivables from current and former employees (€121k at 31/12/2017);
- €67k receivables for utility guarantee deposits (€75k at 31/12/2017);
- receivables due from owners of properties for advances for €51k (€41k at 31/12/2017);
- a receivable of €270k, against a collateralised guarantee acknowledged to a counterparty with regard to the sale of a call option on listed share securities.

This item is recognised net of the related write-down provisions.

C) III – Current financial assets

The breakdown of this item, equal to €150,052k at 31 December 2018, is as follows:

Amounts in €k

	31/12/2018	31/12/2017
Investments in subsidiaries	128,565	121,751
Other securities	21,487	42,953
Total	**150,052**	**164,703**

"Investments in subsidiaries" include €127,047k in shares of the subsidiary company Unipol Banca, transferred from financial fixed assets to current assets as mentioned previously, due to the planned sale to BPER Banca and, €1,518k in shares of the subsidiary company UnipolSai to serve the executive incentive plans (€118,456 at 31/12/2017).

"Other securities" refer to:

- listed bonds for €20,656k (€40,178k at 31/12/2017);
- foreign funds for €831k (€2,399k at 31/12/2017).

Details of the shares and securities recognised as current assets are provided in Annex 7 to the Notes to the Financial Statements.

C) IV - Cash and cash equivalents

Cash and cash equivalents, which at 31 December 2018 were €1,092,714k (€1,421,000k at 31/12/2017), consist almost entirely of bank and post office deposits, equal to €1,092,701k, of which €1,092,646k deposited with the subsidiary Unipol Banca S.p.A. (€1,420,987k at 31/12/2017, of which €1,420,973k deposited with the subsidiary Unipol Banca S.p.A.).

D. Accruals and deferrals

The Item "Accruals and deferrals" at 31 December 2018 was €2,898k (€727k at 31/12/2017), and consisted of the following:

Amounts in €k

	31/12/2018	31/12/2017
Accruals	2,474	183
Deferrals	424	545
Total	**2,898**	**727**

The accruals related entirely to interest on securities.

Statement of Financial Position - Liabilities

A. Shareholders' equity

Movements in shareholders' equity recognised during the year with respect to the previous year are set out in the attached Statement of Changes in Shareholders' Equity (Annex 2).

A statement of use and availability of equity reserves has also been prepared, as required by Art. 2427, par. 1, letter 7-bis of the Civil Code (Annex 3).

The share capital and equity reserves at 31 December 2018 (excluding the results for the year, totalled €5,445,369k (€5,353,935k at 31/12/2017). The increase of €91,434k was due to the following effects:
- allocation to profit reserves of the profit for 2017, net of dividends distributed in 2018, of €21,335k to the legal reserve and €63,367k to the extraordinary reserve;
- reduction of the negative reserve for treasury shares in portfolio for €6,731k following assignment to those entitled as part of the Long Term Incentive (LTI) Plans based on performance share type financial instruments.

At 31 December 2018 the share capital was €3,365,292k (unchanged with respect to 31/12/2017), subscribed and fully paid-up, and consisted of 717,473,508 shares, all ordinary shares.

The breakdown of equity reserves, €2,080,076k at 31 December 2018, is provided in the following table together with the previous year's values:

Amounts in €k

		31/12/2018	31/12/2017
A.II	Share premium reserve	1,435,735	1,435,735
A.IV	Legal reserve	583,001	561,666
A.VI	Extraordinary reserve	63,367	
A.X	Negative reserve for treasury shares	(2,027)	(8,758)
Total		**2,080,076**	**1,988,643**

The changes in the composition of the reserves, with the exception of the negative reserve for treasury shares in portfolio, are due to the execution of the resolutions of the Shareholders' Meeting of 24 April 2018 on the allocation of the profit for the year 2017 and authorisation to purchase treasury shares and shares of the holding company without setting up in advance specific provisions for future purchases.

B. Provisions for risks and charges

The following table summarises the changes during the year in "Provisions for risks and charges", which at 31 December 2018 were equal to €433,701k, (€342,607k at 31/12/2017).

Amounts in €k

		Increases	Decreases		
	31/12/2017	Provisions	Uses	Other	31/12/2018
3) Financial derivative liabilities					
Option on Unipol Banca shares	339,248	87,289			426,538
4) Other					
Provision for sundry risks and charges	1,569	2,345	(146)	(145)	3,623
Provision for taxes from previous years	1,790	1,750			3,540
	342,607	**91,384**	**(146)**	**(145)**	**433,701**

"Financial derivative liabilities" includes provisions recorded in connection with the put option contract outstanding on the Unipol Banca and UnipolReC shares held by UnipolSai, determined based on a valuation of the shares underlying the option, with the measurement of the investment held.
As already illustrated in the Management Report, note that, by virtue of the proportional spin-off of Unipol Banca to UnipolReC, which took effect on 1 February 2018, the put option in place on said date and regarding 246,726,761 Unipol

Banca shares held by UnipolSai was automatically extended to UnipolReC shares (79,766,325) issued at the time of the Spin-Off for a share corresponding to 27.49% of UnipolReC's total share capital, without triggering any changes on the total put exercise price.

The increase of "Provision for sundry risks and charges" is mainly due to the provision of €1,500k against the possible enforcement of a guarantee on the former investee Città del Mare.

The "Provision for taxes from previous years" includes:

- the provision made for the dispute of the former Aurora Assicurazioni for the 2007 tax year of €1,790k;
- a provision made during the year, following the use of the option regulated by Art. 6 of Decree Law 119/2018, converted by Law 136 of 18 December 2018, to settle tax disputes that arose by tax year 2012, for €1,750k.

Relations with the Tax Authorities

The IRES and IRAP dispute for the tax periods between 2005 and 2007 of the former Aurora Assicurazioni, merged by incorporation into Unipol in 2007, pertaining mostly to findings relating to specific insurance provisions, is still pending for 2005 and 2006 before the Court of Cassation. For 2007, however, proceedings were adjourned pending pronouncement by the Supreme Court. The provisions made at 31 December 2018 are believed to be adequate against the risks estimated to arise from these disputes.
As regards the pending VAT dispute on coinsurance contracts between 2003 and 2010, the rulings of the provincial and regional tax commissions have been mostly in the company's favour, and it believes that there are valid reasons to be able to gain acknowledgment of the correctness of the behaviour adopted. However, given the intrinsic uncertainty as to how the dispute will progress and in the light of particularly favourable conditions, now practicable, the company is evaluating the option of availing itself of the provisions set forth in the Decree Law 119 of 23 October 2018, converted from the Law 136 of 18 December 2018, for the conclusion of current tax disputes for all of the tax years in question, by paying amounts that are significantly lower than the disputed ones. The claim for the final settlement must be filed by 31 May 2019 along with the payment of the due amounts, after deducting the payments already made for any reason, pending court judgment. Any excess amount will not be reimbursed in any event.
The increase of provisions for taxes corresponds to the expense calculated for the above-illustrated option.
Note that the general audit of the company commenced by the Italian Tax Police of Bologna in February 2018 in relation to the tax period 2016, later extended to include the years 2014 to 2017, concluded with a single charge concerning the pertinence of costs deriving from indemnity agreements signed with Unipol Banca in 2011, later amended and supplemented, regarding the risk of default on a number of non-performing loans. The agreements were terminated early in 2017. The company does not feel it can agree with the finding and believes it can obtain confirmation of the correctness of the tax treatment adopted as regards how and when it was assessed. For these reasons, no provision has been allocated.

C. Post-employment benefits

The balance of post-employment benefits at 31 December 2018, was equal to €37k, more or less unchanged with respect to the previous year.
The breakdown of the changes over the year is provided in the following table:

Amounts in €k

Balance at 1/1/2018		**37**
Increases in the year		
	Provisions in the year	623
	Other increases	0
Decrases in the year		
	Transfer to pension fund	(410)
	Transfers to INPS treasury fund	(146)
	Other decreases	(66)
Closing balance at 31/12/2018		**37**

D. Payables

The balance of Payables at 31 December 2018 was equal to €2,863,728k (€2,834,371k at 31/12/2017). The breakdown and related comparison with the previous year are provided in the following table:

Amounts in €k

	31/12/2018	31/12/2017
Bonds	1,811,029	1,802,258
Payables to shareholders		15
Payables to other lenders	515	515
Trade payables	6,116	4,269
Payables to subsidiaries	1,027,911	1,006,501
Tax payables	738	4,111
Social security charges payable	544	504
Other payables	16,874	16,197
Total	**2,863,728**	**2,834,371**

The amounts due after 31 December 2019 were equal to €1,811,029k, of which €1,488,925k due after 31 December 2023.

The item "Bonds" was €1,811,029k (€1,802,258k at 31/12/2017), and consists of the following:

- for a total of €322,104k (€319,029k at 31/12/2017) on the *senior* bond loan (nominal value of €317,352k), listed on the Luxembourg Stock Exchange, with a seven-year duration (March 2021 maturity) and 4.375% fixed interest rate;
- for a total of €990,259k (€984,884k at 31/12/2017) on the *senior* bond loan (nominal value of €1,000,000k), listed on the Luxembourg Stock Exchange, with a ten-year duration (March 2025 maturity) and 3% fixed interest rate;
- for a total of €498,666k (€498,345k at 31/12/2017) on a non-convertible, non-subordinate and non-guaranteed *senior* bond loan (nominal value of €500,000k), listed on the Luxembourg Stock Exchange, with a ten-year duration (November 2027 maturity) and 3.5% fixed interest rate;

The issues described above were implemented as part of the *Euro Medium Term Notes (EMTN Programme)*, with a maximum total nominal amount of €2bn, established in December 2009 with the latest renewal in November 2017.
Total interest payments for the year were €61,384k (€45,867k at 31/12/2017).

The item "Trade payables" went from €4,269k at 31 December 2017 to €6,116k at 31 December 2018.

The balance of the item "Payables to subsidiaries" was €1,027,911k at 31 December 2018 (€1,006,501k at 31/12/2017), and consisted mainly of:

- €267,785k (unchanged against 31/12/2017), for two outstanding loans with the subsidiary UnipolSai Assicurazioni S.p.A. granted at the time it took over the role of issuer of the bond loans originally issued by Unipol. The loans, repayable on demand either in full or in part at the request of UnipolSai Assicurazioni S.p.A. and in any event at least three days before the repayment date of the aforementioned bond loans, bear interest at the 3M Euribor rate plus 100 b.p. spread. In 2018 interest expense of €1,833k accrued;
- €300,116k due to subsidiaries for the current tax consolidation (€229,268k at 31/12/2017);
- €455,187k due to the subsidiary Unipol Banca, relating to the payment extension agreed in the deed of termination of the indemnity agreement, for an original amount of €500,000k, to be paid in ten annual instalments with the option of early repayment, plus interest at an annual rate of 2.75%. The amount recognised in the financial statements includes interest accrued at 31 December 2018, equal to €13,174k. As part of the agreements signed with BPER Banca with regard to the planned sale of the investment in Unipol Banca, the full early repayment of the residual debt is envisaged.

The balance of "Tax payables" at 31 December 2018 was €738k, a decrease of €3,373k compared to the previous year, mainly attributable to the results of the Group VAT return which, at the end of the year, had a credit balance.

The balance of the "Social security charges payable" at 31 December 2018 was €544k (€504k at 31/12/2017). This item represents outstanding payments due at the end of the year to welfare institutions for contributions payable by the Company and borne by employees on December salaries.

The balance of the "Other payables" at 31 December 2018 was €16,874k, up with respect to the previous year by €677k. The balance mainly refers to:

- €15,273k for estimated liabilities for employee salary incentives (€13,855k at 31/12/2017);
- €878k due to employees for leave not taken (€692k at 31/12/2017).

Guarantees, commitments and other contingent liabilities

The guarantees, commitments and other contingent liabilities, not recorded in the Statement of Financial Position, are illustrated (at their contractual value) in the following table:

Amounts in €k

	31/12/2018	31/12/2017
Guarantees		
Sureties given in the interest of subsidiaries	25,435	6,511
Sureties and endorsements given in the interest of third parties	8	8
Other personal guarantees given in the interest of subsidiaries	561,689	561,689
Collateral received from third parties		72
Guarantees given by third parties in the interest of the company	1,666	1,666
Guarantees given by subsidiaries in the interest of the company	15	15
Total	**588,812**	**569,961**
Commitments		
Other commitments	1,158,247	1,331,497
Total	**1,158,247**	**1,331,497**
Grand total	**1,747,059**	**1,901,457**

"Other personal guarantees given in the interest of subsidiaries" include guarantees given for the subsidiary UnipolSai Assicurazioni S.p.A. in connection with the subordinated bond loans originally issued by Unipol, which UnipolSai Assicurazioni S.p.A. took over as issuer in 2009: UGF 7% 2021 maturity (for €300,000k) and UGF 5.66% 2023 maturity (for €261,689k).

"Other commitments" refers to a put option on 246,726,761 Unipol Banca shares and 79,766,325 UnipolReC shares held by UnipolSai, at a price of €579,073k, with a corresponding call option on the same investment, with the same price. For information on the exercise of the option, refer to the content of the section entitled "Significant events after the reporting period".

Information on financial derivatives

In compliance with the guidelines established by resolution of the Company's Board of Directors on 8 February 2018, financial derivative transactions during the year were performed solely to achieve two objectives: reduce investment risk (hedging) or achieve effective management of the portfolio, excluding therefore purely speculative purposes.
These aims were achieved through the specific derivatives listed in the Board of Directors resolution and involved securities held in portfolio at the time of conclusion of the related contract and for its entire duration.
All transactions were performed with banking counterparties or similar.

The derivative positions open at the end of the year are described below.

A. Derivative contracts involving forward equity swaps

The value recognised is the settlement price of the contracts. For transactions in foreign currencies the agreed forward rate was applied:

Amounts in €k

Transaction description	No. of transactions	Notional value at 31/12/2018
Purchase of call options	1	579,073
Sale of put options	1	579,073

The amounts shown in the table refer to the contract, already mentioned above, relating to the put option on the Unipol Banca and UnipolReC shares held by UnipolSai, at a price of €579,073k, with a corresponding call option on the same investment, with the same price.

B. Derivative contracts not involving forward equity swaps

At 31 December 2018 the Company did not hold contracts of this type.

Income Statement

The Income Statement is structured in accordance with the provisions of Art. 2425 of the Civil Code. Costs and revenues are recognised separately without netting.

A. Value of production

The total value of production at 31 December 2018 was €18,807k, against €31,122k at 31 December 2017.

A.5 Other revenue and income

"Other revenue and income" fell from €31,122k at 31 December 2017 to €18,807k at 31 December 2018.
The decrease of the balance of this item was also due to the termination of the Credit Indemnity Agreement with the subsidiary Unipol Banca, which in 2017 had generated commission income of €12,531k.
The items included in the balance referred mainly to:

- recovery of costs for services of Unipol personnel seconded to Group companies, for €15,824k (€15,363k at 31/12/2017);
- remuneration charged back to the Company for Director duties performed by executives at other companies, for €2,230k (€2,264k at 31/12/2017).

At 31 December 2018 there was €555k in income, relating mainly to the surplus of provisions for legal actions and disputes with employees concluded during the year and to the reversal of negative items relating to the tax consolidation that were no longer eligible.

B. Costs of production

The total value of the costs of production at 31 December 2018 was €57,382k against €158,108k at 31/12/2017.

B.6 Raw materials, consumables and goods for resale

The item, equal to €201k (€278k at 31/12/2017) consists of purchase costs of printed materials and stationery for the offices.

B.7 Costs for services

The item was equal to €18,892k at 31 December 2018 (€18,137k at 31/12/2017), broken down as follows:

Amounts in €k

	31/12/2018	31/12/2017
Costs for IT services	180	44
Technical, legal and administrative consulting	7,001	5,966
Electricity, heating and cleaning	252	402
Corporate bodies	3,717	3,637
Seconded personnel services	96	83
Post and telephone	118	134
Other overheads	374	356
Corporate and Shareholders' Meeting costs	280	284
Advertising	865	1,278
Software maintenance, repairs and upgrades	235	163
Fees for auditing and other certification services	289	388
Conventions, meetings and corporate events	71	23
Subsidiary services	5,412	5,378
Total	**18,892**	**18,137**

The increase in costs for services is mainly due to the cost for consultancy received in relation to the Banking sector restructuring plan and other extraordinary transactions carried out during the year.

B.8 Costs for use of third party assets

The item, equal to €1,276k at 31 December 2018 (€898k at 31/12/2017), mainly refers to rents due on properties used by the Company (€741k at 31/12/2018). The item also includes €222k for car rental contracts of cars allocated to executives.

B.9 Personnel costs

The cost of labour at 31 December 2018 amounted to €27,128k, compared to €28,212k in the previous year.

The Company workforce went from 22 at 31 December 2017 to 20 at 31 December 2018, with changes as follows:

	31/12/2017	Recruitments	Terminations	31/12/2018
Admin. personnel - Permanent	22		(2)	20
Total	**22**		**(2)**	**20**

The average of employees is as follow:

Average employees broken down by category	2018	2017
Executives	19	19
Employees	1	1
Average employees	**20**	**20**

B.10 Amortisation, depreciation and write-downs

The balance of this item, which at 31 December 2018 was €1,166k (€1,818k at 31/12/2017), can be broken down as follows:

- amortisation of intangible assets for €950k;
- depreciation of property, plant and equipment for €216k.

Details of changes in intangible assets and property, plant and equipment are provided in Annexes 4 and 5 to these Notes.

B.12 Provisions for risks

The item went from €461k at 31 December 2017 to €2,345k at 31 December 2018. The increase is mainly due to the provision of an amount of €1,500k against the possible enforcement of a guarantee issued in the past in the interests of an indirect subsidiary.

B.14 Sundry operating expenses

The item amounted to €6,375k at 31 December 2018 (€108,306k at 31/12/2017). Note that the balance at 31 December 2017 included €105,367k following the termination of the Credit Indemnity Agreement with the subsidiary Unipol Banca.

This item mainly refers to:

- contributions paid to supervisory authorities and other associations, for €1,234k (€1,189k at 31/12/2017);
- donations for €750k (€755k at 31/12/2017);
- corporate and shareholders' meeting costs for €437k (€353k at 31/12/2017);
- taxes on financial transactions of €413k (€195k at 31/12/2017).

At 31 December 2018, €3,132k of extraordinary losses were recorded relating mainly to credit with foreign Tax Authorities that could no longer be recovered of €1,333k and provisions made following the use of the option regulated by Art. 6 of Decree Law no. 119/2018, converted by Law no. 136 of 18 December 2018, to settle tax disputes that arose by tax year 2012 (€1,750k).

C. Financial income and charges

C.15 Gains on investments

The item was equal to €452,076k at 31 December 2018 (€1,025,013k at 31 December 2017), of which €447,342k refers to investments in subsidiaries (€1,023,356k at 31 December 2017)an consists of:

- the capital gain recorded on the sale to UnipolSai of the investment in Arca Vita (€115,842k). as well as the marginal capital gains deriving from the final distribution of UnipolPart in liquidation (€1,366k) and from the transfer to UnipolPart I of UnipolSai shares (€169k). At 31 December 2017, these gains had included those realised on the sale to UnipolSai of the equity investments in Linear and UniSalute (€89,493k and €653,387k, respectively);
- dividends resolved and collected during the year from the subsidiaries UnipolSai, Arca Vita, Unipol Investment, Unipol Finance and UnipolSai Investimenti SGR for €329,966k (€280,476k at 31/12/2017).

C.16 Other financial income

The composition of this item, with a total amount equal to €13,203k (€6,139k at 31/12/2017), is summarised in the following table:

Amounts in €k

	31/12/2018	31/12/2017
A) Receivables recognised under fixed assets		
1. Subsidiaries	5,103	
4. Others	0	0
Total	**5,103**	**0**
C) Securities recognised under current assets	**7,549**	**6,129**
D) Other income		
1. Subsidiaries	12	9
4. Others	539	0
Total	**551**	**9**
Grand total	**13,203**	**6,139**

Financial income from receivables recorded under fixed assets is represented by the interest on the loan granted to the subsidiary UnipolReC S.p.A. (€5,103k).

Income from securities recognised under current assets, equal to €7,549k , includes mainly interest on bonds for €4,317k (€1,857k at 31/12/2017) and capital gains on bond trading for €2,157k (€3,040k at 31/12/2017).

C.17 Interest and other financial charges - C.17.bis Exchange gains (losses)

Interest and other financial charges for €91,668k were recognised at 31 December 2018 (€65,561k at 31/12/2017); the item Exchange gains (losses) was positive for €12k (negative for €623k at 31/12/2017).

Amounts in €k

	31/12/2018	31/12/2017
Interest and other financial charges:		
a. Subsidiaries	(15,139)	(8,049)
d. Others	(76,529)	(57,512)
Total	**(91,668)**	**(65,561)**
Exchange gains (losses)	12	(623)
Grand total	**(91,656)**	**(66,184)**

Interest and financial charges due to subsidiaries, equal to €15,139k (€8,049k at 31/12/2017), includes interest, commissions and charges due to Group banks and companies. The item mainly refers to interest expense on the payable due to Unipol Banca, which arose in 2017 following the early termination of the credit indemnity agreement of €13,174k (€5,801k at 31/12/2017) and that on the loans in place with UnipolSai which at 31 December 2018 were €1,833k (€1,827k at 31/12/2017).

Interest and other financial charges due to others totalled €76,529k (€57,512k at 31/12/2017) and mainly referred to:

- interest expense on bond loans for €61,384k (€45,867k at 31/12/2017);
- charges arising from the issue of bond loans for €8,771k (€8,495k at 31/12/2017).

D. Value adjustments to financial assets

At 31 December 2018 the item had a negative balance for €289,965k (negative for €655,843k at 31/12/2017), mainly due to the write-down of the investment in the subsidiary Unipol Banca S.p.A. (€195,872k). At 31 December 2017, the same investment had been written down by €445,065k.

In addition to this write-down, at 31 December 2018 the item included:

- unrealised losses on securities recognised under current assets for €6,803k (€352k at 31/12/2017);
- losses on valuation of financial derivatives for €87,289k (€211,915k at 31/12/2017). The entire amount related to the valuation of the put/call option on Unipol Banca and UnipolReC shares (at 31/12/2017 the amount relating only to the Unipol Banca option was €211,915k).

Income tax for the year: current and deferred

Taxes for the year recorded total income tax of €21,141k (income tax of €31,212k at 31/12/2017) relating to the valuation of the tax loss for €21,374k, to taxes relating to previous years for €19k and the net balance of deferred tax assets and liabilities for €214k, as shown in the following table:

Amounts in €k

	IRES	Total 2018	IRES	Total 2017
Current taxes	**21,374**	**21,374**	**171,787**	**171,787**
Taxes pertaining to prior years	**(19)**	**(19)**	**323**	**323**
Deferred tax assets and liabilities:				
- use of deferred tax assets	(5,076)	(5,076)	(146,074)	(146,074)
- recognition of deferred tax assets	4,862	4,862	5,176	5,176
Balance of deferred tax assets/liabilities	**(214)**	**(214)**	**(140,898)**	**(140,898)**
Total	**21,141**	**21,141**	**31,212**	**31,212**

No income or charges were recognised for IRAP tax, since the taxable income for IRAP purposes was negative and regulations do not allow IRAP losses to be carried forward.

The statement of reconciliation between theoretical and effective IRES tax charges is provided below.

Amounts in €k

	2018		2017	
Pre-tax profit (loss)		**45,083**		**182,140**
Taxes pertaining to prior years		(19)		323
Theoretical IRES - Income/(Expenses)		(10,820)		(43,714)
Increases:		(69,881)		(158,728)
- Provisions for tax liabilities	(21,729)		(50,860)	
- Interest expense	(691)		(540)	
- PEX investments - write-downs	(47,009)		(106,896)	
- Other changes	(451)		(432)	
Decreases:		101,861		233,331
- Dividends excluded	75,443		63,948	
- PEX investments - gains exempt	26,412		169,377	
- Other changes	5		5	
IRES pertaining to the year - Income/(Expenses)		**21,160**		**30,889**
Profit (loss) after taxes		**66,224**		**213,352**

With regard to the statement of temporary differences which led to the recognition of deferred tax assets and liabilities (Art. 2427, paragraph 1, no. 14 of the Civil Code), reference should be made to Annex 8 to the Notes to the Financial Statements.

Other information

Consolidated Financial Statements

Unipol Gruppo, Parent of the Unipol Insurance Group (registered in the Insurance Groups Register with reg. no. 046), prepares the Consolidated Financial Statements in accordance with Art. 154-*ter* of Legislative Decree 58/1998 (Consolidated Law on Finance) and of ISVAP Regulation no. 7 of 13 July 2007, as amended. They conform to the IAS/IFRS standards issued by the IASB and endorsed by the European Union, along with the interpretations issued by IFRIC, in accordance with the provisions of Regulation (EC) no. 1606/2002 in force on the closing date of the financial statements. A copy of the Consolidated Financial Statements at 31 December 2018 is available from the company's registered office and on the company's website (www.unipol.it).

The layout, given the company's status as mixed financial holding company, with a predominance of insurance business, as identified by Legislative Decree 142/2005, conforms to the provisions of ISVAP Regulation 7 of 13 July 2007, Part III, as amended, relating to the layout of the consolidated financial statements of insurance and reinsurance companies that must adopt IFRS.

Unipol Gruppo also acts as the Parent of the Unipol Banking Group and the mixed financial holding company leading the Unipol conglomerate.

Fees for legally-required audit and non-audit services

Pursuant to Art. 149-*duodecies* of the Consob Issuer's Regulation, the following table shows the fees paid by Unipol to the independent auditors, or a member of their network, for the provision of auditing and other services, by type or category.

Amounts in €k

Type of services	Provider of the service	Recipient	Fees (*)
Legally-required audit	PricewaterhouseCoopers S.p.A.	Unipol S.p.A.	147
Other professional services	PricewaterhouseCoopers S.p.A.	Unipol S.p.A.	108
Total Unipol Gruppo			**255**

(*) Fees do not include non-deductible VAT, if any, and recharged expenses

Transactions with related parties

Loan to UnipolReC S.p.A.

On 31 January 2018, as part of the restructuring plan of the banking sector, Unipol and UnipolSai granted a shareholder loan to Unipol Banca, of €173,250k and €126,750k respectively, for a total of €300,000k which, as envisaged in the Spin-Off Plan, was included in the Complex involved in the division transferred to the newly-established company UnipolReC S.p.A. The shareholder loan accrues annual interest of 3.25%, expires on 16 January 2028 and is to be paid back in 8 annual instalments of an equal amount starting from 16 January 2021. In any event, UnipolReC has the option, at any time, of repaying, even partially, the residual debt, in advance.
On 10 December 2018, UnipolReC paid Unipol Gruppo €28,009k to reduce the abovementioned shareholder loan transferred by Unipol Banca to UnipolReC.

Option on Unipol Banca and UnipolReC shares

Following the Spin-Off of Unipol Banca to UnipolReC, the put/call option, in place between Unipol and UnipolSai and involving Unipol Banca shares, was automatically extended to UnipolReC shares issued at the time of the Spin-Off for a share corresponding to 27.49% of UnipolReC's total share capital, without triggering any changes on the total put exercise price.

Sale to UnipolSai of the investment in Arca Vita

On 22 March 2018, the Board of Directors of Unipol approved the sale to UnipolSai of the investment held in Arca Vita S.p.A. (and with it also of its subsidiaries), equal to 63.39% of the share capital, for a price of €475,000k, including capital gains of €115,842k.
The sale was finalised on 7 August 2018.

Tax consolidation for the three-year period 2018-2020

The Parent Unipol renewed the Group tax consolidation option as consolidating entity for the three-year period 2018-2020. All companies in the Unipol Group that meet the regulatory requirements take part in this regime as consolidated companies.

UnipolSai Assicurazioni S.p.A. loans payable

Two loan agreements are in place, arranged in 2009, for €267,785k (unchanged with respect to the previous year). Interest paid to UnipolSai Assicurazioni S.p.A. in 2018 was equal to €1,833k.

In addition to the information provided in previous paragraphs of these Notes to the Financial Statements, the breakdown of assets, liabilities, costs and revenues involving related parties is provided below:

Amounts in €k

	Subsidiaries	Associates	Total	% impact			
Fixed shares and holdings	6,193,813		6,193,813	70.3	(1)	1,346.1	(3)
Other receivables	161,197		161,197	1.8	(1)	35.0	(3)
Bank deposits	1,092,646		1,092,646	12.4	(1)	237.5	(3)
Current shares and quotas	128,565		128,565	1.5	(1)	27.9	(3)
TOTAL ASSETS	**7,576,222**		**7,576,222**	**86.0**	**(1)**	**1,646.6**	**(3)**
Sundry payables	1,027,911		1,027,911	11.7	(1)	223.4	(3)
TOTAL LIABILITIES	**1,027,911**		**1,027,911**	**11.7**	**(1)**	**223.4**	**(3)**
Dividends and other income from shares and holdings	447,342		447,342	992.3	(2)	97.2	(3)
Other financial income	5,115		5,115	11.3	(2)	1.1	(3)
Other revenue and income	17,911		17,911	39.7	(2)	3.9	(3)
TOTAL INCOME	**470,368**		**470,368**	**1,043.3**	**(2)**	**102.2**	**(3)**
Interest and financial charges	15,139		15,139	33.6	(2)	3.3	(3)
Costs for services	5,640		5,640	12.5	(2)	1.2	(3)
Costs for use of third party assets	759		759	1.7	(2)	0.2	(3)
Sundry operating expenses	765		765	1.7	(2)	0.2	(3)
TOTAL EXPENSES	**22,303**		**22,303**	**49.5**	**(2)**	**4.8**	**(3)**

(1) Percentage of total assets in the statement of financial position
(2) Percentage of pre-tax profit (loss)
(3) Percentage of total sources of funds in the statement of cash flows

Remuneration paid to members of the Administration and Control Bodies, the General Manager and Key Managers

Remuneration for 2018 due to Directors, Statutory Auditors and Key Managers of the Parent, for carrying out their duties in Unipol, was €15,437k, with breakdown as follows:

Amounts in €k

Directors and General Manager	7,107
Statutory Auditors	175
Other Key Managers	8.155 (*)

(*) mainly includes compensation of employees.

The remuneration of the General Manager and the other Key Managers relating to benefits granted under the capital participation plans (Performance Shares), is duly represented in the Remuneration Report, prepared according to Art. 123-*ter* of the Consolidated Law on Finance and made available, pursuant to current regulations, on the Company website.

In 2018 the companies of the Group paid Unipol the sum of €1,882k as remuneration for the activities carried out by the Chairman, the Chief Executive Officer, the General Manager and the Key Managers at said companies.

Information on public funds received

With reference to the regulation on the transparency of public funds introduced by Art. 1, paragraph 125 of Law 124/2017 and subsequent amendments and supplements, note that the Group, during the financial year 2018, has not collected subsidies, contributions, remunerated tasks and in any case economic advantages subject to the disclosure obligation in the financial statements pursuant to the above-cited regulation:
Even though it is believed that the regulation in question does not apply to contributions received from interprofessional funds, whilst awaiting the appropriate clarification on its interpretation, it must be noted that in 2018 the Company has collected, in its capacity as the party submitting the relative application, contributions from the Banks and Insurance Fund for the amount of €1,560k, almost wholly devolved, for the amount of €1,560k, to the beneficiary subsidiaries (UnipolSai Assicurazioni, Unisalute, Linear, SIAT, Arca Vita, Arca Assicurazioni Arca Inlinea, Arca Sistemi, Pronto Assistance Services), with regard to training provided to its employees in 2016 and 2017.

Non-recurring significant transactions during the year

The non-recurring significant transactions carried out in 2018, all extensively illustrated in the Management Report, to which reference should be made, are limited to the sale to the subsidiary UnipolSai of the investment held by Unipol in Arca Vita, of 63.39% of the share capital, for a consideration of €475,000k.

Atypical and/or unusual transactions during the year

No atypical and/or unusual transactions were carried out in the year ending 31 December 2018.

Significant events after the reporting period

Exercise by UnipolSai of the put option on Unipol Banca and UnipolReC shares

On 7 February 2019, UnipolSai's Board of Directors resolved to exercise the put option relating to 27.49% of the share capital of Unipol Banca and UnipolReC, held by the same Unipol by virtue of the option contract signed on 31 December 2013 between the former Fondiaria-Sai S.p.A. and Unipol Gruppo. On 14 February 2019, UnipolSai notified Unipol that it had exercised this option; the transfer of the shares was made on 1 March 2019 against payment by Unipol of a total consideration of €579.1m, calculated on the basis of the option contract. Following the exercise of the put option, Unipol holds a direct investment in Unipol Banca and in UnipolReC, corresponding to 85.24% of the respective share capital. The remaining shares of these companies are held by UnipolSai.

UnipolSai also granted to Unipol, within the scope of the afore-mentioned put option, a 5-year loan of €300m, also repayable early, at an interest rate of the 3-month Euribor plus a spread of 260 basis points. For Unipol, the aforementioned loan is targeted at maintaining a high level of financial flexibility with an important available liquidity buffer.

Sale of Unipol Banca to BPER

On 7 February 2019, the Board of Directors of Unipol Gruppo authorised the sale to BPER Banca S.p.A. of the entire investment held by Unipol, also through UnipolSai, in Unipol Banca S.p.A., corresponding to the entire share capital of the latter, for a cash consideration of €220m.

At the same time, it resolved UnipolReC's purchase of two separate portfolios composed of bad and doubtful loans, one owned by BPER Banca and one by Banco di Sardegna for a gross total of €1.3bn, for a consideration of €130m. On the same date, the relevant contractual agreements were signed between the parties involved, whose completion is subject to some conditions precedent, firstly of a regulatory and authorisation nature.

Note that the economic effects of the sale were already reflected in the financial statements for the year ending 31 December 2018.

Proposals to the Ordinary Shareholders' Meeting

Dear Shareholders,

We submit the following resolution proposal for your approval:

"The Ordinary Shareholders' Meeting of Unipol Gruppo S.p.A. ("Unipol", or the "Company"),

- having examined the draft financial statements at 31 December 2018;
- having examined the results of said draft financial statements, which close with a profit for the year totalling €66,223,514.49;
- given that:
  - the share capital is €3,365,292,408.03;
  - the legal reserve amounts to €583,000,714.24 and, therefore, is €90,057,767.37 lower compared to the fifth of the share capital;
  - the share premium reserve amounts to €1,435,734,954.59;
  - the extraordinary reserve amounts to €63,367,158.10 and consists of distributable dividends;
- having viewed the report of the Board of Directors on operating performance at 31 December 2018;
- having accepted the Board of Statutory Auditors Report and the report prepared by the company PricewaterhouseCoopers S.p.A. appointed to serve as the independent auditor;
- having acknowledged that as things currently stand, the Company holds 747,799 ordinary treasury shares;

hereby resolves

- to approve the financial statements of Unipol at 31 December 2018, accompanied by the Management Report, recording a profit for the year of €66,223,514.49;
- to raise the legal reserve to a balance equal to one fifth of the share capital, by withdrawing the amount of €90,057,767.37 from the share premium reserve;
- to approve the full dividend proposal, for the 716,725,709 ordinary shares outstanding, of the profit for the year resulting from the Company's financial statements at 31 December 2018, equal to €66,223,514.49, in compliance with Art. 19 of the By-laws;
- to approve the dividend distribution proposal, for the 716,725,709 ordinary shares outstanding, of part of the extraordinary reserve of profits referred to, for a total of €62,787,113.13
- to therefore approve the distribution of a total unit dividend, also in consideration of the redistribution of the dividend pertaining to treasury shares, equal to €0.18 for each entitled ordinary share, for a total of €129,010,627.62, also with warning that the possible change in the number of treasury shares in the portfolio of the Company at the time of the distribution will have no incidence on the amount of the unit dividend as established above, but will increase or decrease the amount allocated to Extraordinary reserve;
- to set the dividend payment date as 22 May 2019 (ex-dividend date of 20 May 2019 and record date of 21 May 2019)."

Bologna, 14 March 2019

The Board of Directors

4

TABLES APPENDED TO THE NOTES TO THE FINANCIAL STATEMENTS

Annex 1

Reclassified Income Statement

Amounts in €k

		31.12.2018		31.12.2017	
1)	Gains on investments:				
	in subsidiaries	447,342		1,023,356	
	in other companies	4,733		1,657	
	Total gains on investments		**452,076**		**1,025,013**
2)	Other financial income:				
	a) from receivables recognised under fixed assets		5,103		
	from subsidiaries	5,103			
	from others				
	c) from securities recognised under current assets		7,549		6,129
	d) income other than above		551		9
	from subsidiaries	12		9	
	from others	539			
	Total other financial income		**13,203**		**6,139**
3)	Interest expense and other financial charges:				
	subsidiaries	(15,139)		(8,049)	
	other	(76,529)		(57,512)	
	Total interest expense and other financial charges		**(91,668)**		**(65,561)**
	Exchange gains (losses)		12		(623)
TOTAL FINANCIAL INCOME AND CHARGES			**373,622**		**964,969**
4)	Write-ups:				
	c) of securities recognised under current assets			1,490	
	Total write-ups				**1,490**
5)	Write-downs:				
	a) of investments	(195,872)		(445,065)	
	c) of securities recognised under current assets	(6,803)		(352)	
	d) of financial derivative instruments	(87,289)		(211,915)	
	Total write-downs		**(289,965)**		**(657,333)**
TOTAL ADJUSTMENTS			**(289,965)**		**(655,843)**
6)	Other operating income	18,807		31,122	
TOTAL OTHER OPERATING INCOME			**18,807**		**31,122**
7)	Costs for non-financial services	(19,093)		(18,414)	
8)	Costs for use of third party assets	(1,276)		(898)	
9)	Personnel costs	(27,128)		(28,212)	
10)	Amortisation, depreciation and write-downs	(1,166)		(1,818)	
11)	Provisions for risks	(2,345)		(461)	
13)	Sundry operating expenses	(6,375)		(108,306)	
TOTAL OTHER OPERATING COSTS			**(57,382)**		**(158,108)**
PRE-TAX PROFIT (LOSS)			**45,083**		**182,140**
16)	Income tax for the year	21,141		31,212	
17)	**PROFIT (LOSS) FOR THE YEAR**		**66,224**		**213,352**

Statement of changes in shareholders' equity

Amounts in €k

	Share capital	Equity reserves			
		Share premium reserve	Revaluation reserves	Legal reserve	Reserve for treasury/holding company shares
BALANCES AT 31 DECEMBER 2016	**3,365,292**	**1,410,010**	**20,701**	**545,677**	**143,469**
Shareholders' Meeting resolutions of 28 April 2017					
Allocation of 2016 profit and cover of losses carried forward					
- legal reserve				15,989	
- extraordinary reserve					
- dividend to shareholders					
- cover of losses carried forward			(20,701)		(117,744)
Holding company shares residual fund release		25,725			(25,725)
Allocation of treasury shares to third parties					
Profit (loss) for the year 2017					
BALANCES AT 31 DECEMBER 2017	**3,365,292**	**1,435,735**		**561,666**	
Shareholders' Meeting resolutions of 24 April 2018					
Allocation of 2017 profit					
- legal reserve				21,335	
- extraordinary reserve					
- dividend to shareholders					
Allocation of treasury shares to third parties					
Profit (loss) for the year 2018					
BALANCES AT 31 DECEMBER 2018	**3,365,292**	**1,435,735**		**583,001**	

Annex 2

and unallocated profit

Reserve for treasury shares in portfolio	Extraordinary reserve	Other reserves	Retained Profit (loss)	Profit (loss) for the year	Negative reserve for treasury shares	TOTAL
	120,375	**18,315**	**(292,744)**	**159,885**	**(15,493)**	**5,475,488**
				(15,989)		
	15,608			(15,608)		
				(128,288)		(128,288)
	(135,984)	(18,315)	292,744			
					6,735	6,735
				213,352		213,352
				213,352	**(8,758)**	**5,567,287**
				(21,335)		
	63,367			(63,367)		
				(128,650)		(128,650)
					6,731	6,731
				66,224		66,224
	63,367			**66,224**	**(2,027)**	**5,511,592**

Annex 3

Statement of use and availability of equity reserves at 31/12/2018

Amounts in €k

Nature/Description	Amount	Possibility of use (*)	Available portion	Summary of uses made in the last three years: to cover losses	Summary of uses made in the last three years: for other reasons
Share capital	**3,365,292**				
Capital reserves					
Share premium reserve	1,435,735	A, B	1,435,735 (a)		
Legal reserve	365,499 (b)	B			
Extraordinary reserve				22,620[1]	
Provision for purchase of treasury shares				77,379[1]	
Provision for purchase of holding company shares				19,274[1]	
Revaluation reserve pursuant to Law 413/91				14,762[1]	
Property revaluation reserve				5,939[1]	
Share swap reserve (formerly revaluation Law 413/91)				18,315[1]	
Income-related reserves					
Legal reserve	217,502	B			
Extraordinary reserve	63,367	A, B, C	63,367	113,363[1]	
Provision for purchase of treasury shares				21,090[1]	
Retained Profit (loss)					
Negative reserve for treasury shares in portfolio	(2,027)		(2,027)		
Total	**5,445,369**		**1,497,075**		
Non-distributable portion			90,058 (c)		
Distributable portion			**1,407,018**		

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

(a) Distributable only if the legal reserve has reached the limit set forth in Art. 2430 of the Civil Code
(b) For transfer from share premium reserve
(c) Includes the residual amount required to top up the legal reserve to one-fifth of share capital pursuant to art. 2430 of the Italian Civil Code

[1] Cover of losses carried forward 2016

Statement of changes in intangible assets

Amounts in €k

	OPENING POSITION		
	Historical cost	Amortisation	Net amount at 31/12/2017
Start-up and expansion costs	73,835	(73,835)	
Research, development and advertising costs	9,259	(9,259)	
Concessions, licences, trademarks and similar rights	9,682	(6,635)	3,047
Fixed assets in progress and payments on account			
Other	3,373	(3,221)	152
TOTAL	**96,149**	**(92,950)**	**3,199**

Statement of changes in property, plant and equipment

Amounts in €k

	OPENING POSITION		
	Historical cost	Accumulated depreciation	Net amount at 31/12/2017
Plant and equipment	618	(544)	74
Other assets	3,073	(2,171)	902
TOTAL	**3,691**	**(2,715)**	**977**

Annex 4

MOVEMENTS DURING THE PERIOD					CLOSING POSITION		
HISTORICAL COST			AMORTISATION				
Increases	Decreases		Increases	Decreases			
Purchases	Sales	Reversals	Pro-rata current portion	Sales	Historical cost	Amortisation	Net amount at 31/12/2018
					73,835	(73,835)	-
					9,259	(9,259)	-
63			(799)		9,745	(7,434)	2,311
						-	
			(152)		3,373	(3,373)	
63			**(950)**		**96,212**	**(93,901)**	**2,311**

Annex 5

MOVEMENTS DURING THE PERIOD				CLOSING POSITION		
HISTORICAL COST		ACCUMULATED DEPRECIATION				
Increases	Decreases	Increases	Decreases			
Purchases	Sales	Current portion	Sales	Historical cost	Accumulated depreciation	Net amount at 31/12/2018
		(41)		618	(585)	33
		(175)		3,073	(2,345)	728
		(216)		**3,691**	**(2,930)**	**761**

Statement of changes in fixed investments

Amounts in €k

	CARRYNG AMOUNT AT 31/12/2017	
Name	No. of shares/ holdings	Value
UnipolSai Assicurazioni S.p.A.	1,442,912,800	4,527,708
UnipolSai Investimenti SGR S.p.A.	1,995,930	10,710
Arca Vita S.p.A.	22,005,690	359,158
Unipol Investment S.p.A.	3,430,535	528,577
Unipol Banca S.p.A	518,228,842	503,733
UnipolReC S.p.A.		
Unipol Finance S.r.l.	1	482,800
UnipolPart I S.p.A.		
UnipolSai Servizi Consortili S.c.a.r.l.	2,000	7
Total subsidiaries	**1,988,575,798**	**6,412,694**
BPER Banca S.p.A.		
Total other companies		
TOTAL B.III.1)	**1,988,575,798**	**6,412,694**

Annex 6

INCREASES IN THE YEAR				DECREASES IN THE YEAR				**CARRYNG AMOUNT AT 31/12/2018**	
FOR PURCHASES/SUBSCRIPTIONS		OTHER		FOR SALES		OTHER			
No. of shares/ holdings	Value	No. of shares/ holdings	Value	No. of shares/ holdings	Value	No. of shares/ holdings	Value	**No. of shares/ holdings**	**Value**
								1,442,912,800	4,527,708
								1,995,930	10,710
				(22,005,690)	(359,158)				
								3,430,535	528,577
						(518,228,842)	(503,733)		
		167,545,868	180,813					167,545,868	180,813
								1	482,800
50,000	50	4,050,000	463,148					4,100,000	463,198
								2,000	7
50,000	**50**	**171,595,868**	**643,961**	**(22,005,690)**	**(359,158)**	**(518,228,842)**	**(503,733)**	**1,619,987,134**	**6,193,813**
25,000,000	119,160							25,000,000	119,160
25,000,000	**119,160**							**25,000,000**	**119,160**
25,050,000	**119,210**	**171,595,868**	**643,961**	**(22,005,690)**	**(359,158)**	**(518,228,842)**	**(503,733)**	**1,644,987,134**	**6,312,973**

Annex 7

List of shares and securities included in current assets at 31/12/2018

Amounts in €k

ISIN Code	Security description	No. of shares/holdings at 31/12/2018	Carrying amount at 31/12/2018	Current value at 31/12/2018	Write-downs	Type
IT0004827447	UnipolSai Ord.	1,000,000	1,518	1,975		Listed Italian shares
	Total listed shares	**1,000,000**	**1,518**	**1,975**		
unipwcs9215	Banca di Rimini Credito Cooperativo Scrl	1				Unlisted foreign shares
IT0001308425	Unipol Banca S.p.A.	518,228,842	127,047	127,047	(195,872)	Unlisted foreign shares
EQUINOXA	Equinox Two S.C.A. A shares	28,652	15	19		Unlisted foreign shares
EQUINOX	Equinox Two S.C.A. R shares	4,970,950	816	816	(321)	Unlisted foreign shares
	Total unlisted shares	**523,228,445**	**127,879**	**127,883**	**(196,194)**	

ISIN Code	Security description	Nominal value at 31/12/2018 (in €)	Carrying amount at 31/12/2018	Current value at 31/12/2018	Write-downs	Type
XS1577952440	Altice Finco 4.75% 15/01/2028	5,000,000	4,047	4,047	(653)	Other listed bonds
XS1686880599	Banco BPM 4.375% 21/09/2027 CBLE SUB	7,000,000	6,353	6,353	(784)	Other listed bonds
XS1752894292	MPS 5.375% 18/01/2028 CBLE SUB	10,000,000	6,084	6,084	(4,016)	Other listed bonds
XS1756703275	Raiffeisen BK 4.5% 15/06/2025-49 PRP/CBLE SUB	5,200,000	4,172	4,172	(1,028)	Other listed bonds
	Total listed bonds	**27,200,000**	**20,656**	**20,656**	**(6,482)**	
TOTAL SHARES AND SECURITIES INCLUDED IN CURRENT ASSETS			**150,052**	**150,514**	**(202,675)**	

Annex 8

Statement of temporary differences that involved the recognition of deferred tax assets and liabilities

Amounts in €k

DEFERRED TAX ASSETS	2017		INCREASES		DECREASES		2018	
	Taxable amount	Tax effect	Taxable amount	Tax effect	Taxable amount	Tax effect	**Taxable amount**	**Tax effect**
Unrealised losses relating to short-term investments	2,876	690			2,876	690		
Excess amortisation/depreciation	31	8	7	2			38	9
Provisions for personnel expenses	14,118	3,388	19,407	4,658	17,983	4,316	15,542	3,730
Bad debt provision	13	3					13	3
Provision for future charges	5,056	1,213	845	203	291	70	5,610	1,346
Past tax losses	761,006	182,642	49,244	11,819	382,089	91,701	428,161	102,760
Realigned goodwill	1,447,406	347,377					1,447,406	347,377
TOTAL	**2,230,507**	**535,322**	**69,503**	**16,682**	**403,239**	**96,778**	**1,896,770**	**455,225**

Annex 9

Information on debt at 31 December 2018

Amounts in €k

		31/12/2018		31/12/2017	
A	Cash		14		13
B	Other cash and cash equivalents		1,092,701		1,420,987
	- of which subsidiaries	1,092,646		1,420,973	
	- of which others	54		15	
C	Securities held for trading		152,526		164,886
D	**Cash and cash equivalents (A) + (B) + (C)**		**1,245,241**		**1,585,886**
E	**Current financial receivables**				
F	Current bank payables				
G	Current portion of non-current debt		(36,655)		(92,457)
H	Other current financial payables		(723,023)		(267,834)
I	**Current financial debt (F) + (G) + (H)**		**(759,678)**		**(360,291)**
J	**Net current financial debt (I) - (E) - (D)**		**485,563**		**1,225,595**
K	Non-current bank payables				
L	Bonds issued		(1,817,352)		(1,817,352)
M	Other non-current payables				(450,000)
N	**Non-current financial debt (K) + (L) + (M)**		**(1,817,352)**		**(2,267,352)**
O	**Net financial debt (J) + (N)**		**(1,331,789)**		**(1,041,757)**

5

STATEMENT ON THE FINANCIAL STATEMENTS

in accordance with art.81 Ter of CONSOB regulation no.11971/1999

STATEMENT ON THE FINANCIAL STATEMENTS IN ACCORDANCE WITH ART. 81-ter, CONSOB REGULATION No. 11971 OF 14 MAY 1999 AND SUBSEQUENT AMENDMENTS AND ADDITIONS

1. The undersigned, Carlo Cimbri, as Chief Executive Officer, and Maurizio Castellina, as Manager in charge of financial reporting of Unipol Gruppo S.p.A., hereby certify, also taking into account the provisions of Art. 154-bis, paragraphs 3 and 4 of Legislative Decree 58 of 24 February 1998:
   - the adequacy in relation to the characteristics of the company and
   - the effective application,

   of the administrative and accounting procedures for preparation of the financial statements for the period 1 January 2018-31 December 2018.

2. The assessment of the adequacy of the administrative and accounting procedures for preparing the financial statements for the year ended 31 December 2018 is based on a process defined by Unipol Gruppo S.p.A., inspired by the COSO Framework (Internal Control - Integrated Framework, issued by the Committee of Sponsoring Organisations of the Treadway Commission and, as regards the IT component, by the COBIT Framework (Control Objectives for IT and related technology), unanimously recognised as the reference standards for the implementation and evaluation of internal control systems.

3. It is also certified that:

   3.1. The financial statements at 31 December 2018;
   - were prepared in compliance with provisions of the Civil Code and the national accounting principles approved by the OIC (Italian Accounting Standards Setter);
   - correspond to the book results and accounting records;
   - are suitable to provide a true and fair view of the equity, economic and financial situation of the issuer;

   3.2. the management report includes a reliable analysis of the performance and of the operating result, and of the situation of the issuer, together with a description of the main risks and uncertainties to which it is exposed.

Bologna, 14 March 2019

The Chief Executive Officer
Carlo Cimbri

Manager in charge
of financial reporting
Maurizio Castellina

(signed on the original)

6

BOARD OF STATUTORY AUDITORS' REPORT

Board of Statutory Auditors' Report to the Shareholders' Meeting of Unipol Gruppo S.p.A.

Prepared in accordance with Art. 153 of Legislative Decree 58/1998 and Art. 2429, paragraph 2 of the Civil Code

Dear Shareholders,

In the year ended on 31 December 2018, the Board of Statutory Auditors carried out the activities for which it is responsible, also as Internal Control and Auditing Committee, laid out in the applicable legislative and regulatory provisions, taking into account the principles of conduct recommended by the Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili (National Institute of Chartered Accountants), the recommendations issued by CONSOB (in particular communications no. DAC/RM 97001574 of 20 February 1997 and no. DEM/1025564 of 6 April 2001 as amended), as well as the instructions laid out in the Corporate Governance Code for listed companies (the "**Corporate Governance Code**").

In compliance with the provisions of Art. 153 of Legislative Decree 58/1998 ("**Consolidated Law on Finance**" or "**TUF**") and Art. 2429, paragraph 2 of the Civil Code, the Board of Statutory Auditors therefore reports on the supervisory activities carried out.

1. Preliminary evidence regarding the legal provisions governing the preparation of the Financial Statements of Unipol Gruppo S.p.A. at 31 December 2018.

The draft financial statements (the "**Financial Statements**") presented to you show the management activity carried out during the year and the equity, financial and economic position of Unipol Gruppo S.p.A. (also "**Unipol**" or the "**Company**") at 31 December 2018.

The Financial Statements at 31 December 2018 were prepared in compliance with provisions of the Civil Code and the accounting standards approved by the Organismo Italiano di Contabilità (Italian Accounting Standards Setter).
Unipol which, at the date of this Report, qualifies as a mixed financial services group pursuant to Art. 1, paragraph 1, letter bb-*bis*) of Legislative Decree 209 of 7 September 2005 (the "**Insurance Code**") as well as an issuer of financial instruments listed on regulated markets, is required to prepare the consolidated financial statements (the "**Consolidated Financial Statements**") in compliance with International Accounting Standards, but doesn't apply those standards to the company's Separate Financial Statements subject to your approval, in accordance with Art. 4 of Legislative Decree 38 of 28 February 2005.

The measurement criteria were adopted on the basis of going concern assumptions, in application of the principles of accrual, materiality and significance of the accounting data and of the transactions or contracts, pursuant to Articles 2423 and 2423-*bis* of the Civil Code.

No significant events occurred after year end that could affect the financial statement results.

2. Activities of the Board of Statutory Auditors in the year ended 31 December 2018.

During 2018, the Board carried out its supervisory activities, holding 21 meetings with an average duration of around one hour and thirty minutes.

The Board of Statutory Auditors also took part in:
- 9 meetings of the Board of Directors;
- 10 meetings of the Control and Risk Committee;
- 11 meetings of the Committee for transactions with related parties ("**Related Party Transactions Committee**");
- 4 meetings of the Remuneration Committee,
- and was informed of the matters addressed in the 7 meetings of the Appointments and Corporate Governance Committee and the 2 meetings of the Sustainability Committee.

As part of its duties and for the mutual exchange of information between the bodies and departments involved in the internal control and company risks management system, the Board of Statutory Auditors also met with:

- the Head of the Audit Department, the Head of the Compliance and Anti-Money Laundering Department, the Head of Risk Management (jointly the "**Control Functions**"), the Manager in charge of financial reporting (the "**Manager in charge of financial reporting**") and the Heads and/or representatives of the company departments concerned by the supervisory activity of the control body from time to time;
- the Supervisory Board established pursuant to Legislative Decree 231 of 8 June 2001 ("**Legislative Decree 231/2001**"), Art. 6, paragraph 1, letter b);
- the representatives of the company charged to audit the accounts, PricewaterhouseCoopers S.p.A., within the framework of relationships between the control body and the auditor required by regulations in force.

Pursuant to Art. 151 of the Consolidated Law on Finance, the Board of Statutory Auditors also held meetings and exchanged information with the control bodies of the subsidiaries.

3. Transactions of greatest economic, financial and equity significance. Other notable events

3.1 Activity performed by the Board

In observance of the legal and regulatory provisions mentioned above, the Board acknowledges the outcome of its supervisory activities and verifications and therefore acknowledges that it has:

- monitored observance of the law and the by-laws and compliance with the principles of proper administration, particularly with reference to the transactions mentioned herein of greatest economic, financial and equity significance;
- obtained information from the Directors - including by participating in the meetings of the Board of Directors and the Board Committees - on the activity carried out and on the transactions of greatest economic, financial and equity significance performed by the Company, including through direct or indirect subsidiaries. On the basis of the information made available, the Board of Statutory Auditors can reasonably assert that the actions resolved and implemented conform to the law, the by-laws and the principles of proper administration and do not appear to be manifestly imprudent, hazardous, or in contrast with the resolutions adopted by the Shareholders' Meeting, or such to compromise the integrity of the company's assets. In addition, the transactions that involve a potential conflict of interests were resolved in compliance with the law, regulations and the codes of conduct adopted;

3.2 Main significant events

With reference to the transactions of greatest economic, financial and equity significance performed by the Company in 2018, the Board of Statutory Auditors reports as follows:

<u>Project for streamlining the Group's insurance sector - sale of Arca Vita S.p.A. to UnipolSai S.p.A.</u>
To complete the project for the streamlining of the Unipol Group's insurance sector launched in 2017, the Company's Board of Directors approved, on 22 March 2018, the sale to UnipolSai S.p.A. ("**UnipolSai**") of the investment held in Arca Vita S.p.A., equal to 63.39% of the share capital, for a price of €475m (the "**Disposal of Arca Vita**"). On 7 August 2018, the Disposal of Arca Vita was finalised after obtaining the necessary authorisations from the competent Supervisory Authorities.

<u>Disposal of the subsidiary Popolare Vita S.p.A.</u>
On 11 January 2018, as a result of the non-renewal of the distribution agreements and the subsequent exercise of the put option set out in the Shareholders Agreement, the subsidiary UnipolSai signed a contract for the sale of the investment held in Popolare Vita S.p.A. to the banking partner Banco BPM S.p.A.. On 29 March 2018, following fulfilment of the contractually envisaged conditions precedent, the shares were transferred and the price of €535.5m was collected.

<u>Banking sector restructuring plan</u>
The banking sector restructuring plan, launched in 2017, was completed in 2018. In particular:

- on 16 January 2018, the agreement was signed for the proportional partial spin-off (the "**Spin-Off**") of Unipol Banca S.p.A. ("**Unipol Banca**" or the "**Bank**") through the establishment of a new company, beneficiary of a corporate complex, including, amongst other things, the entire portfolio of bad and doubtful loans of the

Bank at the date of approval of the Half-yearly Financial Report 2017, except for loans deriving from lease transactions and unsecured loans (the "**Bad and doubtful loans**");

- On 31 January 2018, before the effectiveness of the Spin-Off, Unipol and UnipolSai disbursed a shareholder loan to Unipol Banca for €173m and €127m, respectively, for a total amount of €300m, intended to be included in the Complex involved in the division;
- On 1 February 2018, the proportional spin-off took effect of Unipol Banca to UnipolReC S.p.A. ("**UnipolReC**"), a credit recovery company operating pursuant to Art. 115 of Italian Royal Decree 773 of 18 June 1931 (TULPS), 57.75% owned by Unipol and 42.25% by UnipolSai.
- on 15 March 2018, Unipol Banca and UnipolReC entered into a dedicated deed recognising the exact amount of the statement of financial position asset and liability elements transferred to the latter company, as beneficiary of the Spin-Off;
- on 11 December 2018, Unipol Banca and UnipolReC entered into another dedicated deed in order to include under those capital items assigned to the latter company, a tax receivable totalling €34.2m.

<u>Acquisition of BPER Banca S.p.A. shares</u>

On 21 June 2018, Unipol informed the market of its intention to purchase a total of 25,000,000 shares of BPER Banca S.p.A. ("**BPER**"), equal to approximately 5.2% of the Bank's share capital. The transaction was finalised a few days later through a reverse accelerated bookbuilding procedure, targeting qualified investors and foreign institutional investors, and additional market purchases. On 29 June 2018, Unipol disclosed to the market its direct and indirect overall interest in BPER equal to 15.06% of the Bank's share capital. It should be noted that Unipol obtained the necessary authorisations and permissions from the European Central Bank and the competent Italian Supervisory Authorities to acquire a qualified investment in BPER exceeding 10% of share capital. Considering the applicable regulations on such matters and the authorisations received, the maximum direct or indirect investment that Unipol can hold in BPER cannot exceed approximately 19.9% of the latter's share capital.

<u>Agreements with BPER Banca S.p.A. for the disposal of Unipol Banca S.p.A and the acquisition of a NPL portfolio</u>

In 2018, the Unipol Group began working on the preliminary activities to undertake strategic transactions relating to the banking sector, entering into discussions with BPER as a potential counterparty, with a view to verifying the feasibility of a project that would entail:

- the transfer of shares, representing the entire share capital of Unipol Banca, to BPER;
- the acquisition by UnipolReC of a portfolio of bad and doubtful loans of BPER.

Given the importance of the transaction and of the investments held in BPER, at the end of 2018, both Unipol and UnipolSai, within their respective scopes of responsibility, voluntarily launched the preliminary analysis and decision-making process envisaged by the procedures adopted respectively to perform transactions with related parties. Following the preliminary activities conducted and the negotiations held, on 7 February 2019, the Boards of Directors of Unipol and of UnipolSai, within their respective scopes, approved the transaction regarding the banking sector of the Unipol Group (the "**Transaction**"), to be carried out in a unique setting, which envisages:

- the transfer to BPER of the entire equity investment held by Unipol, also through UnipolSai, in Unipol Banca, equal to the entire share capital of the latter, for a cash consideration of €220m (the "Unipol Banca Disposal"); and
- the purchase from the BPER Group, by UnipolReC, of two separate portfolios comprised of bad and doubtful loans, one owned by BPER and one by Banco di Sardegna S.p.A. for a gross book value of around €1.3bn against a consideration in cash of €130m, equal to approximately 10% of the portfolio's gross value (the "NPL Portfolio").

On 7 February 2019, following approval also by the other companies involved, the contractual agreements governing the Transaction were signed. The implementation of these agreements, subject to the fulfilment of some conditions precedent of primarily a regulatory and authorisation nature, is expected to occur no later than the beginning of the second half of 2019.

In consideration of the preparatory activities undertaken at the beginning of 2018, as well as all the other subsequent resolutions issued and agreements executed:

- as the long-term investment strategy is no longer applicable, the investment held in Unipol Banca was reclassified under current assets and was written down by €195.9m, in order to align the value with the expected price of sale to BPER;

- the risks fund set up for the put option granted to UnipolSai for 27.49% of Unipol Banca's share capital and extended in 2018 also to UnipolReC, was consistently increased by €87.3m (see next paragraph 3.3).

More information in relation to the aforementioned transactions and additional events are reported in the Management Report and in the Notes to the Financial Statements.

3.3 Main significant events after the reporting period

With reference to the significant events after the reporting period, the Board of Statutory Auditors reports as follows:

<u>Exercise by UnipolSai of the put option on Unipol Banca S.p.A. and UnipolReC S.p.A. shares</u>
On 7 February 2019, UnipolSai's Board of Directors resolved to exercise the put option relating to 27.49% of the share capital of Unipol Banca and UnipolReC, held by Unipol by virtue of the option contract signed on 31 December 2013 between the former Fondiaria-Sai S.p.A. and Unipol. UnipolSai informed Unipol of the exercise of the option right on 14 February 2019. The transfer of the shares was completed on 1 March 2019 against payment by Unipol of a total consideration of €579.1m, calculated on the basis of the option contract. Following the exercise of the put option, Unipol holds a direct investment in Unipol Banca and in UnipolReC, corresponding to 85.24% of the respective share capital. The remaining shares of these companies are held by UnipolSai.

UnipolSai also granted to Unipol, within the scope of the afore-mentioned put option, a 5-year loan of €300m, also repayable early, at an interest rate of the 3-month Euribor plus a spread of 260 basis points. For Unipol, the aforementioned loan is targeted at maintaining a high level of financial flexibility with an important available liquidity buffer.

<u>Sale of Unipol Banca S.p.A. to BPER Banca S.p.A.</u>
On 7 February 2019, the Board of Directors of Unipol authorised the Disposal of Unipol Banca and purchase by UnipolReC of the NPL portfolio. On the same date, the relevant contractual agreements were signed between the parties involved, whose completion is subject to some conditions precedent, firstly of a regulatory and authorisation nature.

3.4 Dispute proceedings

With reference to the disputes which concerned the Company and the Group during 2018, the Board of Statutory Auditors was informed and kept up to date in relation to the sanction and legal proceedings underway, described in the Notes to the Financial Statements, to which reference is made.

3.5 Transactions with related parties, associated parties and intercompany counterparties. Atypical and/or unusual transactions

In compliance with the provisions of the Regulation containing provisions governing transactions with related parties, adopted by CONSOB by means of resolution no. 17221 of 12 March 2010 and subsequent amendments, the company has adopted a procedure for the performance of transactions with related parties and an operating guide for the application of said procedure.

In addition, as the Parent of the Unipol Banking Group and in compliance with the provisions of Circular no. 263 of 27 December 2006 and subsequent amendments issued by the Bank of Italy, Unipol also adopted a specific internal policy governing controls on risk activities and conflicts of interests vis-à-vis associated parties; a procedure for the management of transactions with associated parties, as well as an Operating Guide for the application of the latter.

The Board of Statutory Auditors monitored the transactions with related parties and/or associated parties to ensure these met the substantive and procedural correctness criteria, pursuant to the aforementioned reference legislation and the internal procedures adopted, and to ensure that they were not in conflict with the Company's interest. The Board of Statutory Auditors spent time in particular on the most significant transactions included within the Group's insurance sector streamlining project and the banking sector restructuring plan, verifying the fairness of the preliminary analysis and decision-making process adopted as well as compliance with regulations in force and internal regulations, by analysing available documentation as well as participating in meetings of the Related Parties Committee and the Board of Directors. These transactions, reported under the main significant events of this Report, were adequately described in the Management Report and in the Notes to the Financial Statements.

The Board of Statutory Auditors also examined the transactions exempt from the application of the above-mentioned internal procedures.

The Management Report and the Notes to the Financial Statements outline the financial and equity impact of transactions with related parties as well a description of the most significant relations. Further information is also provided in the Management Report and the Notes to the Consolidated Financial Statements.

With reference to the provision issued by IVASS on 26 October 2016 by means of Regulation no. 30 regarding intercompany transactions and concentrations of risks, the Board verified the compliance with the same of the Policy adopted by the company governing intercompany transactions ("**Intercompany Policy**") and the relevant annual update, as well as of the operating guide for the application of the same. The supervisory activities carried out by the Board also highlighted that the transactions concluded with intercompany counterparties were entered into in compliance with the provisions of the aforementioned Intercompany Policy and regulated under market conditions.

Taking into account that Unipol, in compliance with the organisational model selected for the Group, outsourced most of the company operating activities to the subsidiary UnipolSai, the Board of Statutory Auditors verified the methods of determination of the relevant fees, calculated mainly on the basis of costs incurred, except with regard to financing activities, which are remunerated by applying a fee on managed volumes. Certain additional services instead envisage fees calculated at a fixed rate. Furthermore, Unipol and some subsidiaries second their staff to other Group companies to optimise the synergies within the Group. Financial and commercial transactions between the banking companies and the other companies in the Group were the usual types of transaction carried out within a complex group and related to services, deposit accounts or corporate financing and finance lease agreements. Agreements were also entered into for the sale and/or management of banking, financial and insurance products and services and the provision of auxiliary banking services in general. The economic effects of these transactions are normally regulated on the basis of the market conditions applied to prime customers. The Board of Statutory Auditors believes that the agreements in question are compliant with the applicable industry regulatory provisions.

As regard the relations established between Unipol and the Group companies as well as with other related parties, the control body evaluates the disclosure provided in the Management Report and in the Notes to the Financial Statements as adequate.

In relation to the overall context of the intercompany transactions, transactions with related parties and/or associated parties carried out in 2018, the Board ascertained the absence of atypical or unusual transactions, which may give rise to doubts relating to the accuracy and completeness of the information, conflicts of interest and the safeguarding of the company's assets.

4. Organisational structure of the Company and of the Group

The Board of Statutory Auditors acknowledged that:

- following the complete spin-off of the former holding company Finsoe S.p.A. ("**Finsoe**"), Unipol became, to all intents and purposes, the ultimate Italian holding company, pursuant to the provisions of the Insurance Code and the associated implementing provisions, maintaining the role of Parent of the Unipol Insurance Group, and of the Unipol Banking Group. It also acquired, in place of Finsoe, the role of the company at the top of the Unipol Financial Conglomerate (mainly insurance), pursuant to Legislative Decree no. 142 of 30 May 2005 as amended;
- pursuant to Art. 2497-bis of the Italian Civil Code, the subsidiaries of Unipol declared the latter as the entity that exercises management and coordination over them;
- in keeping with the previous year, activities continued targeted at completing the project for the streamlining of the insurance sector as well as the Unipol Group banking sector restructuring plan, aimed at increasing effectiveness and efficiency.

In fact, as outlined in the Annual report on corporate governance and ownership structures (the "**Governance Report**"):

- Unipol chose to adopt a "traditional" type administration and control system, which provides for the presence of a Board of Directors (that operates with the support of the Internal board committees, with advisory and proposal-making functions) and a Board of Statutory Auditors with control functions, both appointed by the shareholders' meeting;
- the legally-required audit is assigned to PricewaterhouseCoopers S.p.A. for the 2012-2020 nine-year term;
- a few internal company committees have been established by the Board of Directors, or by the Chief Executive Officer or Group CEO, mainly consisting of the Heads of the Local Departments of Unipol, with functions of support to the Chief Executive Officer or Group CEO in the implementation and supervision of the policies of direction, coordination and operational strategy specified by the Board of Directors and rolled out by the Top Management;
- the role and powers of the above bodies are illustrated in detail in the aforementioned Governance Report,

the Board of Statutory Auditors acknowledged the organisational structure adopted and acquired knowledge of the changes that took place from time to time to the company's internal organisational structure, monitoring its adequacy, as regards matters within its competence.

In particular, based on the information acquired, the Board considers the size, structure and positioning of the Company Control Departments to be adequate for the purpose of guaranteeing the effective functioning of the risk control and management system as a whole.

The Board of Statutory Auditors also acknowledged the instructions handed down to its subsidiaries, pursuant to Art. 114, paragraph 2 of the Consolidated Law on Finance, in order to promptly obtain the information required to fulfil the obligations laid out in paragraph 1 of the same article, also through meetings with the managers of the competent company departments as well as with the Independent Auditors. No particular elements worth reporting emerged from these activities.

The Board of Statutory Auditors exchanged information with the Boards of Statutory Auditors of the subsidiaries, pursuant to Art. 151 of the Consolidated Law on Finance, being informed about the checks that were carried out by the same while exercising their supervisory activities. In this regard, no situations worthy of mention in this Report emerged.

5. Internal control and risk management system, administrative-accounting system and financial disclosure process

5.1 Internal Control and Risk Management System

The internal control and risk management system is a key element in the overall corporate governance system. It consists of a set of rules, procedures and organisational structures aimed to ensure:

- effectiveness and efficiency of corporate processes;
- suitable limits on current and future risks;
- preventing the company's involvement, even involuntary, in illegal activities, particularly those associated with money laundering, and terrorism financing;
- the prevention and correct management of the potential conflicts of interest with Related Parties, as identified by legal and regulatory provisions of reference;
- verification that corporate strategies and policies are implemented;
- safeguarding of company asset values, also in the medium to long term;
- reliability and integrity of information provided to corporate bodies and the market and of IT procedures;
- adequacy and promptness of the corporate data reporting system;
- compliance of business activities with the law, supervisory regulations, corporate governance regulations and the company's internal measures.

The Internal Control and Risk Management System is defined in the related Directives (the "**ICS Directives**") adopted by the Unipol Board of Directors in December 2008 and periodically updated thereafter. The ICS Directives define the roles and responsibilities of the parties involved in the internal control and risk management system, as well as the coordination methods and information flows between said parties.

The Internal Control and Risk Management System also includes an internal system for the reporting by personnel of acts or events which may constitute a violation of the rules governing the activity performed, which guarantees a specific and confidential information channel, as well as the anonymity of the reporting entity. This system is formalised in the Whistleblowing Procedure approved by the Board of Directors at the meeting on 9 August 2018.

The principles and processes of the risk management system as a whole are governed by the following Group policies: "Risk Management Policy", "Current and Forward-looking Risk Assessment Policy", "Operational Risk Management Policy" and "Group-level Risk Concentration Policy". Also an integral part of the risk management system are the policies that outline the principles and guidelines on: (i) management of specific risk factors (e.g. the Group Investment Policy for market risk and Credit Policy for credit risk), (ii) management of a risk within a specific process, and (iii) mitigation of a risk and (iv) management of risk measurement models.

The risk management system is the set of processes and tools used in support of the risk management strategy of the Unipol Group; it provides adequate understanding of the nature and significance of risks to which the Group and individual companies are exposed. The risk management system allows the Group to have a single point of view and a holistic approach to risk management, and is an integral part of the management of the business.

The risk management process is structured into the following phases:
- identification of risks, consisting in the identification of risks believed to be significant i.e. those whose consequences can endanger the solvency or reputation of Unipol or be a serious obstacle to the achievement of strategic objectives;
- current and forward-looking assessment of risk exposure; The current assessment of risks identified is performed through methods envisaged in regulations and best practices as regards risks for which measurement is not regulated or defined by high-level principles. With regard to the forward-looking assessment, the Own Risk and Solvency Assessment (ORSA) is used to support the strategic decisions of the Company;
- monitoring of the risk exposure and reporting, a system implemented – on the basis of the principles of completeness, timeliness and effectiveness of the disclosure – to ensure timely and constant monitoring of the evolution of the Risk Profile and the compliance with the specified Risk Appetite. This system guarantees that the quality and quantity of information provided is commensurate with the needs of the different recipients and with the complexity of the business managed, in order for it to be used as a strategic and operating tool in assessing the potential impact of decisions on the Company's risk profile and solvency;
- mitigation of risks, which consists in identifying and proposing actions and initiatives required and/or useful in mitigating existing or prospective levels of risk not in line with the related objectives defined at corporate level.

The identification, evaluation and monitoring of the risks are carried out on ongoing basis to take into account the changes occurred both in the nature and size of the business and in the market context, and whether new risks arise or the existing ones change.

These processes are carried out using methods that guarantee an integrated approach at Group level. The Parent ensures that the risk management policy is implemented consistently and continuously within the entire Group, taking into account the risks of each company included the scope of supervision of the group and their mutual interdependencies. This is without prejudice to the principle of proportionality, based on the nature, scope and complexity of the risks regarding the company activities carried out by the different Group companies.

For more details on the main features of the internal control and risk management system adopted by the Company, please refer to the Governance Report.

In said context, the Board of Statutory Auditors constantly monitored - using (i) the information collected from the managers of the respective departments, (ii) the examination of the company documents, (iii) the analysis of the work plans and the results of the work carried out by the Independent Auditors and the bodies and departments responsible for internal control - the adequacy of the internal control system and the administrative-accounting system, and the latter's reliability in correctly representing operating events.

In addition - through direct verification of the activities carried out by the Control Functions and by the Manager in charge of financial reporting, and by taking part in the meetings of the Control and Risk Committee - the activities performed by the aforementioned control functions were examined to verify their adequacy and to obtain an evaluation of the actual functioning of the overall internal control system. Based on the checks carried out in fulfilment of the monitoring obligations imposed, the control body highlights no elements to be reported in this regard. The Board of Statutory Auditors also believes that the Control Functions, just like the Manager in charge of financial reporting, are able to ensure significant coverage to guarantee a suitable control of the internal control system.

The Board also monitored the activities implemented by Unipol as part of its role as Parent of the Banking Group. The Board of Statutory Auditors believes that the activities performed – at Banking Group level – by the control functions are suitable to control the completeness, adequacy, functionality and reliability of the internal control system and the Risk Appetite Framework (RAF).

The Board of Statutory Auditors also verified the activities carried out by the Company as regards the adjustment into line with Regulation no. 2016/679 of 27 April 2016 regarding personal data protection, which involved a substantial revision of the privacy architecture adopted, assessing the compliance of the organisational controls adopted with the regulation governing personal data protection.

5.2 Administrative-accounting system and financial disclosure process

The Governance Report describes the main characteristics of the control model adopted in support of the Manager in charge of financial reporting for verifying the adequacy and actual application of the administrative procedures relating to accounting and financial disclosures.

In particular, the "financial reporting risk model" is based on a process defined in accordance with the following reference frameworks, generally recognised and accepted internationally:
I. CoSo Framework (Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission), widely recognised as the standard of reference for the implementation and evaluation of internal control systems;
II. CObiT (Control Objective for IT and Related Technology), outline of best practices developed by ISACA (Information Systems Audit and Control Association) and ITGI (IT Governance Institute) which is the standard benchmark for IT Governance.

With reference to the elements of internal control on financial information set out in the CoSo Report, the Company has adopted the following guidelines:
- control environment: it is monitored through the documentation and control assessments at Group level (Entity Level Control);
- risk assessment: risk analysis methods at the process level have been defined and implemented, through a preliminary Top-Down analysis, both qualitative and quantitative, which leads to the definition of the relevant processes (Scoping). For these processes an identification and analytical assessment is then carried out of the risks of failure to achieve control objectives, in respect of truthfulness, accuracy, reliability and timeliness of the financial reporting;
- control activities: the activities for proper management and mitigation of risks described earlier have been identified, documented and evaluated;
- information and communication: a process of assessment of the proper management of information flows between the different departments of the Company and the Top Management has been implemented in order to ensure that all parties belonging to the structure properly execute the tasks attributed to them. This evaluation is formalised within the analysis of the components "Control Environment" and "Control Activities";
- monitoring: the Company has implemented a process of regular monitoring of the long-term reliability of the internal control and risk management system.

Based on the Report on the internal control and risk management system required by the applicable legislation (the "**262/2005 Report**"), which reflects the characteristics of the control system implemented and the results of the data control and monitoring activities carried out by the competent company departments, the Chief Executive Officer and the Group CEO and the Manager in charge of financial reporting, signed the certifications set forth in Art. 154-bis of the Consolidated Law on Finance.

The Board of Statutory Auditors examined the contents of Report 262/2005 and monitored, by having meetings with the Manager in charge of financial reporting and the Independent Auditors, the process of developing and distributing financial disclosures. In particular, the Additional Report drafted by PricewaterhouseCoopers S.p.A. pursuant to Art. 11 of Regulation (EU) no. 537/2014 (the "**Additional Report**") did not bring to light any significant gaps as such to negatively impact the opinion on the adequacy and effective application of the administrative-accounting procedures for the purpose of providing an accurate economic, equity and financial representation of operating events in compliance with the applicable accounting standards.

The Board also monitored, for matters within its competence, the observance of the legal provisions as regards the process of preparing the Financial Statements and the contents of the Management Report, which are believed to be exhaustive. Taking into account that - pursuant to Art. 14 of Legislative Decree 39 of 27 January 2010, as amended by Legislative Decree 135 of 17 July 2016 ("**Legislative Decree 39/2010**") - the Independent Auditors provide in their report, inter alia, a judgment of consistency of the Management Report with the Financial Statements and its compliance with legal standards, the Board of Statutory Auditors verified that there are no findings in this respect in the report issued by PricewaterhouseCoopers S.p.A..

Lastly, the Board gave its consent to the recognition - in Intangible Assets, under the Assets account of the Statement of Financial Position - of start-up and expansion costs and development costs with long-term benefit.

5.3 Consolidated Non-Financial Statement

The Board of Statutory Auditors points out that the Company is required to draft and publish a Consolidated Non-Financial Statement (the "**CNFS**") in compliance with the provisions contained in Legislative Decree 254 of 30 December 2016 ("**Legislative Decree 254/2016**") and in the relevant implementing Regulation issued by CONSOB by means of Resolution no. 20267 of 18 January 2018. Pursuant to Art. 4 of Legislative Decree 254/2016, this statement provides the non-financial information relating to the Company and its subsidiaries "*to the extent necessary to ensure understanding of the Group's activities, performance, results and the impact it generates*".

The Board of Statutory Auditors acknowledged that the Company decided to include the Consolidated Non-Financial Statement in the Annual Integrated Report of the Group, reporting within the aforementioned document information pertaining to environmental and social matters as well as topics relating to personnel, respect for human rights and the fight against active and passive corruption, and monitored, for matters within its competence, also through meetings with the Manager in charge of financial reporting and the Independent Auditors, the adequacy of the process of developing reporting on the issue and on compliance with the laws on the matter.
The Board also acknowledged that the Independent Auditors issued the compliance report required by Art. 3, paragraph 10 of Legislative Decree 254/2016 on 26 March 2019. In said report, PricewaterhouseCoopers S.p.A. certified that, based on the work performed, no elements came to its attention that lead it to believe that the Consolidated Non-Financial Statement has not been drafted, as regards all its significant aspects, in compliance with the requirements of Articles 3 and 4 of Legislative Decree 254/2016 and the reporting standard used by the Group to prepare the CNFS.

The Board of Statutory Auditors notes that, as part of the controls performed and cited above, no elements came to its attention regarding non-compliance of the CNFS with the regulatory provisions that govern its preparation and publication.

6. Additional activities carried out by the Board of Statutory Auditors

Taking into account that the Company complies with the Corporate Governance Code, the Board of Statutory Auditors evaluated, for matters within its competence, the contents of the Governance Report, and has no observations to make in this regard. Referencing what is laid out pursuant to Art. 123-bis of the Consolidated Law on Finance in relation to the judgment of consistency that the Independent Auditors must express with regard to certain information included in the above-mentioned "Governance Report, the Board of Statutory Auditors highlights that the Audit Report to the Financial Statements for the year ended 31 December 2018 ("**Audit Report**"), issued by PricewaterhouseCoopers S.p.A., has no findings in this regard.

The Board of Statutory Auditors also acknowledged that the Board of Directors evaluated its functioning, size and composition, also in relation to the internal board committees, relying on the support of a major consulting firm.

The control body also acknowledges that the Board of Directors resolved, at its meeting on 7 February 2019 to adopt, pursuant to Art. 123-*bis* of the Consolidated Law on Finance and the recommendations contained in the Corporate Governance Code in this regard, the "Diversity policy with regards to the composition of the Board of Directors and the Board of Statutory Auditors of Unipol S.p.A". Please refer to the Governance Report for the contents. In expressing its position in view of the shareholders' meeting of 18 April 2019, the outgoing administrative body took account of the guidelines contained in the aforementioned policy.

The Board of Statutory Auditors also checked the proper application of the criteria and procedures carried out by the Board of Directors to assess the independence of non-executive directors, in compliance with the provisions established in the Corporate Governance Code, and in accordance with Art. 147-*ter*, paragraph 4 of the Consolidated Law on Finance.

The Board checked that the independence requirements of the members of the Board of Statutory Auditors itself were met, pursuant to the provisions of Art. 8 of the Corporate Governance Code, acknowledging the checks carried out by the Board of Directors pursuant to Art. 144-novies of the Issuer's Regulation adopted by CONSOB by means of resolution no. 11971 of 14 May 1999 (the "**Issuer's Regulation**") in relation to the fulfilment of the independence requirements laid out in Art. 148, paragraph 3, of the Consolidated Law on Finance by the members of the Board of Statutory Auditors.

The Board also verified, by taking part in the meetings of the Remuneration Committee, the company processes that led to the definition of the remuneration policies adopted, without making any observations in relation to their consistency with the recommendations of the Corporate Governance Code and compliance with the industry regulatory provisions in force.

In addition to the above, the Board of Statutory Auditors, also through participation in the meetings of the Control and Risk Committee, conducted additional specific checks regarding the consistency with the legal and regulatory provisions in force for the insurance and banking sector.

7. Organisation and management model pursuant to Legislative Decree no. 231/2001

The Board of Statutory Auditors viewed and examined the reflections of the Supervisory Board with respect to any update of the Organisational, Management and Control Model prepared pursuant to Legislative Decree 231/2001, Art. 6, paragraph 1, letter a), taking into account the entry into the scope of the above-mentioned decree of new types of offence or changes therein.

The Board of Statutory Auditors also acquired the required information on the organisational and procedural activities carried out in compliance with the aforementioned Decree, by meeting with the Supervisory Board in relation to the audit and control activities respectively performed. No facts and/or circumstances worth noting emerged from the disclosure provided by the Supervisory Board, including through its Annual Report.

8. Audit of the accounts

Taking into account that, pursuant to Art. 19 of Legislative Decree 39/2010, the Board of Statutory Auditors, as the Internal Control and Auditing Committee, is tasked with:

- informing the administrative body of the entity subject to audit of the outcome of the audit and sending to said body the Additional Report pursuant to Art. 11 of Regulation (EU) no. 537/2014 of the European Parliament and Council ("**Regulation (EU) 537/2014**"), accompanied by any observations;
- monitoring the process of financial reporting and submitting recommendations or proposals aimed at ensuring its integrity;
- monitoring the effectiveness of the company internal quality control and risk management systems and, if applicable, of the internal audit, with regard to the financial reporting of the entity subject to audit, without breaching its independence;
- monitoring the audit of the financial statements and of the consolidated financial statements, also taking into account any results and conclusions of the quality controls performed by CONSOB pursuant to Art. 26, paragraph 6, of Regulation (EU) no. 537/2014, where available;

- verifying and monitoring the independence of the auditors or the independent audit firm pursuant to articles 10, 10-bis, 10-ter, 10-quater and 17 of Legislative Decree 39/2010 and Art. 6 of Regulation (EU) no. 537/2014, in particular as regards the adequacy of the provision of non-audit services to the entity subject to audit, in compliance with Art. 5 of said Regulation;
- being responsible for the procedure targeted at the selection of the auditors or the independent audit firm and recommending auditors or the independent audit firm to be appointed pursuant to Art. 16 of Regulation (EU) no. 537/2014,

the Board of Statutory Auditors took part in the preparation of the procedure for the assignment of the Group audit, drawn up in accordance with Regulation (EU) no. 537/2014 and Legislative Decree 39/2010, which aims to govern the process for the assignment of the legally-required or voluntary audit (the "**Engagement**") by Unipol and its subsidiaries falling within the scope of application of said procedure, by pursuing, in compliance with the applicable legal provisions and in accordance with the reference international accounting standards, the priority objective of identifying a principal auditor for the Group, identified as the auditor to whom Unipol and UnipolSai confer the engagement, except for the case in which, in compliance with the applicable provisions on independence and situations of incompatibility, it is necessary for some Group companies to identify a different auditor. The Engagement is assigned on the basis of a selection procedure conducted based on agreement between Unipol and UnipolSai, in its role as the main Group subsidiary and listed company, whose outcomes are then presented to the competent company bodies of the other companies within the scope of the Group for the purposes of the decisions within their respective competence. The aforementioned procedure was approved by the Board of Directors, based on the prior issuing of a favourable opinion by the Board of Statutory Auditors.

The Board of Statutory Auditors, as the Internal Control and Auditing Committee, also carried out - as part of the process of selection of the principal Group auditor to whom to assign the Engagement for the years 2021 to 2029 – the activities within its competence, following which it prepared, in compliance with the applicable legislation and according to the objectives of the same, as well as in compliance with the specific procedure adopted by the Company, its justified recommendation for the assignment of said Engagement.

In addition, the Board of Statutory Auditors held periodic meetings with representatives of PricewaterhouseCoopers S.p.A., the independent auditors, pursuant to Art. 150, paragraph 3 of the Consolidated Law on Finance and - in relation to the Financial Statements for the year ended 31 December 2018 - no significant data or information worth reporting came to light.

The Board of Statutory Auditors was also informed by the independent auditors on the regular updating of the company accounts and the proper recognition of operating events in the accounting entries.

The Audit Report, prepared in accordance with the instructions pursuant to Art. 10 of Regulation (EU) no. 537/2014, as well as Art. 14 of Legislative Decree 39/2010, contains no remarks or information requests. In addition, it does not bring to light any significant errors with reference to the Management Report, or significant uncertainties relating to facts and circumstances that could give rise to significant doubts as to the Company's capacity to continue to operate on a going concern basis.

The Board also examined, as the Internal Control and Auditing Committee, the Additional Report, which brings to light no information worth reporting.

The Board also evaluated, along with the Independent Auditors, the proper use of the accounting standards and the uniformity of their use for the purpose of preparing the consolidated financial statements.

Taking into account that - pursuant to Art. 14 of Legislative Decree 39/2010 and Art. 41 of Legislative Decree 127 of 9 April 1991 - the Independent Auditors provide an opinion on coherence between the Management Report and the Consolidated Financial Statements, as well as its compliance with legal standards, the Board of Statutory Auditors - in performing its monitoring activities - exchanged information with the independent auditors regarding the outcomes of the work performed in relation to the Consolidated Financial Statements; it did not register any anomalies worthy of mention in this Report.

The Audit Report issued by PricewaterhouseCoopers S.p.A. on the Consolidated Financial Statements for the year ended 31 December 2018 does not contain any remarks or information requests. In addition, it does not bring to light any significant errors with reference to the Management Report, or significant uncertainties relating to facts and circumstances that could give rise to significant doubts as to the Company's capacity to continue to operate on a going concern basis.

Based on the provision contained in Art. 19, paragraph 1 of Legislative Decree 39/2010, the Board verified and monitored the independence of the company charged with the audit of the accounts. In particular, the Board of Statutory Auditors examined and approved the further engagements assigned in the course of 2018 to PricewaterhouseCoopers S.p.A., whose considerations are reported in detail in the Notes to the Financial Statements, to which reference is made. The control body issued, in particular, its opinion in relation to the proposed engagements concerning:

- the audit of the Solvency and Financial Condition Report at Group level for the year ended 31 December 2017, set forth in Art. 47-septies, paragraph 7 of the Insurance Code;
- the audit of the Solvency and Financial Condition Report at Group level as well as the limited audit of the solvency capital requirement (SCR) and the minimum capital requirement (MCR) for the years 2018, 2019 and 2020, set forth in accordance with Regulation no. 42 issued by IVASS on 2 August 2018;
- the limited audit for the years 2017 to 2020 of the Consolidated Non-Financial Statement drafted by Unipol pursuant to Italian Legislative Decree 254/2016;
- the examination of, and preparation of the report on, the Company's Pro-forma Consolidated Financial Statements, to be included as an attachment to the information document, prepared in accordance with Art. 71 of the Issuer's Regulation, within the context of the sale of the investment held in Popolare Vita S.p.A..

From an examination of the annual declaration confirming its independence, provided by PricewaterhouseCoopers S.p.A., as well as detailed analyses conducted with the collaboration of the competent corporate structures and the independent auditors, taking into account the nature of the engagements assigned to the latter and/or the companies in its network, no evidence or situations emerged such so as to lead one to believe that there are any risks for the independence of the company responsible for auditing the accounts or grounds for incompatibility pursuant to applicable regulations.

9. Opinions issued by the Board of Statutory Auditors during the year

During the year, the Board of Statutory Auditors issued the opinions, observations and/or certifications required by law and/or by regulations in force and the internal procedures.

10. Complaints, reports in accordance with Art. 2408 of the Italian Civil Code. Any omissions, censurable events or irregularities identified

In 2018, the Board of Statutory Auditors received no complaints in accordance with Art. 2408 of the Italian Civil Code or reports from third parties.
During the course of the supervisory activity performed by the Board of Statutory Auditors and based on the information obtained from the Independent Auditors, no omissions and/or censurable events and/or irregularities were recorded or, in any case, any significant events occurred that needed to be mentioned in this Report.

11. Obligation to draft the Consolidated Financial Statements and report of the control body

The Board of Statutory Auditors - highlighting that Unipol, a mixed financial services group pursuant to Art. 1, paragraph 1, letter bb-bis) of the Insurance Code as well as an issuer of financial instruments listed on regulated markets, the Parent of the Unipol Insurance Group and the Unipol Banking Group and the company at the top of the Unipol Financial Conglomerate, draws up, pursuant to Art. 154-ter of the Consolidated Law on Finance and IVASS Regulation no. 7 of 13 July 2007 ("**Regulation 7/2007**"), as amended, the Consolidated Financial Statements - reports that it verified fulfilment of the obligation to draft the Consolidated Financial Statements by the Board of Directors on 14 March 2019.

The Consolidated Financial Statements - composed of: statement of financial position; income statement and comprehensive income statement; statement of changes in shareholders' equity; statement of cash flows; notes to the financial statements, as well as the annexes to the notes to the financial statements - conform to the IAS/IFRS standards issued by the IASB and endorsed by the European Union, along with the interpretations issued by IFRIC, in accordance with the provisions of EC Regulation 1606/2002 in force on the closing date of the financial statements.

The layout conforms to the provisions of Regulation no. 7/2007, Part III, relating to the layout of the Consolidated Financial Statements of insurance and reinsurance companies required to adopt international accounting standards. The information requested by Consob Communications DEM/6064293 of 28 July 2006 and DEM/11070007 of 5 August 2011 is also provided.

The Consolidated Financial Statements are drawn up on the assumption that the company will continue as a going concern, in application of the principles of accrual accounting, materiality and truthfulness of accounting information, in order to provide a true and fair view of the equity-financial position and economic result, in compliance with the principle of the prevalence of the economic substance of transactions over their legal form.

With regard to the consolidation scope, the Unipol Group's Consolidated Financial Statements at 31 December 2018 have been drawn up by combining the figures of the Parent Unipol and those for the 61 direct and indirect subsidiaries (pursuant to the international accounting standard IFRS 10). Subsidiaries deemed to be too small to be of relevance are excluded from the line-by-line consolidation. The Consolidated Financial Statements report changes in the consolidation scope during the year.

12. Conclusions and indications of any proposals to be presented to the shareholders' meeting

Based on the information acquired through its monitoring activities conducted during the year, the Board of Statutory Auditors did not become aware of operations not based on compliance with the principles of proper administration, decided and implemented in conflict with the law and/or the by-laws, that did not fulfil the interests of the Company, conflicted with the resolutions passed by the Shareholders' Meeting, manifestly imprudent or hazardous, lacking the necessary information in the case of interests of Directors or which could compromise the integrity of the company capital.

Taking account of the information set out above, the Board of Statutory Auditors, having acknowledged the content of the Audit Reports and the certifications issued by the Chief Executive Officer and Group CEO and the Manager in charge of financial reporting, does not note any reasons preventing, for matters within its competence, approval of the financial statements for the year ended 31 December 2018, as presented by the Board of Directors, and has no observations to make regarding the proposed allocation of profit and the distribution of the dividend put forward by the same Board of Directors.

Finally, we would like to remind you that the mandate of the Board of Statutory Auditors currently in office will expire at the next ordinary shareholders' meeting, after the three-year period.

Bologna, 26 March 2019

On behalf of the Board of Statutory Auditors

Chairman Mario Civetta

7

INDEPENDENT AUDITORS' REPORTS

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Independent auditor's report

in accordance with article 14 of Legislative Decree n° 39 of 27 January 2010 and article 10 of Regulation (EU) n 537/2014

To the Shareholders of
Unipol Gruppo SpA

Report on the Audit of the Financial Statements as of 31 December 2018

Opinion

We have audited the financial statements of Unipol Gruppo SpA (the "Company"), which comprise the balance sheet as of 31 December 2018, the income statement, statement of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2018, and of the result of its operations and cash flows for the year then ended in compliance with the Italian laws governing the criteria for their preparation.

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 *Auditor's Responsibilities for the Audit of the Financial Statements* section of this report. We are independent of the Company pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. 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 our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

PricewaterhouseCoopers SpA

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Key Audit Matters	*Auditing procedures performed in response to key audit matters*

Valuation of disposed investment

Management Report paragraph Project for streamlining the Group's insurance sector
Notes to the Financial Statements, Information on the Statement of Financial Position and Income Statement, B) III – Financial fixed assets
Notes to the Financial Statements, Information on the Statement of Financial Position and Income Statement, C.15 Gains on investments

As part of the project for streamlining the group's insurance sector of the Unipol Group, on 7 August 2018, obtained the authorisation from the competent authorities, the Company sold its shares of investment in Arca Vita SpA (63,39 per cent of shareholders' equity) to the subsidiary UnipolSai Assicurazioni SpA.

The consideration obtained for the disposal of this investment has been determined in Euro 475 million, utilizing estimation methodologies with the support of financial advisors, leading to a gain recognized in the income statement of about Euro 116 million.

The methodologies and the valuation assumptions adopted by Company and financial advisors in the determination of the value of investment required a considerable professional judgement dependent also on the assumptions.

The valuation of the disposed investement required significant estimates and, among other matters, the professional judgement is, for example, used in the future projections which have been utilised to develop discounted cash flow models and discount rates.

Our audit procedures on the valuation of the disposed investment included a critical review of the following documents:

- minutes of the Board of Directors' meetings where the decision of the disposal was approved;
- appraisal documents and *fairness opinion* of financial advisors on the fairness of the total consideration obtained and addressed to the Board of Directors and the Committee for transactions with related parties;
- external appraisal on the reasonableness of the estimate methodology and computations developed by the external advisors and issued by another financial advisor addressed to the Board of Directors and the Committee for transactions with related parties;
- *legal opinion* of the external advisor addressed to the Board of Directors and the Committee for transactions with related parties;
- info document "*Parere del Comitato per le operazioni con parti correlate di Unipol Gruppo SpA*" issued by the Committee for transactions with related parties.

We read the communication of the Insurance Authority with reference to the change of the main shareholder of Arca Vita SpA.

Key Audit Matters	*Auditing procedures performed in response to key audit matters*
	We further evaluated, with the support of PwC experts, the reasonableness of the assumptions and the methodologies used by management and financial advisors; we reperformed the calculation of the valuation of investment and, finally, we compared our results to the conclusions reached by management and external financial advisors.
Agreements with BPER Banca SpA for the disposal of Unipol Banca SpA *Management Report – Management Report, Agreements with BPER for the disposal of Unipol Banca and the acquisition of a NPL portfolio* *Notes to the Financial Statements, Information on the Statement of Financial Position and Income Statement, C) III – Current financial assets* *Notes to the Financial Statements, Information on the Statement of Financial Position and Income Statement, B. Provisions for risks and charges* *Notes to the Financial Statements, Information on the Statement of Financial Position and Income Statement, D. Value adjustments to financial assets* During 2018, the Company started the preliminary activities to undertake strategic transactions in the banking business, based on specific decisions of the Board of Directors. On February 7 2019, following approval also by the other companies involved, contractual transaction agreements were signed as follow: 1. the transfer to BPER Banca of the entire share capital of Unipol Banca, for a cash consideration of Euro 220 million;	Our audit procedures on the effects of the planned disposal of Unipol Banca SpA include the following: - critical review of the following documents: • minutes of the Board of Directors analysing and approving the disposal of Unipol Banca SpA; • appraisal documents and fairness opinion of financial advisors on the fairness of the total consideration obtained for the disposal of Unipol Banca SpA and addressed to the Board of Directors and the Committee for transactions with related parties; • external appraisal on the reasonableness of the estimate methodology and computations developed by the external advisors and fot the valutation of Unipol Banca SpA addressed to the Board of Directors and the Committee for transactions with related parties; - critical review of the sale agreement of the investment between Unipol Group SpA, UnipolSai Assicurazioni SpA and BPER Banca SpA; - review of the computation prepared by the Company on the valution of the

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Key Audit Matters	*Auditing procedures performed in response to key audit matters*
2. the acquisition by the subsidiary UnipolReC of two separate portfolios comprised of bad and doubtful loans, respectively from BPER Banca and from Banco di Sardegna against a consideration in cash of Euro 130 million. The finalization of these agreements is subject to the fulfilment of some conditions precedent of regulatory and authorisation nature. With the expected agreement on the disposal of Unipol Banca SPA, Unipol Group SpA, as the long-term investment strategy is no longer applicable, has reclassified the investment in Unipol Banca SpA among the current assets. The book value of the investment, in order to align the value with the expected sale price, was written down by Euro 196 million. Moreover, as per the current put/call option agreemen in place between the Company and the subsidiary UnipolSai Assicurazioni SpA, which was executed on 1 March 2019, and as a consequence of the prospective disposal, the valuation of the option agreement resulted in a provision of about Euro 87 million. To support the valutative and legal aspects of the disposal of Unipol Banca SpA, Unipol Group as engaged several experts. The analysis of the disposal of Unipol Banca SpA has been considered relevant in the audit procedures due to the magnitude of the operation and the related accounting implications.	investment in Unipol Banca SpA and, consequently, review of the accounting on the impairment; - review of the computation prepared by the Company on the existing put/call option agreement between the Company and the subsidiary UnipolSai Assicurazioni SpA relating to the Unipol Banca SpA shares owned by UnipolSai Assicurazioni SpA and of the related accounting treatment. We further evaluated, with the support of PwC experts, the reasonableness of the assumptions and the methodologies used by management and financial advisors; we reperformed the calculation of the valuation of investments and estimates used by the financial advisors and, finally, we compared our results to the conclusions reached by management and external financial advisors.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised our professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- we identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- we evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

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- we concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the 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 auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- we evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicated with those charged with *governance*, identified at an appropriate level as 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 identified during our audit.

We also provided those charged with *governance* with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated 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 determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We described these matters in our auditor's report.

Additional Disclosures required by article 10 of Regulation (EU) n° 537/2014

On 28 April 2011, the Shareholders of Unipol Gruppo SpA in general meeting engaged us to perform the statutory audit of the Company and the consolidated financial statements audit for the years ending 31 December 2012 to 31 December 2020.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) n° 537/2014 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the financial statements expressed in this report is consistent with the additional report to those charged with governance, in their capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

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Report on Compliance with other Laws and Regulations

Opinion in accordance with article 14, paragraph 2, letter e), of Legislative Decree n° 39/2010 and article 123-bis, paragraph 4, of Legislative Decree n° 58/1998

Management of Unipol Gruppo SpA is responsible for preparing a report on operations and a report on the corporate governance and ownership structure of Unipol Gruppo SpA as of 31 December 2018, including their consistency with the relevant financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) n° 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure, available in Unipol Gruppo SpA website section "*Governance*", referred to in article 123-bis, paragraph 4, of Legislative Decree n° 58/1998, with the financial statements of Unipol Gruppo SpA as of 31 December 2018 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the financial statements of Unipol Gruppo SpA as of 31 December 2018 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree n° 39/2010, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report

Milan, 26 March 2019

PricewaterhouseCoopers SpA

Signed By

Antonio Dogliotti
(Partner)

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

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Parent company of the Unipol Insurance Group
entered in the Register of the parent companies
at No. 046

Parent of the Unipol Banking Group
Entered in the Register of Banking Groups

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