



Istituto per la Vigilanza sulle Assicurazioni Private e di Interesse Collettivo

(only the Italian version is authentic)

REGULATION No 21 OF 28 MARCH 2008

REGULATION ON ACTUARIAL PRINCIPLES AND IMPLEMENTATION RULES FOR DETERMINING THE TARIFFS AND TECHNICAL PROVISIONS OF LIFE ASSURANCE AS REFERRED TO IN ARTICLES 32, 33 AND 36 OF LEGISLATIVE DECREE NO 209 OF 7 SEPTEMBER 2005 – CODE OF PRIVATE INSURANCE.

AMENDED AND SUPPLEMENTED BY ISVAP ORDER NO 2696 OF 27 APRIL 2009, ISVAP REGULATION NO 30 OF 12 MAY 2009, ISVAP REGULATION NO 32 OF 11 JUNE 2009 AND ISVAP REGULATION NO 33 OF 10 MARCH 2010. AMENDMENTS AND SUPPLEMENTS ARE SHOWN IN *ITALICS*.

ISVAP

(Italian private insurance supervisory authority)

HAVING REGARD to Act No 576 of 12 August 1982 and subsequent amendments and supplements, concerning the insurance supervision reform;

HAVING REGARD to Legislative Decree No 209 of 7 September 2005 and subsequent amendments and supplements, on the Private Insurance Code;

HAVING REGARD to Legislative Decree No 252 of 5 December 2005 and subsequent amendments and supplements on the rules governing the institutions for occupational retirement provisions

has adopted the following

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TITLE I General provisions

Article 1 (Sources of law)

1. This Regulation is adopted within the meaning of Articles 32, second paragraph, 33, 36, 190, first and second paragraph, and 191, first paragraph, letter d), of Legislative Decree No 209 of 7 September 2005.

Article 2 (Definitions)

1. For the purposes of this Regulation, the terms listed below shall have the following meaning:

- a) “other technical bases”: any other statistical analysis, other than the demographic basis, used for calculating the premium or for calculating technical provisions;
- b) “appointed actuary”: the actuary appointed by the undertaking providing the life assurance policies referred to in Article 31 of Legislative Decree No 209 of 7 September 2005;
- c) “demographic bases”: any statistic on the mortality/longevity of the insured persons used for calculating the premium or for calculating the technical provisions;
- d) “financial bases”: the technical interest rate used for calculating the premium and any other financial assumption used for calculating the premium or for calculating the technical provisions;
- e) “technical bases”: any statistical, demographic and financial element and any other assumption used for calculating the premium or for calculating the technical provisions;
- f) “loadings”: the amount of administration expenses (acquisition, collection and administration costs) and any other cost taken into account by the undertakings in determining the tariffs, as well as the compensatory margin of entrepreneurial risk;
- g) “index linked contracts”: the contracts referred to in Article 41, second paragraph, of Legislative Decree No 209 of 7 September 2005, whose benefits are directly linked to indexes or other reference values;
- h) “unit linked contracts”: the contracts referred to in Article 41, first paragraph, of Legislative Decree No 209 of 7 September 2005, whose benefits are directly linked to shares held in a UCITS or to the value of assets contained in an internal fund;
- i) “decree”: the Legislative Decree No 209 of 7 September 2005;
- i bis)* “pension funds”: *the institutions for occupational retirement provision established within the meaning of Article 3, first paragraph, letters from a) to h) and within the meaning of Article 9 of Legislative Decree No 252 of 5 December 2005, as well as the institutions for occupational retirement provision established at the date of entry into force of Law No 421 of 23 October 1992¹;*
- j) “open pension funds”: the funds established by insurance undertakings regulated within the meaning of Article 12 of Legislative Decree No 252 of 5 December 2005 for the management of institutions for occupational retirement

¹ Letter added by Article 1 paragraph 1 letter a) of ISVAP Order no. 2696 of 27 April 2009.

- provision, open for accession on an individual and collective basis;
- k) “separately managed account”: the investment portfolio managed separately from the other assets held by the undertaking, the return of which forms the basis for the re-evaluation of the benefits provided by the contracts connected thereto.
 - l) “long term care or LTC”: insurance policy covering the risk of dependency in the performance of daily tasks, classified within the life assurance branch, providing regular pension payments in the form of annuities;
 - m) “individual pension plans or IPPs”: the individual occupational retirement provisions implemented through the life assurance policies referred to in Article 13, first paragraph, letter b) of Legislative Decree No 252 of 5 December 2005;
 - n) “premium rate”: the pure premium plus loadings;
 - o) “pure premium”: the basic cost of the insurance coverage that the policyholder must pay as consideration for the technical risk assumed by the insurance undertaking;
 - p) “international accounting standards”: the international accounting standards and related interpretations adopted in accordance with the procedure referred to in Article 6 of EC Regulation No 1606/2002 of the European Parliament and of the Council of 19 July 2002;
 - q) “life assurance”: the economic activities referred to in Article 2, first paragraph, of Legislative Decree No 209 of 7 September 2005;
 - r) “Third State”: a State which is not a member of the EU nor a member of the European Economic Area;
 - s) “guaranteed interest rate”: the guaranteed return contractually agreed upon and provided directly by the insurance undertaking;
 - t) “guaranteed maximum rate of interest or GMR”: the guaranteed maximum rate provided by a life assurance policy within the meaning of Article 33 of Legislative Decree No 209 of 7 September 2005;
 - u) “technical rate”: the minimum rate of return recognized by the undertaking upon conclusion of the contract during the fixing of the premiums;
 - v) “*Leaving indemnity*”: the severance pay regulated by Article 2120 of the Civil Code².

Article 3 (Scope)

1. This Regulation applies to insurance undertakings whose head office is in Italy and to the branch offices in Italy of insurance undertakings whose head office is in a third State, that are authorized to operate in the life assurance sector.
2. This Regulation contains the general principles and implementation rules underlying the calculation of premiums and of technical provisions of life assurance policies and relevant requirements to be fulfilled by the undertakings referred to in paragraph 1 and by the appointed actuary.

Article 4 (General principles)

1. The undertakings shall adopt internal procedures and processes for guaranteeing that the accounting and statistical data used for calculating the tariffs and technical provisions are relevant, complete and accurate.

² Letter added by Article 1, paragraph 1, letter b) of ISVAP Order no. 2696 of 27 April 2009.

2. In order to ensure that the technical provisions are calculated correctly, the undertakings shall be endowed with human resources, IT means and instruments that are adequate for guaranteeing that the calculation processes and relevant checks are constantly effective and reliable.

TITLE II
Actuarial principles and implementation rules for determining
life assurance tariffs

CHAPTER I
General principles and technical bases of tariffs

Article 5
(General principles for determining tariffs)

1. For determining the tariffs, the undertakings shall make appropriate actuarial assumptions which, through the premiums and relevant proceeds, will allow them to cover the costs and obligations undertaken vis-à-vis the insured and to set up, for each contract, the necessary technical provisions.
2. The undertakings shall evaluate and select the technical bases for calculating the premiums and, based on the benefits that they intend to provide and on the type of contract, they shall define the technical rate of return, the demographic basis, if any, as well as any other technical basis necessary for calculating the pure premiums. Furthermore, the undertakings shall define the applicable rules on loadings for the purpose of determining the premium rates.
3. In selecting the technical bases for determining the tariffs, the undertakings shall take into account the benefits guaranteed under the contract, the guaranteed interest rate, if any, the financial and demographic profit-sharing schemes they intend to include in the contracts, as well as any fees to be withheld from the returns on investments.
4. For the capitalisation transactions set out in Article 2, first paragraph, of the Decree, the undertakings shall determine the tariffs in accordance with the provisions of Article 179 of the Decree.
5. The technical bases can be modified during the life of the contract on condition that the possibility to make such modifications according to a specific set of rules is expressly provided for in the policy terms and conditions. For individual pension plans, for open pension funds and for long term care contracts, the provisions of Articles 8, 9 and 10, respectively, shall apply.
6. Pursuant to Article 32, first paragraph, second subparagraph of the Decree and taking into account their financial situation, the undertakings may decide, for one or more tariffs, to apply premiums from their own means that allow them to cover the costs and obligations undertaken vis-à-vis the insured, provided that recourse to resources deriving from sources other than the aforesaid premiums and related proceeds is not systematic and not permanent.

Article 6
(Financial bases for calculating tariffs)

1. The undertakings shall define the technical rate of return for determining each tariff. For contracts providing a financial guarantee, the technical rate of return cannot exceed the corresponding contractually guaranteed interest rate, fixed within the limits set out in Chapter III of this Title.
2. For annual premium contracts and for the sole purpose of determining the annual depreciation of the loading for acquisition costs, the undertakings may use a technical rate of return that is higher than the guaranteed interest rate.

Article 7
(Technical bases other than the financial bases for calculating tariffs)

1. The undertakings shall adopt demographic bases and other technical bases, obtained either from market surveys or from their own experience, making reference to the criteria of prudence. For insurance policies on the duration of human life, the undertakings shall take into account also the general trend of life expectancy/mortality of the population at large as well as the actual mortality/life expectancy rate registered in their own portfolio.
2. For annuity contracts and for lump sum contracts providing annuity options, the undertakings shall, available data permitting, adopt a demographic technical basis obtained from a generational analysis and consider the effects of the anti-selection of annuity holders with respect to the population at large.
3. If, in adopting technical bases other than financial bases, the undertakings should draw on analyses based on international experiences, they shall evaluate their sustainability vis-à-vis the risks that they intend to insure, and make any necessary corrections so as to adapt the database of reference to the national context in which the risks are situated.
4. The undertakings shall monitor the demographic bases and the other technical bases used for determining the tariffs periodically, with the aim of verifying whether or not they are reliable. When these analyses lead to statistically significant results, such as to question the appropriateness of the technical bases adopted, the undertakings shall immediately review the tariffs and update the demographic bases and the other technical bases in a manner such as to guarantee that at all times the tariffs are technically well-balanced.
5. The demographic bases and the other non-financial technical bases to be used in the context of collective pricing shall be selected consistently with the types of risk present in the insured group.

CHAPTER II
Rules on tariffs for particular insurance forms

Article 8
(Rules applicable to individual pension plans)

1. The undertakings may provide individual pension plans through life increasing benefit contracts connected to separately managed accounts or through unit linked insurance contracts or through contracts providing a combination of the aforesaid

- contract types.
2. During the life of the contract, the undertakings may, if expressly provided for by the contractual terms and conditions, modify the demographic bases, the financial bases and the guaranteed interest rate for calculating the benefits. Said variation can be made in accordance with paragraphs 3, 4 and 5.
 3. The undertakings may modify the demographic bases, provided that the analyses conducted on objectively verifiable data show variations in the probability of survival and in accordance with the following terms and conditions:
 - a) the payment of benefits has not commenced;
 - b) the variations in the probability of survival are based on national statistics on the population provided by ISTAT or by other qualified public institutions and confirmed by the findings based on their own insurance portfolio or, if the undertaking's portfolio is not statistically significant, confirmed by insurance market statistics subject to ISVAP's prior assessment.
 4. The undertakings may modify the financial bases or the guaranteed interest rates if, during the life of the contract, they do not comply with the limits of the GMR in force, as referred to in Chapter III of this Title, without prejudice to the provisions of paragraph three, letter a). The modification of guaranteed interest rates will have effect only on premiums paid after the date of entry into force of the modification.
 5. The modifications of the demographic bases and financial bases used for calculating regular benefits cannot be applied to subjects, already insured as at the date on which said modifications were made, who exercise the right to pension benefits within the subsequent three-year period.

Article 9

(Rules applicable to open pension funds)

1. The undertakings may modify the demographic bases, the financial bases and the guaranteed interest rate for calculating benefits. Such modification can be made in accordance with paragraphs 2, 3 and 4.
2. The modification of the demographic bases is permitted provided that the analysis conducted on objectively verifiable data shows variations in the probability of survival and in accordance with the following limits and conditions:
 - a) the payment of benefits has not commenced;
 - b) the variations in the probability of survival are based on national statistics on the population provided by ISTAT or by other qualified public institutions and confirmed by the findings based on their own insurance portfolio or, if the undertaking's portfolio is not statistically significant, confirmed by insurance market statistics subject to ISVAP's prior assessment.
3. The undertakings may modify the financial bases or the guaranteed interest rate, should these not comply with the limits of the GMR in force, as referred to in Chapter III of this Title, without prejudice to the provisions of the second paragraph, letter a). The modification of guaranteed interest rates will have effect only on premiums paid after the date of entry into force of the modification.
4. The modification of the demographic bases and of the financial bases used for calculating annuities cannot apply to subjects, already insured as at the date on which said modifications were introduced, who exercise the right to pension benefits within the subsequent three-year period

Article 10
(Rules applicable to long term care contracts)

1. For LTC insurance policies, during the life of the contract and if expressly provided for in the policy conditions, the undertakings may modify the technical bases other than the financial bases used for calculating the premiums, should the analyses conducted in accordance with objectively verifiable data obtained from national or international statistics or from surveys conducted on insurance portfolios, effectively show an actual increase in the claims ratio such as to require the modifications of the subsequent payments.
2. The undertakings shall inform ISVAP of the modifications referred to in the first paragraph, at least sixty days prior to the application of the new technical bases to the existing contracts.

CHAPTER III
Guaranteed maximum annual rate of interest
for contracts expressed in euro

Article 11
(General principles on the guaranteed maximum annual rate)

1. The guaranteed maximum annual rate or GMR is determined on the basis of the provisions of this Chapter and is calculated, separately for different types of contracts, on the basis of the average annual rate of return of government bonds, to be defined in accordance with the criteria set out in Article 12, and known as TMO (*translator's note: Italian acronym*).
2. For each contract expressed in euro, if an undertaking intends to offer a financial rate of return, it shall define the guaranteed interest rate in a way that the equivalent postponed annual amount does not exceed the GMR in force.
3. With regard to the recurrent single premium contracts, which provide variable guaranteed interest rates in accordance with predefined schemes within the limits of the GMR, the modifications of interest rates apply strictly to premiums with maturity at a date subsequent to that of the modification.
4. In providing financial guarantees, the undertakings shall in any case adopt prudential criteria, taking into due account the effective return on assets covering their commitments, the financial market conditions, both current and future, and the time period during which the guarantees are provided.

Article 12
(Average rate of return of government bonds - TMO)

1. For the purpose of calculating the TMO, the undertakings shall use as historical series of reference the data published by the Bank of Italy relative to the monthly observations of the gross annual rates of return of long-term Treasury bonds (BTPs), with maturity at ten years.
2. For each month, the TMO will be equal to the lesser between the two following values:

- a) the last known annual rate in the historical series referred to in the first paragraph, relative to the gross yield at maturity of BTPs;
- b) the simple arithmetic average, calculated on the basis of the last twelve monthly observations, of the historical series referred to in the first paragraph, where the last input is equal to the rate set out in letter a).

Article 13
(Contracts with generic assets)

1. The GMR applicable to contracts for which the undertakings hold generic assets to cover their commitments is defined on the basis of the performance registered by sixty percent of the TMO, as referred to in Article 12, relative to the last three known monthly records.
2. The GMR shall be modified when each of the calculated values differs from the GMR in force, in the same direction and by more than fifteen percent or in any case by more than half a percentage point.
3. The new applicable GMR shall be equal, once the conditions referred to in the second paragraph have been met, to the simple average of the last three records, relating to sixty percent of the TMO, rounded up or down to the nearest value on a discrete scale of rates whose terms vary by a quarter of a percentage point. In any case, the GMR cannot exceed four percent.
4. The undertakings shall modify the level of GMR within three months from the end of the month in which the value was determined.

Article 14
(Pure risk insurance)

1. By way of derogation from the provisions of Article 13, the maximum rate guaranteed by undertakings on pure risk insurance contracts without profits shall not exceed four percent.

Article 15
(Contracts with suitable assets)

1. For the non-pure risk single premium and capitalisation insurance contracts, for which suitable assets are provided by the undertakings to cover their commitments, the GMR, by way of derogation from the provision of Article 13 and limited to the first eight years of the contract term, is defined on the basis of the performance registered by seventy-five percent of the TMO, as referred to in Article 12, relative to the last three known monthly records.
2. The GMR shall be modified when each of the values calculated differs from the GMR in force, in the same direction and by more than fifteen percent or in any case by more than half a percentage point.
3. Once the conditions referred to in the second paragraph have been met, the new applicable GMR shall be equal to the simple average of the last three records, relative to seventy-five percent of the TMO, rounded up or down to the nearest value on a discrete scale of rate of returns, whose terms vary by one quarter of a percentage point. In any case, the GMR cannot exceed the six percent mark.
4. The undertakings shall modify the GMR level within three months from the end of

the month in which the value has been determined.

5. For the period following the first eight years of the contract term, the guaranteed maximum rate shall be defined on the basis of the calculation method and within the limits laid down by Article 13.
6. The undertakings shall manage the assets covering their commitments under the contracts in accordance with prudential criteria, making sure that the composition of such assets is consistent with the nature, average duration and level of commitments vis-à-vis the insured.
7. In determining the surrender value payable to the insured, the undertakings shall adopt precautionary calculation methods that enable them to prudently take into account any capital losses that may arise, at the time of the cash surrender, as a result of the transfer of the corresponding assets.

Article 16
(Contracts with specific assets)

1. For contracts for which the undertakings hold specific assets to cover their commitments, the guaranteed maximum annual interest rate, by way of derogation from the provisions of Article 13, shall be equal to the expected gross return of the specific covering assets as per Articles 17 and 18, reduced by the amount that will be withheld by the undertakings from said return.
2. The maximum interest rate referred to in the first paragraph is guaranteed for a period not exceeding that of the maturity of the covering assets. For the subsequent period the GMR shall be defined in accordance with the provisions of Article 13.
3. The undertakings shall hold the specific assets until their natural maturity as they are necessary to cover their commitments, unless they are replaced with other assets that provide similar guarantees of profitability for the required time frame.
4. The undertakings shall manage the portfolio of specific assets covering their commitments under the contracts in accordance with prudential criteria, making sure that the composition of such assets is consistent with the nature, average duration and level of commitments vis-à-vis the insured.

Article 17
(Expected gross return of specific assets covering
non-pure risk single premium and capitalisation contracts)

1. For the purposes of the calculation referred to in Article 16, first paragraph, the expected gross return of specific assets covering non-pure risk single premium and capitalisation insurance contracts is as follows:
 - a) for securities such as zero coupon bonds, equal to the gross rate of return in real terms;
 - b) for fixed income securities or securities yielding a guaranteed minimum interest, not higher than the amount that would be obtained by reinvesting the related gross proceeds at an interest rate equal to the GMR referred to in Article 13, taking into account the effects of any anticipated payment of benefits during the life of the contract.

Article 18

(Expected gross return of specific assets covering immediate life annuity contracts with no surrender)

1. For the purposes of the calculation referred to in the first paragraph of Article 16, the expected gross return on specific assets covering immediate life annuity contracts with no surrender shall take into account the evolution of the mathematical provisions of the contracts and shall not exceed the amount that would be obtained by reinvesting the gross returns on the assets, in whole or in part, at an interest rate equal to the GMR referred to in Article 13, taking into account the effects resulting from any time-lags between the maturity dates of the return and the dates on which the relative benefit instalments are paid to the insured.
2. The undertakings carefully stagger over time the duration of the specific assets providing coverage in order to take into account the need for liquidity that will arise when annuities are to be paid.

Article 19

(Provisions for particular types of contracts)

1. The provisions of Articles 15 and 16 do not apply to single premium contracts providing benefits that are subject to revaluation based on the return of separately managed accounts, including also other types of contracts, and to recurrent premium contracts. For said contracts, the GMR shall be determined in accordance with the provisions of Article 13.
2. For the single premium contracts referred to in Article 17, in determining the surrender value payable to the insured, the undertakings shall select precautionary calculation methods that enable them to prudentially take into account any capital losses that may arise, at the time of surrender, as a result of the transfer of the corresponding covering assets.

Article 20

(Special provisions for pension funds and for IPPs)³

1. *For pension funds and for individual pension plans, the undertakings, by way of derogation from Article 13 and under the conditions set out in the third paragraph, may guarantee a return on the severance indemnity and on any contributions payable by the workers and employers included in the managed account or set aside for individual pension plans, which shall be equal to or less than the return that would be obtained by applying the revaluation rate calculated in accordance with Article 2120 of the Italian Civil Code.*
2. *The guaranteed return referred to in paragraph 1 can be contractually agreed upon for a period not exceeding three years. Upon expiry of each period the undertakings may continue to avail themselves of the derogation referred to in paragraph 1, under the conditions referred to in paragraph 3.*
3. *The guaranteed revaluation shall under no circumstances exceed the amount of return on the assets covering the technical provisions, taking into account the*

³ Article modified by ISVAP Order no. 2696 of 27 April 2009. According to article 20: "For class VI contracts provided for in article 2, paragraph 1 of the decree and for IPPs, the rules on the guaranteed maximum annual rate are set by ISVAP in an ad hoc order".

prudential margins, consistently with the average duration of commitments, with the prospective flow of severance indemnity contributions assigned and of the expected return, and with both current and future financial market conditions.

*Article 20 bis
(Report on financial strategies for return guarantees)⁴*

- 1. If the undertakings have recourse to the derogation referred to in Article 20, they shall submit a detailed report to ISVAP, to be signed by a company representative, containing a description of the financial strategies aimed at repeating the guarantees offered.*
- 2. The report shall contain a description of the events provided for by the rules on occupational retirement provisions for which the undertakings issue a return guarantee, the methods used to determine them, as well as the analyses conducted to check compliance with the provisions of Article 20, third paragraph, indicating all of the elements and assumptions underlying the evaluations on the sustainability of the financial guarantee. In particular, the report shall set out the criteria adopted for selecting the assets identified and to be identified for implementing the financial guarantee, including the issuers, assigned ratings, income-related data and maturity dates. With regard to the contractual commitments, the undertakings shall indicate the assumptions used for estimating the prospective flow of contributions and of the expected benefits, including the frequency with which commitments are removed, for whatever reason, from the supplementary pension fund. Said information shall be supplemented by an expected asset/liability cash flow match.*
- 3. The undertakings shall submit the report referred to in paragraph 1 to ISVAP within fifteen days from the signing of the contract stipulated within the meaning of Article 6, paragraph 1, letter b) of Legislative Decree No 252 of 5 December 2005 or from the date of issue of the guarantee referred to in Article 20, paragraph 1, by the open pension fund or by the individual pension plan.*
- 4. The report referred to in paragraph 1 shall be submitted to ISVAP within fifteen days following the date of issue of the guarantee if, upon the expiry dates provided for by Article 20, paragraph 2, the undertakings continue to avail themselves of the derogation on the guaranteed maximum rate.*
- 5. In the event that new financial market conditions are such as to require significant changes in the financial strategies adopted, the undertakings shall transmit to ISVAP, in a timely manner, an exhaustive note describing the changes actually made.*

**TITLE III
Obligations of the appointed actuary with regard to tariffs**

**Article 21
(Evaluation of tariff)**

- 1. The appointed actuary shall ascertain that, in selecting the technical bases used for calculating the premiums of each tariff, the undertaking has complied with the**

⁴ Article added by ISVAP Order no. 2696 of 27 April 2009.

provisions of this Regulation, he/she shall check the methods adopted by the undertaking to calculate the premiums, and verify that they are consistent with the technical bases used.

2. The appointed actuary, in evaluating the tariff, shall take into account any existing contractual guarantees, also with reference to cases of anticipated surrender, reductions and benefit options other than the principal ones envisaged in the contract.
3. The appointed actuary shall conduct a prospective pricing profitability analysis to verify that the technical bases used by the undertaking and the relevant premiums enable the latter to cover all the guaranteed benefits and all the costs incurred, also taking into account the expected profitability of the assets and of financial guarantees.
4. The results of the evaluations referred to in paragraphs 1, 2 and 3 constitute the object of the technical report on tariff drawn up by the appointed actuary within the meaning of Article 23.

Article 22 (Monitoring financial guarantees)

1. The appointed actuary shall ascertain that the guaranteed interest rates on the new contracts do not exceed the maximum guaranteeable annual interest rates referred to in Chapter III of Title II.
2. Pursuant to the provisions of Article 11, paragraph 4, the appointed actuary may recommend to the undertaking to adopt interest rates guaranteed by contract that are lower than the maximum guaranteed annual interest rates, as provided for by this Regulation for the various types of contracts.

Article 23 (Technical report on tariff)

1. When determining each new tariff, the appointed actuary shall draw up a technical report on tariff indicating the following:
 - a) the technical bases and the methods adopted by the undertaking for determining the tariffs, indicating the type of data used and whether they were drawn from corporate experience or from sources external to the undertaking;
 - b) the appointed actuary's assessment of consistency of the premium rates with the commitments undertaken vis-à-vis the insured and with the costs of the contract;
 - c) the appointed actuary's opinion on tariff.
- 1 *bis.* For undertakings that avail themselves of the derogation referred to in Article 55 quater, paragraph 2, of Legislative Decree No 198 of 11 April 2006, the appointed actuary shall indicate in the technical report on tariff, in addition to the elements referred to in the first paragraph, also the statement of adequacy of the data on equal treatment between men and women with respect to access to insurance services⁵.
2. The technical report on pricing shall be drawn up and signed by the appointed

⁵ Paragraph added by article 13, paragraph 1, of ISVAP Regulation no. 30 of 12 May 2009.

actuary, in accordance with the procedures referred to in Annex 1 of this regulation, and shall contain, in the Annex, the pricing profitability analysis as referred to in Article 21, paragraph 3, as well as any other detailed information required to determine the tariff.

3. The technical reports on tariffs and the technical worksheets used for the profitability analyses shall be stored by the undertakings.
4. In case of changes to the technical bases regarding the contracts referred to in Articles 8 and 10 and in case of changes to the technical bases regarding the open pension funds referred to in Article 9, the appointed actuary shall prepare a new report on tariff containing, among other things, the results of the respective analyses conducted by the enterprise and its evaluations on the effective need to revise the technical bases.

Article 24 (Other requirements on tariffs)

1. The appointed actuary shall inform the undertaking in a timely manner of the need to take orders regarding the possibility of continuing to acquire contracts for which the conditions referred to in Article 5, paragraph 6, are met, should any elements emerge which, in the latter's opinion, may represent a situation of risk and disturbance for the prudent and balanced management of the undertaking, also in the light of the current and future financial situation.

TITLE IV **Actuarial principles and implementation rules for the calculation** **of technical provisions of Italian direct business**

Article 25 (General principles on technical provisions)

1. The undertakings that pursue life assurance shall create technical provisions, including the mathematical provisions referred to in Article 30 and the provisions for future expenses referred to in Article 31, to the extent necessary to guarantee their commitments and future expenses.
2. For with-profit contracts other than those set out in Article 26, paragraph 1, letter a), the undertakings shall create provisions for bonuses and rebates, taking into account, implicitly or explicitly, prospective profit sharing, consistently with the other assumptions on future developments and with the profit-sharing criteria known at the time of the assessment.
3. In addition to the provisions mentioned in the above paragraphs 1 and 2, the undertakings shall create a technical provision for amounts payable, in accordance with the criteria set out in Article 36, paragraph 3, of the decree, and a technical provision for supplementary insurance policies, in accordance with the indications set out in Article 32.
4. The undertakings shall create technical provisions gross of reinsurance cessions.
5. The technical provision connected to each contract shall at all times not less the corresponding surrender value.

6. Undertakings shall not constitute negative technical provisions for any of the provision units referred to in paragraphs 1, 2 and 3.

Article 26
(Methods for calculating technical provisions)

1. The undertakings shall calculate the technical provisions using a sufficiently prudent prospective actuarial method, which, in accordance with the conditions agreed upon for each contract in place, takes account all the future obligations, among which:
 - a) all the guaranteed benefits, including the guaranteed surrender values and future profit sharing of any type whatsoever guaranteed under the contract;
 - b) the sharing of profits to which the insured are individually or collectively entitled, whether said profits are defined as acquired, claimed or assigned;
 - c) all options to which the insured are entitled under the terms of the contract;
 - d) the undertaking's future expenditures, including commissions.

In the case of undertakings that pay acquisition commissions in advance at the time of stipulation of the contract, the future premiums to be taken into account for calculating the technical provisions shall be determined net of the shares of loadings, collectable at a later date, used to fund the commissions paid.

2. The undertakings shall calculate the technical provisions separately for each contract. However, reasonable approximations or generalisations may be made whenever the undertakings have reason to believe that these will essentially lead to the same results as the calculations made for each single contract. The principle of separate calculation does not hinder the constitution of supplementary provisions for general risks.
3. The undertakings may adopt a retrospective method if said method leads to provisions that are not less than those resulting from the adoption of a sufficiently prudent prospective method in accordance with the provision of paragraph 1, or if it is not possible to apply a prospective method for the type of contract to which the provision refers.
4. For calculating the overall provision of the contract, the undertakings may adopt a method which makes use of implicit assessments for one or more components, provided that the method adopted does not produce an overall provision that is smaller than the provision that would be obtained by calculating the provisions of each single component separately.
5. The method adopted by the undertakings shall not change each year in a discontinuous or discretionary manner, given that it must be such as to allow for the sharing of profits in an appropriate manner throughout the life of the contract.
6. The assessment method selected by the undertakings shall be prudent also in view of the criteria for evaluating the assets used to cover the provisions.

Article 27
(Technical bases for calculating technical provisions)

1. The undertakings shall identify the technical bases for a prudent evaluation of the provisions on the basis of assumptions considered to be more likely and on the basis of ensuring a reasonable margin for unfavourable trends of the items examined.

2. ISVAP may require the undertakings to supplement the technical provisions, also through the adoption of more prudent technical bases, in the event that said strengthening is justified by the comparison referred to in paragraph 2 of Article 29, or by other evidence.
3. The undertakings shall make public the bases and methods used for evaluating the technical provisions.

Article 28

(Financial bases for calculating the technical provisions)

1. The undertakings shall define the interest rate to be adopted in the evaluation of the technical provisions of the contracts in force according to prudential criteria, and in any case the related value may not exceed the value of the corresponding maximum guaranteeable interest rate established within the meaning of the provisions of Chapter III of Title II.
2. By way of derogation from the principle set out in the first paragraph, without prejudice to the provision of Article 25, paragraph 5, ISVAP may, under exceptional circumstances, grant the undertakings a time period to be established by the latter and in any case not exceeding twenty-four months, to adopt, in the calculation of the technical provisions, a higher interest rate than that previously applied, in the case where an increase in the average rate of return of more recently issued government bonds generates significant capital losses of the financial assets, and provided that the consequent reduction of the technical provisions does not exceed the amount of capital loss recorded in the year for the assets representing the same provisions.

Article 29

(Technical bases other than the financial bases for calculating the technical provisions)

1. The undertakings shall select the statistical elements related to the insured events and, in particular, the mortality, invalidity and morbidity tables, in accordance with prudential criteria, basing themselves on sufficiently broad findings obtained both from the experience of the undertakings and from external data, and taking into account also the State in which the risk is situated and the type of contract.
2. The undertakings shall make comparisons between the technical bases, other than interest rate, used for calculating the technical provisions and the results of their direct experience with their own portfolio. The results of said analysis shall be submitted to ISVAP in accordance with the methods and procedures defined by the Regulation issued by ISVAP within the meaning of Article 90 of the decree.

Article 30

(Mathematical provision)

1. The undertakings shall calculate the mathematical provisions taking into account the obligations taken on vis-à-vis the insured and the premium rates net of loadings.
2. Among the mathematical provisions referred to in paragraph 1, the undertakings shall also create a provision for health and professional extra-premiums, which shall be not less than the extra-premiums amount for the financial year.

Article 31
(Provisions for future expenses)

1. On the basis of prudent assessments, the undertakings shall calculate the provision for future expenses referred to in Article 26, first paragraph, letter d), as the current value of positive balances between administrative expenses, increased by the commissions that they expect to incur minus the loadings contained in any future premiums to be collected and the future financial income, deriving from the investment of the premiums, not retroceded to the contracts and used to finance operating expenses.
2. The undertakings may constitute the provision for future expenses implicitly, by calculating the overall provision as the difference between the current value of the obligations taken on vis-à-vis the insured, and the current value of the future premiums net of the foreseeable expenses that they expect to incur. In any case, the overall provision shall comply with the restriction set out in the fifth paragraph of Article 25.
3. For the evaluation of future expenses, the undertakings shall hypothesize realistic and prudential scenarios and shall apply appropriate methods for allocating the expenses to the various types of tariffs.

Article 32
(Technical provisions of supplementary insurance)

1. For the setting up of technical provisions of supplementary insurance, as referred to in Article 2, paragraph 2, of the decree, the undertakings shall adopt the methods provided for by the legal and regulatory provisions and by other rules on the technical provisions of non-life insurance.

TITLE V

Applicable rules in the event that the evaluation of the assets representing technical provisions is carried out according to the purchase tariff criterion

**CHAPTER I
General provisions**

Article 33
(General principles on the technical provisions
whose assets are evaluated at purchase tariff)

1. Without prejudice to the actuarial principles and implementation rules set out in Title IV, in the event that the undertakings evaluate the assets representing the provisions according to the purchase tariff criterion, for the purposes of the provisions of Article 26, paragraph 6, an evaluation of the technical provisions using an actuarial prospective method shall be considered sufficiently prudent when, considering the benefits set out in Article 26, paragraph 1, it makes use of the same technical bases that were adopted for calculating the premium in compliance with applicable law, and consequently does not take into account future profit sharing.
2. The method referred to in the first paragraph cannot be applied in the event that, in determining the premiums, account is taken of the financial situation of undertakings within the meaning of Article 32, first paragraph, second subparagraph, of the decree.

Article 34

(Provision for future expenses of contracts whose provisions are calculated using the same technical bases adopted for calculating the premium)

1. The undertakings that evaluate their technical provisions in accordance with the methods set out in Article 33, paragraph 1, shall determine the provision for future expenses in accordance with the criteria set out in Article 31, in the case where the administrative expenses and the commissions to be incurred match the loadings included in the tariff and without taking into account the future financial income deriving from the investment of premiums not retroceded to the contracts and used to finance operating expenses, taking also into account the provision of Article 49.
2. For contracts with periodic premiums, in calculating the provisions for future expenses referred to in paragraph 1, the undertakings shall take into account also the share of loading, earned to the subsequent year, relating to the last premium recorded prior to the evaluation date.

CHAPTER II

Additional provisions for financial risk

Section I

Constitution of additional provisions for financial risk

Article 35

(Operational scope)

1. The undertakings shall assess the need to constitute an additional provision for financial risk for the increasing benefits contracts connected to separately managed accounts, for contracts with suitable and specific assets, and for contracts providing benefits which, although they are not connected to the results of a separately managed account, provide a return guarantee issued by the undertakings themselves.

Article 36

(Constitution of additional provisions for guaranteed interest rate risk)

1. The undertakings shall assess the need to supplement the technical provisions determined within the meaning of Article 33, first paragraph, by setting up an additional provision for the guaranteed interest rate risk, in the event that the GMR in force, established within the meaning of the provisions of Chapter III of Title II, is lower than the commitment contractually undertaken in terms of interest rate, and the current or expected return on the assets representing the related provisions, reduced by one fifth, is lower than the aforesaid commitment.
2. The constitution of an additional provision for the guaranteed benefit risk is equally necessary in the event that the current or expected return on the assets representing the mathematical provisions is smaller than the commitment undertaken under the contract.
3. For contracts with specific assets, the undertakings shall create an additional provision for the guaranteed interest rate risk, once the condition referred to in the second paragraph has been met. During the evaluation, the undertakings shall

verify that the assets originally used to hedge the technical provisions are still in the portfolio and that the issuers are still solvent, that the rating assigned to the assets has not deteriorated and that in any case it is not lower than the level considered to be prudent by the financial market and, lastly, that any coupons about to expire are reinvested at an interest rate not less than the GMR referred to in Article 13, determined at the date of issue of the contracts.

4. For contracts in force executed prior to 19 May 1995, the undertakings, for the purpose of assessing the need for any supplements of the technical provisions determined in accordance with the provision of Article 339, first paragraph, of the decree, shall create an additional provision for guaranteed benefit risk once the condition referred to in the second paragraph has been met.
5. For the purpose of determining the additional provision for guaranteed benefit risk, the undertakings shall determine the current and expected return in accordance with the provisions of Section II of this Chapter and shall apply the principles and calculation methods referred to in Section III of this Chapter.

Article 37

(Constitution of an additional provision for time-lag)

1. During trends of decreasing returns on assets to which the contracts are connected, the undertakings shall assess the need to supplement the related mathematical provisions with a provision for financial risk, in connection with the time-lag between the period in which the return reached maturity under the contract, and the time when the same return was acknowledged to the insured.
2. For policies connected to separately managed accounts, the undertakings shall create the provision referred to in the first paragraph on the basis of a comparison between the rate to be retroceded under the contract based on the return certified by the separately managed account, and the gross rate of return on assets covering the technical provisions.

Section II

Current and expected return

Article 38

(Principles for calculating the current and expected return for contracts related to separately managed accounts)

1. For increasing benefits contracts connected to separately managed accounts, the undertakings shall calculate the current and expected return on the assets representing the mathematical provisions, as the ratio between the income and the expected average deposit of the assets as a whole. The expected return is defined for each of the accounting periods of the separately managed accounts that fall within the time horizon referred to in Article 41.
2. The current return is represented by the prospective return at the time of the valuation.
3. The undertakings may limit the evaluations referred to in the first and second paragraphs strictly to the separately managed accounts that are considered significant in terms of size or level of risk of the financial guarantees offered. In any

event, the evaluation must be extended to at least eighty percent of the mathematical provisions as a whole relating to contracts connected to separately managed accounts, and shall concern the separately managed accounts in their entirety.

4. For contracts providing benefits which are connected to separately managed accounts not considered significant and excluded from the evaluations referred to in the third paragraph, the undertakings shall calculate the current and expected return as the weighted arithmetic mean of the returns referred to in the first and second paragraphs relating to individual separately managed accounts, with weights equal to the related expected average deposit.
5. The undertakings shall perform an evaluation of the current and expected return with reference to the state of the assets and liabilities portfolio of the separately managed account relating to a single date, taking into account the items set out in Articles 43 and 44 and assuming management strategies that are consistent with the legal and regulatory provisions on separate management.

Article 39

(Principles for calculating the current and expected return
for contracts not connected to separately managed accounts)

1. For contracts providing benefits which are not connected to the results of separately managed accounts but which provide a minimum return guarantee, with the exception of contracts with specific assets, the undertakings shall determine the current and expected return, within the time horizon referred to in Article 41 and according to the criteria set out in Article 38, fourth paragraph.
2. If the undertakings have not set up a separately managed account, for contracts providing a minimum return guarantee, they shall calculate the current and expected return using a method defined in accordance with the same principles of prudence contained in this Section.

Article 40

(Principles for calculating the current and expected return
for contracts with specific assets)

1. For contracts with specific assets, the undertakings shall determine the current and expected return to an extent equal to the expected gross return on the assets representing the mathematical provisions, observed at the time of the evaluation according to the criteria set out in Article 16.

Article 41

(Time horizon)

1. The undertakings shall determine the expected return on the separately managed accounts over a time horizon equal to at least four one-year periods immediately following the close of the accounting year of the separately managed account, open at the time of the valuation. Consequently, the undertakings may limit the time horizon to four one-year periods, provided that the date of evaluation coincides with the close of the accounting year of the separately managed account.
2. The time horizon referred to in the first paragraph will be equal to the residual duration of the policy portfolio, should the latter be less than four one-year periods.

3. For separately managed accounts determining the annual return on a monthly basis, the close of the account shall be deemed to coincide with that of the evaluation.
4. Should the close of the accounting year of the separately managed account not coincide with the date of the evaluation, the undertakings may, by way of derogation from the provision set out in the first paragraph, make reference to a time horizon that starts from the date of the evaluations. In that case, the time horizon shall refer to at least five one-year periods.
5. With regard to any possible economic and financial scenarios and taking into account the actual residual average duration of the portfolio, the undertakings shall assess whether it is necessary to extend the expected return analysis over a longer period than the minimum time horizon.

Article 42
(Criteria for organising and analysing data)

1. For the purposes of evaluating the current and expected return referred to in Article 38, the undertakings shall follow procedures that allow them to conduct a joint analysis of the asset and liability portfolio of each single separately managed account. The undertakings shall establish the criteria for organising and analysing the data that best suit their undertaking structures and the technical and dimensional characteristics of their portfolios, in compliance with the minimum investigation and reporting requirements laid down by this Regulation.
2. The undertakings shall follow information procedures that allow them to observe and analyse the specific characteristics of the assets and liabilities necessary to define the prospective flows and to assess their sensitivity to changes in the economic and financial context.

Article 43
(Asset portfolio)

1. For the purpose of evaluating the current and expected return referred to in Article 38, with regard to their asset portfolios, the undertakings, for each separately managed account considered to be significant, shall take into account at least the following elements:
 - a) maturity dates and amounts of the coupons, periodic collections, repayments, dividends and of the other income from each asset class, including derivatives;
 - b) possible exit from the portfolio of securities without a defined maturity date, of capital instruments, for UCITS and for the other assets;
 - c) credit risk indicators;
 - d) volatility and correlation indicators;
 - e) options available to each asset and their impact on expected cash flows;
 - f) the structure of interest rate yield curves and the exchange rates of the assets concerned;
 - g) the actual return of single fixed-income securities with respect to the loading values of separately managed accounts;
 - h) the loading values of separately managed accounts and the current values of assets;
 - i) fixed and current assets.

Article 44
(Portfolio of liabilities)

1. For the purpose of evaluating the current and expected return referred to in Article 38, with regard to the portfolio of liabilities, the undertakings shall analyse the contracts in force at the time of the evaluation in order to monitor their commitments.
2. The undertakings shall take into account the levels of financial guarantees and the dynamics for adapting the benefits provided by the contract and shall consider at least the following elements:
 - a) the structure of the financial commitment;
 - b) the extent of the financial guarantee;
 - c) the extent of the tariff technical rate;
 - d) the type of contract;
 - e) the type of tariff;
 - f) the type of premium;
 - g) the periodicity of the premium;
 - h) the amount of the premium and of the insured sums;
 - i) the technical bases, other than the financial bases, used in the tariff;
 - l) the contractual options;
 - m) the residual duration of the contractual commitments and of the financial guarantees;
 - n) the acquisition channel;
 - o) the frequency with which commitments are exited from the portfolio per single cause;
 - p) the effects of outward reinsurance treaties on contractual commitments.

Article 45
(Expected income)

1. The undertakings shall calculate the expected income referred to in Article 38, first paragraph, net of expenses directly attributable to separately managed accounts.
2. For the assets in the portfolio, the undertakings shall consider the income as consisting of:
 - a) the income for the year, known or estimated on the basis of the forward rate structure deriving from swap rates, connected to the reference value of the asset examined, as at the date of evaluation;
 - b) the share dividends and the income for the year of the other assets included in the accounts. The level of profitability shall be estimated in a prudent manner, also taking into account expectations consistent with the market situation at the time of the evaluation;
 - c) the positive or negative differences of bonds that are falling due or securities that are to be disposed of for liquidity reasons determined on the basis of expected liability cash flows or of market needs. Said differences, as regards their load value in the separate account, are evaluated, in the case of bonds, on the basis of the forward price determined on the reference spot curves at the evaluation date and, in the case of the other financial assets, within the overall limit of the implicit net capital gains existing at the time of the evaluation.
3. For assets to be acquired in the future the undertakings shall take into account solely the ordinary income referred to in the second paragraph, letters a) and b), estimated according to the procedures and methods set out therein. The assets to be

acquired in the future shall:

- a) derive from the reinvestment of coupons or of expired or sold assets and from the use of collectable premiums in the portfolio of contracts in force at the time of the evaluation;
 - b) be included in the calculation referred to in the first paragraph, considering the types of assets that are consistent with the overall expected asset and liability cash flows and in any case selected according to prudential criteria.
4. In evaluating expected income, for the purpose of giving due consideration to the credit risk, the undertakings shall adopt appropriate assessment models.
 5. Should the undertakings, in line with the principles referred to in the paragraphs set out above, wish to avail themselves of elements such as to make their estimation models more suited to the nature of their separately managed accounts, they shall first notify ISVAP in writing, specifying the reasons for the use of such elements and the evaluation criteria adopted.

Article 46

(Report on current and expected return)

1. At the time of drafting the financial statements and the half year report, the undertakings shall prepare a report on the current and expected return, to be signed by a representative of the company and by the appointed actuary.
2. In the report referred to in the first paragraph, the undertakings shall indicate the evaluation elements and the assumptions underlying the quantification of the current and expected return, with particular reference to the criteria adopted vis-à-vis the assets to be acquired in the future and for the sale of bonds determined by market needs, as well as the models used for estimating the credit risk referred to in Article 45, paragraph 4.
3. The report shows the vectors of the rates resulting from the estimated current and foreseeable returns on the monitored separately managed accounts, the weighted mean of the same rates used for contracts connected to non significant separately managed accounts or for contracts not connected to separately managed accounts, and the expected gross rate of returns of specific assets.
4. The undertakings shall keep the report referred to in the first paragraph for a two year period, including the analytical flow sheets, on electronic format, necessary for determining the vectors referred to in the third paragraph.

Section III

Principles and methods for calculating the additional provisions for guaranteed interest rate risk

Article 47

(General principles for determining the additional provisions
for guaranteed interest rate risk)

1. Based on the comparison of interest rates provided for in Article 36, the undertakings shall evaluate the additional provision for guaranteed interest rate risk for each single separately managed account, and within the latter, for each level of financial guarantee issued under the contract.

2. The same criterion referred to in the first paragraph shall be applied to contracts connected to separately managed accounts considered not significant within the meaning of Article 38, paragraph 4.
3. The undertakings shall evaluate the additional provision for guaranteed interest rate risk also for each level of guarantee offered on the contracts referred to in Article 39.
4. The undertakings shall evaluate the additional provision for guaranteed interest rate risk in line with the time horizon considered for the purpose of calculating the vector of the expected returns and in accordance with the minimum periodic limits provided for by Article 41.

Article 48
(Methods for calculating the additional provision
for guaranteed interest rate risk)

1. The undertakings shall determine the additional provision for guaranteed interest rate risk based on the differences between the provision necessary to meet the commitments undertaken vis-à-vis the insured, including all the return guarantees provided under the contract, and the available provision calculated on the basis of the current and expected returns, taking into account any reductions such as those referred to in Article 36, paragraph 1, as well as any additional prudential margins deemed necessary.
2. The undertakings shall determine the available provision and the necessary provision, as referred to in the first paragraph, gross of reinsurance; the evaluation shall also include the additional provisions for demographic risk referred to in Article 50, if any, set up at the date of the evaluation.
3. For the contracts referred to in Article 36, third and fourth paragraph, in calculating the available provision, the undertakings are not required to calculate the additional provision for guaranteed interest rate risk by reducing by one fifth the expected rate of returns, but may in any case apply any prudential margins as deemed necessary.
4. For calculating the additional provisions for guaranteed interest rate risk, the undertakings shall adopt one of the methods set out in Annex 2 to this Regulation. However, they may also adopt other methods, provided that they lead to additional provision values that are equal or greater than those obtained by using one of the methods set out in Annex 2.
5. In selecting the method for calculating the additional provisions for guaranteed interest rate risk, the undertakings shall comply with the principles of prudence and shall take into account their own financial situation.

CHAPTER III
Additional provisions other than financial risk provisions

Section I
General provisions

Article 49
(Constitution of additional provisions other than financial risk provisions)

1. Upon occurrence of any unfavourable deviations from the technical bases based on the comparison set out in Article 29, paragraph 2, the undertakings shall create an additional provision other than the financial risk provisions referred to in Articles 36 and 37, should the overall level of the technical provisions, determined within the meaning of Article 33, paragraph 1, also considering the financial basis adopted, no longer comply with the criteria of prudence.
2. In the event that they have set up an additional provision for expenses within the meaning of the paragraph 1, the undertakings shall store the results of the analysis conducted on the administrative expenses and the commissions that they expect to incur and that have led to the constitution of the additional provision.

Section II **Additional provision for demographic risk**

Article 50

(Constitution of an additional provision for demographic risk)

1. For annuity contracts and for lump sum contracts with coefficient of conversion to an annuity guaranteed by contract, the undertakings shall supplement the mathematical provisions, in accordance with the provisions of Article 49, first paragraph, by creating an additional provision for demographic risk, should an unfavourable deviation occur in the demographic bases used for calculating the mathematical provisions from the results of the direct experience on the portfolio.
2. The undertakings shall assess the need to create an additional provision for demographic risk also in view of any possible general changes in life-expectancy, bearing in mind the potential impact of said phenomenon on their own portfolio.

Article 51

(General principles for determining the additional provision for demographic risk)

1. The undertakings shall determine the additional provision for demographic risk by making a distinction between individual contracts and collective contracts.
2. The undertakings shall evaluate the additional provision for demographic risk separately for annuity contracts and for lump sum contracts with coefficient of conversion to an annuity guaranteed by contract.

Article 52

(Methods for calculating the additional provision for demographic risk)

1. For the purpose of calculating the additional provision for demographic risk, the undertakings shall determine the expected increase in the capital value of the return referred to the contractual deadline, which would result from the use of a demographic base that is more representative of life-expectancy than that used for calculating the mathematical provisions.
2. The undertakings shall calculate the current value, at the time of the evaluation, of the expected increase referred to in the first paragraph. The discounting coefficient shall take into account the probability that the insured is alive, updated as at the date of the evaluation.

3. The undertakings shall determine the additional provision for demographic risk by applying, upon an increase of the discounted capital value referred to in the second paragraph, coefficients of likelihood to benefit from annuities, defined in relation to the various types of contracts and estimated on the basis of their own experience or of market data. Said likelihood coefficients shall in any case be prudently evaluated, also taking into account the nature of the contracts in the portfolio and the possible effects of introducing any legal amendments.
4. The creation of an additional provision for demographic risk is subordinated to the maintenance in force of the contracts until maturity. To that end, the undertakings may adopt in their own evaluations reasonable assumptions on the probability of early termination of the contracts for reasons other than the death of the insured.
5. In the case of immediate annuities or deferred annuities, the undertakings shall determine the additional provision for demographic risk to an extent equal to the increase, calculated at the time of the evaluation, of the capital value of the annuity instalments that they expect to pay in the future based on the life expectancy of the insured.

TITLE VI
Special rules on technical provisions
of unit and index linked contracts and class VI contracts

Article 53
(Principles for calculating the technical provisions of
unit linked and class VI contracts)

1. For unit linked contracts and for class VI contracts as indicated in Article 2, paragraph 1, of the decree, the undertakings shall set up technical provisions in compliance with the actuarial standards and with the implementation rules laid down in Title IV.
2. For the purposes of determining the technical provisions for the contracts mentioned in paragraph 1, classified in class D under Liabilities in the Balance Sheet in compliance with the Rules issued by ISVAP under Article 90 of the decree, the provisions on interest rate limits, as indicated in Article 28 paragraph, 1 shall not apply.
3. Class D technical provisions of the contracts indicated in paragraph 1 are represented with the highest possible approximation, by the units in UCITS or by the value of assets contained in an internal fund.

Article 54
(Principles for calculating the technical provisions of index linked contracts)

1. For index linked contracts the undertakings shall set up technical provisions in compliance with the actuarial standards and the implementation rules laid down in Title IV.
2. For the purposes of determining the technical provisions for the contracts mentioned in paragraph 1, classified in class D under Liabilities in the Balance Sheet in

compliance with the Rules issued by ISVAP under article 90 of the decree, the provisions on interest rate limits, as indicated in Article 28, paragraph 1, shall not apply.

3. The class D technical provisions of contracts as indicated in paragraph 1 are represented, with the highest possible approximation, by shares representing the reference value or, if the shares have not been defined, by assets of adequate security and tradability that are as close as possible to those on which the specific reference value is based.

4. *In any case, in determining the technical provisions, the undertaking shall take into account any risk factor that may influence the degree of security and tradability of the assets and shall constitute a provision for credit and liquidity risk⁶.*

5. *For the purposes of paragraph 4, the interest rate to be used in the assessments shall be reduced in order to take into account a prudential margin as offset for the credit and liquidity risk of representative assets with respect to a similar risk-free asset⁷.*

Article 55
(Additional provision of unit and index linked contracts
and of class VI contracts)

1. For the contracts indicated in articles 53 and 54, the undertakings assess the need to set up additional provisions for cases in which the benefits envisaged by contract include an investment performance guarantee or any other benefit directly guaranteed by the undertaking.
2. The undertakings shall set up additional provisions to cover the risk of mortality, expenditure or other risks, such as guaranteed benefits upon maturity, guaranteed redemption values and the risk factors related to the nature of the financial instrument used.
3. For the purpose of assessing the risks indicated in paragraphs 1 and 2, the undertakings shall adopt appropriate assessment models that are suited to the types of guarantees offered, taking into account also the ways in which they are financed as envisaged in the tariff phase.

TITLE VII
Obligations of the appointed actuary in respect of technical provisions

Article 56
(Functions of the appointed actuary in respect of technical provisions)

1. The appointed actuary shall verify that the technical provisions of the direct Italian portfolio of the undertaking are assessed in compliance with the provisions of this Regulation.
2. The appointed actuary shall carry out, on a permanent basis, the functions of

⁶ Paragraph added by Article 11 of ISVAP Regulation no. 32 of 11 June 2009.

⁷ Paragraph added by Article 11 of ISVAP Regulation no. 32 of 11 June 2009.

controlling the technical provisions of the direct Italian portfolio. For this purpose, the appointed actuary shall repeatedly check the technical provisions throughout the year, by using also synthetic assessment methods, of the whole portfolio of policies or of parts of it.

3. For the contracts indicated in Articles 53 and 54 the appointed actuary shall verify that the type and composition of the assets covering the technical provisions comply with prudential criteria and are consistent with the nature, average duration and level of commitments taken on by the undertaking.
4. The appointed actuary shall periodically verify the outcome of the comparisons made as provided for in article 29 paragraph 2. The verification shall also include premium loadings and proceeds not retroceded to the contracts, to be used to finance overheads, with respect to the actual amounts of the administration costs and the commissions to be paid by the undertaking.

Article 57

(Technical reports included in the annual accounts and in the half-yearly report)

1. The appointed actuary shall draw up and sign the technical report as provided for in the second sub-paragraph of article 32 (3) of the decree, on the provisions of the direct Italian portfolio that the undertaking intends to post in the financial statements in accordance with the outline laid down in Annex 3 to this Regulation.
2. The appointed actuary shall draw up a technical note on the provisions of the Italian direct portfolio that the undertaking intends to enter into the half year report in which he/she expresses his/her evaluation of the method adopted and of the technical bases used by the undertaking, even if implicit, in calculating the technical provisions, that he/she shall adequately describe.

Article 58

(Technical report in the event of termination of appointment)

1. The appointed actuary shall draw up a technical report as laid down in article 31 paragraph 6 of the decree also in the cases in which he/she stops working for the undertaking following a merger or spin-off.
2. In case of total or partial transfer of the portfolio to another undertaking, the appointed actuary shall draw up a technical report, as envisaged in article 31, paragraph 6, of the decree, on the portfolio transferred.

Article 59

(Technical report on current and expected return)

1. The appointed actuary shall sign the report provided for in article 46 (1) in which he/she indicates his/her observations, if any, on the method and merit of the estimate of the current and expected returns envisaged in Chapter II, Section II of Title V, and shall indicate any prudential margins he/she may deem necessary in using such estimates, with a view to determining the additional provision for the guaranteed interest rate risk.

Article 60

(Monitoring of current and expected return)

1. The appointed actuary verifies that the undertaking is endowed with procedures for calculating the current and expected return rates as envisaged in Chapter II, Section II of Title V, and that the undertaking has, correctly, taken into account all the elements indicated in article 44 paragraph 2, as well as any other aspect deemed to be significant in relation to the specificity of the undertaking's portfolio that may influence the determination of the liabilities.
2. The appointed actuary shall check that the structures of the interest rates used for calculating current and expected returns are consistent, also in terms of time horizon, with the liabilities portfolio.

Article 61
(Monitoring the solvency margin)

1. The appointed actuary shall check to that the technical items required for calculating the solvency margin are determined in accordance with the legislative and regulatory provisions.
2. If the undertakings have applied to ISVAP, in accordance with article 44, paragraph 4, of the decree, for authorisation to use further asset items to constitute a solvency margin, the appointed actuary shall check that the calculation parameters used comply with the requirements laid down by ISVAP Regulation no. 19 of 14 March 2008.

TITLE VIII
Information obligations vis-à-vis ISVAP

CHAPTER I
Information obligations on life assurance tariffs

Article 62
(Systematic notification of the technical bases of tariffs)

1. In accordance with the provisions of article 32, paragraph 6, of the decree, the undertakings shall systematic notify ISVAP of the essential elements of the technical bases used to calculate the tariffs of life assurance policies in compliance with the modalities and terms established by ISVAP in an ad hoc order.
2. Undertakings are not obliged to comply with paragraph 1 for the business carried out abroad if the Member State or Third Country of the commitment does not impose the same obligation on the undertakings having their registered office on its territory. In such case the undertakings shall notify the technical bases used only upon request by ISVAP and not systematically.

Article 63
(Notification obligations of the appointed actuary on life assurance tariffs)

1. If the appointed actuary has given a negative opinion on the assumptions adopted by the undertaking for the calculation of a tariff, he/she shall immediately inform ISVAP and submit a copy of the technical report referred to under article 23.
2. If the appointed actuary, in performing his/her control functions as indicated in article 22, paragraph 1, finds that the undertaking has violated a rule, he/she shall immediately notify ISVAP in writing, providing a detailed description of his/her findings.

CHAPTER II
Information obligations on life assurance technical provisions

Article 64

(Undertakings' information obligations on life assurance technical provisions)

1. When forwarding to ISVAP their financial statements via IT systems, for each separate management account they shall also indicate the total amount of their mathematical provisions broken down by level of guarantee offered and by structure of the financial commitment.
2. For contracts not linked to separate management accounts that contain minimum return guarantees, except for those with specific assets, the undertakings shall provide the same information indicated in paragraph 1 on their technical provisions.

Article 65

(The appointed actuary's information obligations on life assurance technical provisions)

1. If the appointed actuary believes he/she should not confirm that the technical provisions envisaged in article 36 paragraph 2 of the decree are sufficient, he/she shall immediately notify ISVAP in writing describing the specific reasons for his/her decision, together with the technical report as laid down in article 57 paragraph 1).
2. If, in the course of his/her inspection activities as per article 56, the appointed actuary finds that the undertaking has violated the rules, he/she shall immediately notify ISVAP in writing, providing a detailed description of his/her findings.

CHAPTER III
Other information obligations

Article 66

(Free access to corporate data)

1. If, as laid down in article 31 paragraph 3 of the decree, the undertaking does not provide free access to corporate data deemed necessary for performing his/her duties, the appointed actuary shall send a written note to the undertaking inviting it to comply with his/her request at its shortest delay and he/she shall immediately inform ISVAP that the impediments found are still present.

TITLE IX
Transitional and final provisions

CHAPTER I
Transitional provisions

Article 67 (repealed)⁸

⁸ Article repealed by ISVAP Order no. 2696 of 27 April 2009. The Article stated that "Up until the entry into force of the order provided for in Article 20, the undertakings, for Class VI contracts as envisaged in Article 2, paragraph 1, of the decree and for the IPPs shall comply with the provisions on the guaranteed maximum annual rate defined for the other contracts under

Article 68 (repealed)⁹

Article 69

(Procedures and time-limits for the transmission of systematic communications)

1. Up until the entry into force of the order provided for by article 62, the undertaking shall forward its systematic communications in accordance with the modalities envisaged in ISVAP Circular no. 267 of 8 February 1996, ISVAP Circular no. 416 of 23 August 2000 and ISVAP Circular no. 480 of 7 June 2002.

Article 70

(Undertakings that draw up their financial statements in accordance with the international accounting standards)

1. The insurance undertakings that adopt international accounting principles in drawing up their financial statements (IAS/IFRS) shall establish their technical provisions on the basis of the provisions of this Regulation indicating the amount of the provisions determined in the notes on the accounts in accordance with the provision of article 8 paragraphs 1 and 2 of ISVAP Regulation no. 7 of 13 July 2007.
2. Any references to financial statement items or classifications contained in this Regulation refer to financial statements drawn up for supervisory purposes in pursuance of Legislative Decree no 173 of 26 May 1997 and its implementation laws.
3. The appointed actuary shall draw up a technical report in accordance with article 57 paragraph 1 to express his/her opinion on the technical provisions determined in compliance with this Regulation, for all the contracts issued by the insurance undertaking and without the changes allowed for the drafting of IAS/IFRS financial statements allowed by paragraphs 21 to 30 of IFRS 4. The appointed actuary shall also express his/her opinion on the methods and hypotheses made in checking that the insurance liabilities provided for in paragraphs 15 to 19 and 35 of IFRS 4 are adequate, and he shall illustrate the effects of the changes made in the accounting principles applied that have contributed to determining the technical provisions written in the IAS/IFRS financial statements, submitting for this purpose the report provided for in Annex 3.

Chapter III of Title II”.

⁹ Article repealed by Article 140, paragraph 1, letter d) of Regulation ISVAP no. 33 of 10 March 2010. Article 68 envisaged that “1. Up until the issuing of the Regulation provided for in Article 62, paragraph 1, of the decree, the undertakings that pursued reinsurance, also on a non-exclusive basis, shall establish technical provisions at the end of each year, gross of retrocessions, in respect of the commitments undertaken and in compliance with the provisions of paragraphs 2 and 3.

2. The undertakings provided for in paragraph 1 shall enter into their financial statements the technical provisions of their Italian and foreign portfolio, in principle, on the basis of the reports made by the transferors.

3. The undertakings provided for in paragraph 1 autonomously assess the adequacy of their reinsurance provisions, reported by the transferors, to ensure that such provisions are sufficient to cover the commitments taken on and shall make adjustments to the financial statements, if necessary, also on the basis of past experience”.

CHAPTER II **Final provisions**

Article 71 (Repeals)

1. Following the entry into force of this Regulation, in accordance with the provisions of Article 73, the following articles and orders shall be repealed:
 - a) article 3 of ISVAP Circular no. 343 of 30 September 1998;
 - b) ISVAP Circular no. 344 of 2 October 1998;
 - c) ISVAP Circular no. 434 of 12 February 2001;
 - d) ISVAP order no. 1036 of 6 November 1998;
 - e) ISVAP order no. 1380 of 21 December 1999;
 - f) ISVAP order no. 1801 of 21 February 2001;
 - g) Article 3, (2), of ISVAP order no. 2254 of 4 March 2004.
2. Following the entry into force of this Regulation, in accordance with the terms set by Article 73, all acts dated 4 December 1997, 8 February 2000 and 7 January 2004 with which ISVAP has recognized the Guidelines issued by the National Association of Actuaries on life assurance tariffs and technical provisions shall be repealed.
3. Any other provision that is incompatible with this Regulation shall not apply.

Article 72 (Publication)

1. This Regulation shall be published in the Official Journal of the Italian Republic, in the Bulletin and on the ISVAP website.

Article 73 (Entry into force)

1. This Regulation shall enter into force on the day following its publication in the Official Journal of the Italian Republic.
2. The provisions of Titles IV, V and VI and of Articles 57, 59, 60 and 64 shall apply starting from the drafting of the half year report as at 30 June 2008.
3. The provisions of Articles 21 and 23 shall apply starting from 1 June 2008.

Rome, 28 March 2008

The President
(Giancarlo Giannini)

TEMPLATE FOR TECHNICAL REPORT ON TARIFF

The technical report on the tariffs charged by insurance undertakings that provide life assurance policies, presenting the evaluation made by the appointed actuary on the assumptions underlying the calculation of premiums, bears the following title:

"TECHNICAL REPORT AS REFERRED TO IN ART. 32 (3) OF LEG. DECREE No. 209/05 ON TARIFFS (TARIFF CODE ASSIGNED BY THE UNDERTAKING) PROVIDED FOR IN ARTICLE 32, PARAGRAPH 3, OF LEG. DECREE. 209/05 FOR THE CLASS (INDICATE CLASS) TARIFF (TARIFF CODE ATTRIBUTED BY THE UNDERTAKING) OF THE UNDERTAKING (NAME OF UNDERTAKING)".

1. GENERAL INFORMATION

The appointed actuary shall indicate the marketing period, the commercial name of the product and the ISVAP progressive code assigned for the relevant systematic report, and shall provide evidence of whether the report concerns an amended tariff or a new tariff. If the tariff described in the report is part of an insurance contract where several tariffs are combined, the appointed actuary shall provide a brief summary of the main elements characterizing the contract as a whole and that allow to identify the tariffs associated with the contract.

2. TYPE OF TARIFF

This paragraph shall provide a summary description of the essential elements that characterize the tariff such as: tariff form; insurance category; description of the insurance benefit; complementary guarantees; type of premium.

The appointed actuary shall also indicate the field of application of the tariff with reference to any limitations on the duration of insurance coverage, levels of the premiums as well as any other element concerning the risk profile of the insured.

3. DESCRIPTION OF THE TECHNICAL BASES USED

The appointed actuary shall describe the technical bases adopted by the undertaking to determine the tariffs and shall provide indications of the type and source of data used, specifying whether they are taken from the undertaking's own experience or from other sources (market surveys and statistical sources, statistics published by other undertakings, international studies, etc.).

The indications are provided in the following sub-paragraphs:

3.1 Financial bases

3.2 Demographic bases

3.3 Other technical bases (including loadings)

4. VERIFYING THE TECHNICAL BASES USED

The appointed actuary shall illustrate the controls he/she has made to check the adequacy of the technical bases adopted by the undertaking, also taking into account the prudential criteria laid down by the ISVAP Regulation issued in accordance with Article 32 paragraph 2 of Leg. Decree No. 209/2005 *as well as the provisions on sex equality envisaged by ISVAP Regulation No. 30 of 12 May 2009*¹⁰ that the undertaking

¹⁰ Phrase added by Article 13, paragraph 2, letter a) of ISVAP Regulation no. 30 of 12 May

abides by in pricing policy. If the undertaking has used technical bases other than financial ones, inferred from international experiences, the appointed actuary shall report on the outcomes of the checks made by the undertaking to confirm that the technical bases it has adopted are sustainable with respect to the risks that the latter is to take on.

If the tariff that is the subject matter of the technical report is drawn up by the appointed actuary following changes in the technical bases concerning the contracts indicated in articles 8 and 10 of the ISVAP Regulation issued in accordance with article 32 paragraph 2 of Leg. Decree 209/2005 and in case of changes in the technical bases relative to open pension funds, as envisaged in article 9 of the mentioned ISVAP Regulation, the paragraph shall be integrated with the results of the analyses carried out by the undertaking on the actual need to review the bases and with the outcome of autonomous evaluations made on this by the appointed actuary.

If the appointed actuary finds critical circumstances or anomalies, *or if he/she finds factors that discriminate the insured owing to the way the sex variable is used by the undertaking¹¹*, he/she shall give a detailed description of the elements he/she has found.

5. METHODOLOGY ADOPTED FOR CALCULATING THE PREMIUM

The appointed actuary shall describe the method used by the undertaking to determine tariffs by providing the calculation formulae applied for each element contributing to the determination of the rate premium.

The appointed actuary shall certify that he/she has checked, also through sample testing, that the rate premiums applied by the undertaking have been determined correctly. If the appointed actuary finds anomalies or inconsistencies in the manner the undertaking has used the method, he/she shall describe his/her findings in this paragraph.

5.1 PURE PREMIUM

In this paragraph the appointed actuary shall present the formula used for calculating the pure premium rates.

5.2 LOADING RULE

This paragraph shall describe the loading rule, highlighting all the fixed and/or variable cost items that affect the premium.

5.3 TARIFF PREMIUM

This paragraph shall describe the formula used to calculate the tariff premium rates.

6. TECHNICAL PROVISIONS

The appointed actuary shall describe the formulae used to calculate the individual components of the technical provisions (mathematic, expenses, etc.) envisaged at the beginning.

2009.

¹¹ Phrase added by Article 13, paragraph 2, letter b) of ISVAP Regulation no. 30 of 12 May 2009.

7. PROFIT SHARING

This paragraph describes the guarantees offered directly by the undertaking, the ways used to recognize the demographic and financial profits, it shall indicate whether minimum amounts are withheld and the minimum and/or maximum rates used in transferring increasing benefits contracts, as well as any commissions on the underlying assets.

8. REDUCTION AND SURRENDER

This paragraph shall provide a description of the reduction and redemption modalities and the relevant calculation formulae as well as any cost implementation rules in the case of a switch between funds and/or separately managed accounts.

9. PROFITABILITY ANALYSIS

The paragraph presents the assessments made by the appointed actuary, with a view to the prospective analysis of tariff profitability as per the ISVAP Regulation issued under Article 32 paragraph 2 of Leg. Decree 209/2005. The figures, referring to one or several typical contracts picked out by the undertaking, are processed to test tariff profitability assumptions and scenarios that take into account all the actuarial/statistical, spending, profitability, and inflation elements as well as the production targets set by the undertaking.

The assumptions and the quantitative elements used in the tariff profitability analyses are presented in a summary table Annex to this report (Annex 1).

10. OBSERVATIONS

The appointed actuary shall report any observations that arise during his/her inspection.

In the event that the undertaking envisages the use of its own means within the meaning of Article 32 paragraph 1 of Leg. Decree 209/2005, the appointed actuary shall illustrate the effects of such choice in quantitative terms and shall report the outcome of the sustainability verification of the tariff with respect to the financial situation of the undertaking.

11. OPINION ON THE TARIFF

Typical templates of statements to be issued by the appointed actuary are presented in the following.

1) Statement of full adequacy

"I hereby state that all the assumptions adopted to calculate the pure premium and the tariff premium are defined in accordance with the provisions of the ISVAP Regulation issued in compliance with Article 32 paragraph 2 of Leg. Decree 209/2005 and are such as to enable the undertaking to meet its costs and the obligations taken on with its insured and to set up the necessary technical provisions without having recourse to financial resources other than the premiums and relevant proceeds".

2) Statement of adequacy through recourse to the undertaking's own means

“I hereby state that all the assumptions adopted to calculate the pure premium and the tariff premium are defined in accordance with the provisions of the ISVAP Regulation issued in compliance with Article 32 paragraph 2 of Leg. Decree 209/2005 and, while taking into account the observations made in paragraph 10, the adopted assumptions do enable the undertaking to meet its costs and the obligations taken on with its insured, and to set up the necessary technical provisions also having recourse to financial resources other than the premiums and relevant proceeds”.

3) Negative statement

“I hereby state that, owing to the relevance of the remarks made in paragraph 10, the assumptions adopted for calculating the pure premium and the tariff premium are not defined in accordance with the provisions of the ISVAP Regulation issued within the meaning of Article 32 paragraph 2 of Leg. Decree 209/2005”.

The appointed actuary shall provide a detailed description of the reasons why the tariff is not consistent with the laws and regulations in force.

12. STATEMENT OF ADEQUACY OF DATA ON EQUAL TREATMENT BETWEEN MEN AND WOMEN IN PROVIDING ACCESS TO INSURANCE SERVICES¹²

Within the meaning of Article 6 (1) of ISVAP Regulation No. 10 of 12 May 2009 on equal treatment between men and women in having access to insurance services, the actuary issues the following statement: “I hereby state that for the tariff practiced by the undertaking (name of undertaking), the use of the sex factor, of critical importance in risk assessment for calculating differential premiums or benefits, is based on relevant and accurate actuarial and statistical data, in conformity with the provisions of ISVAP Regulation No. 30 of 12 May 2009”.

date of technical report
actuary

signature of appointed

ANNEXES TO THE TECHNICAL REPORT

1 Tariff profitability analysis

¹² Phrase added by Article 13, paragraph 2, letter c) of ISVAP Regulation no. 30 of 12 May 2009

**METHODS FOR CALCULATING
THE ADDITIONAL PROVISION FOR THE GUARANTEED INTEREST RATE RISK**

To illustrate the methods for calculating and verifying the additional provisions, the following definitions are used:

- 1) “**achievable return**” is the vector of current and expected returns, taking into account the possible abatement provided for in article 36 paragraph 1 of the Regulation issued by ISVAP in accordance with article 36 of Leg. Decree 209/2005 and any prudential margins as may be deemed necessary. For the contracts envisaged in article 36 paragraphs (3) and (4) of the Regulation issued by ISVAP in accordance with article 36 of Leg. Decree 209/2005, the abatement of one fifth is not envisaged, but it is possible to introduce prudential margins as may be deemed necessary;
- 2) “**retroceded achievable yield**” is the vector of achievable return to which an average retrocession rate is applied in accordance with contract conditions. For the case in which the modes of attributing the separate management return envisage the availability for the undertaking of financial margins deriving from commissions that weigh directly on the management or from withheld minimum yields, these margins will be subtracted from the achievable return;
- 3) “**necessary provision**” is the provision that the undertaking shall set aside to face commitments taken on with its insured, including all the return guarantees envisaged by the contract;
- 4) “**available provision**” is the provision available to the undertaking calculated on the basis of the annual achievable returns.

The provisions mentioned in points 3) and 4) can be estimated, for the years within the time horizon being considered, on the basis of aggregate data by using a method of the **accounting recurrence** type. The mathematical provision based on pure premiums posted at the beginning of the observation period shall include the provisions set up, if any, in accordance with article 50 of the Regulation issued by ISVAP in accordance with article 36 of Leg. Decree 209/2005 and gross of reinsurance.

This initial value shall be supplemented by the data from the estimate of flows of pure premiums and of settlement of competence and with the attribution of financial returns, both on the provision and on the incoming and outgoing cashflow, relative to the actual investment period.

By way of example, by hypothesizing a uniform distribution of incoming and outgoing flows, the relationship to be used would be of the following type:

$$V_t = V_{t-1} * (1+i) + (P-L) * (1+i)^{0,5}$$

Where:

i = interest rate,

V_{t-1} = provision at the beginning of the year

P = estimate of the pure premiums for the year

L = estimate of the settlements of competence of the year.

Some methods for calculating the additional provision for guaranteed interest rate risk are described below.

The first method (Method A) is used to estimate supplementation requirements without making any compensation for differences with opposite sign as per article 48, paragraph (1).

Since an undertaking may decide whether its financial situation is such as to allow it to use other methods based on a **compensation** of partial results (of each financial guarantee level, of each year, etc.), also other calculation methods are illustrated.

METHOD A: Additional provision per single level of financial guarantee – without compensation

The closed portfolio of existing policies and the amount of the relevant mathematical provisions posted on the date of the assessment are considered.

For each level of financial guarantee of the policies in the portfolio the following aspects need to be determined:

- the **achievable return**;
- the **retroceded achievable return**;
- the **guaranteed return** related to the terms and conditions of the policy.

By using the recurrent accounting method, after taking into account the estimated portfolio movements, for each year of the time horizon considered for the estimates the following elements are determined:

- the **necessary provision**, calculated by using as interest rate the highest value between guaranteed return and retroceded achievable return attributed to the portfolio of policies of reference;
- the **available provision** calculated by using as interest rate the achievable return.

At the end of each year, if the available provision is lower than the necessary provision, the difference constitutes the supplementary provision for that year.

For calculating the available provision at the end of each year (V_t), the provision at the beginning of the year (V_{t-1}) to which the recurring accounting method is to be applied, should always be equal to the necessary provision for that same period ($t-1$).

The sum of the current value of annual insufficiencies of the provisions resulting for the whole time horizon envisaged by the Regulation is the amount of the **additional provision** for each level of financial guarantee.

The **annual discount rate** to be used is equal to the lower value between the achievable return, and the higher between the retroceded achievable return and the guaranteed return.

The same result is achieved if the **available provision** is determined without making the above realignment with the necessary provision and by using, as interest rate (i) to be applied in the recursive method, the lowest between the achievable return, and the lower value between the achievable return, and the higher between the retroceded achievable return and the guaranteed return. In this case the amount of the **additional provision**, for the whole period being referred to, will consist of the highest out of the negative annual balances, discounted by the rates used for determining the available provision.

The additional provision for the overall separately managed accounts, is obtained by adding up the calculated additional provisions, according to the abovementioned methods, per single level of financial guarantee, and therefore without considering any type of compensation.

METHOD B: Additional provision per single level of financial guarantee – with compensation between annual periods

Method B is similar to “METHOD A” with the sole variant that for calculating the **available provision** at the end of each year (V_t), the available provision at the beginning of the year (V_{t-1}), to which the recursive method is to be applied, must be equal to the necessary provision referring to the same time period (t-1) if, and only if, it is lower than the latter. Hence in developing the calculations, the available provision and the necessary provision at the beginning of the period may not coincide.

This approach makes it implicitly possible to offset the negative balances only with the positive balances that occurred ahead of the negative balances and only for amounts that are lower than or equal to the positive balance.

The sum total of the current value of annual supplements resulting from the development of provisions over the entire time horizon envisaged by the Regulation, constitutes the amount of the **additional provision** per level of financial guarantee. The **annual discount rate** to be used is equal to the achievable return.

Also with this method the **additional provision** is obtained by determining the **available provision** without making any realignment with the necessary provision and by always using the achievable return as interest rate. The highest among the discounted negative annual balances, calculated over the entire time horizon, is the supplementary provision for each level of financial guarantee.

The additional provision for the overall separately managed accounts is obtained by adding up the additional resources calculated by using the above-described methods per single financial guarantee level.

METHOD C: Additional provision – compensating the financial guarantee levels and the annual periods

For each level of financial guarantee of the contracts in the portfolio the **necessary provision** must be calculated by using as interest rate whichever between the guaranteed return and the transferred achievable yield attributed to the portfolio of policies of reference is highest; the **available provision** shall be calculated by using as interest rate the achievable return without realigning it with the necessary provision. The discounting of the balances must be made by using the achievable return rate.

Once the results obtained for the individual levels of financial guarantees are added up algebraically, the total amount of the additional provision is equal, for the separate accounts in their entirety, to whichever of the current values of the negative annual balances is highest during the examined time horizon.

This method envisages the possibility of offsetting, for each separately managed account, the balances having opposite signs referring to the different levels of financial guarantees and to the different annual time periods.

In any case, available provisions shall be evaluated by using the most prudential achievable interest rate among those applicable in the light of possible deductions and of the prudential margins as per article 48 of the Regulation issued by ISVAP in accordance with article 36 of Leg. Decree 209/2005.

Hence in the case of separately managed accounts which comprise also the contract provisions issued on dates prior to 19 May 1995, the evaluations of the available provision shall in any case be made taking into account the deduction of one-fifth of the expected rates or of any further prudential margins adopted with reference to the provisions of the other contracts in the separately managed accounts.

OTHER METHODS

If there are separately managed accounts having similar composition and management rules, with a view to calculating the additional provision, it is possible to have recourse to forms of offsetting between separate accounts after explicitly documented verifications are made. This method can be used provided that prudential principles are complied with and that the following requirements are met:

1. compensation may be practiced only for separately managed accounts that are **homogeneous** in terms of composition and management rules, and for which documentary evidence can be provided showing that the effects of offsetting will persist whatever scenario hypothesis is adopted. From this standpoint compensation should not be used when separately managed accounts are expressed in different currencies or where investments in real estate are made and/or in the presence of different management rules.
2. Compensation between separately managed accounts should not be done between funds that have one or several levels of financial guarantee for which an additional provision were to be necessary also in the case in which achievable returns are assumed to be equivalent to one hundred per cent of expected returns. Indeed, for these levels, even though offsetting effects may be present, the undertaking shall have recourse to its own means.

For cases in which it is possible to use compensation between separately managed accounts, the calculation of discounted annual balances, per individual account, will be made by applying "METHOD C".

The results of the various separately managed accounts will be added up algebraically.

In this connection it is observed that the coverage of the financial risk through compensation extended to several separate accounts determines a higher risk profile for the undertaking.

Taking into account the inter-related implications that this method entails, its use entails strict compliance with the highest prudential standards and with the above mentioned operative criteria.

TEMPLATE FOR THE TECHNICAL REPORT ON PROVISIONS AS PROVIDED FOR IN ARTICLE 32, PARAGRAPH 3, OF LEG. DECREE NO 209 OF 7 SEPTEMBER 2005 –CODE OF PRIVATE INSURANCE

The technical report on the provisions of insurance undertakings that pursue life assurance policies, in which the appointed actuary provides his/her evaluation, bears the following title:

"ACTUARIAL REPORT ON THE TECHNICAL PROVISIONS AS PROVIDED FOR IN ARTICLE 32, PARAGRAPH 3, OF LEG. DECREE 209/05 FOR THE (YEAR) FINANCIAL STATEMENTS OF THE UNDERTAKING (NAME)."

1. CONTROLS ON PORTFOLIO VERIFICATION

The appointed actuary shall describe the checks he/she makes throughout the year to verify that the whole portfolio has been assumed correctly for the purpose of determining the technical provisions and shall specify, in particular, at what intervals they are made.

The appointed actuary shall highlight any anomalies and/or critical situations he/she finds in the course of the checks.

2. METHODS FOR CALCULATING THE TECHNICAL PROVISIONS

2.1 METHODS USED BY THE UNDERTAKING TO CALCULATE THE TECHNICAL PROVISIONS

The appointed actuary shall provide a detailed description of the calculation criteria and technical bases adopted by the undertaking to calculate the technical provisions, providing evidence of the use, if any, of reasonable approximations or generalizations in accordance with Article 26 paragraph (2) of the Regulation issued by ISVAP under article 36 paragraph (1) of Leg. Decree 209/2005.

a) Mathematical provisions

The appointed actuary shall describe the criteria used to calculate the mathematical provisions including the provisions for health and professional extra-premiums, indicated in class C.II.1 of the financial statements, net of the items indicated in points b), c) and e) of this paragraph.

b) Additional provisions for financial risks

If the undertaking has set up additional provisions for financial risks (provision for guaranteed interest rate risk and provisions for time lags), the appointed actuary shall provide an analytical description of the technical reasons for setting up such provisions and the calculation criteria adopted with reference to contracts involving separately managed accounts and other contracts with guarantees.

In such case the appointed actuary shall indicate the technical bases used by the undertaking to calculate the additional provision and shall provide evidence of any changes made by the undertaking with respect to the previous year in the calculation procedures and in the technical bases used, indicating the reasons for making such changes.

The appointed actuary shall refer to Annex a) in which the vectors of current and expected return rates used to evaluate the additional provisions for guaranteed interest rate risk are indicated, and to Annex b) in which he/she provides evidence, for each separately managed account, for the amounts of the provisions, broken down by guaranteed rate and by structure of the guarantees provided (annual consolidation, guarantees at maturity ...). In Annex b) similar information is provided also regarding the contracts that, albeit not related to separately managed accounts, contain guarantees for minimum return, except for those with specific assets.

If the undertaking has not set up additional provisions for financial risk or has not set up them for certain separately managed accounts or for some types of contracts, the appointed actuary shall illustrate the technical reasons for this choice.

c) Additional provisions other than the provisions for financial risk

If the undertaking has set up additional provisions other than the provisions for financial risk (provision for demographic risk and other additional provisions), the appointed actuary shall provide an analytical description of the technical reasons for setting up the provision and of the calculation criteria used.

In this case, the appointed actuary shall indicate the technical bases used by the undertaking to calculate the additional provision and shall provide evidence for any changes made by the undertaking, with respect to the previous fiscal year, in the calculation procedures and in the technical bases used and shall indicate the reasons for such change.

For deferred annuities present in the portfolio, if for calculating the additional provisions for demographic risk the undertaking has adopted technical bases that are less prudent than those used to determine new products, the appointed actuary shall report the justifications provided by the undertaking and the special conditions that led to that choice.

If the undertaking has not set up any additional provisions other than the provision for financial risk, the appointed actuary shall illustrate the technical reasons for such choice.

d) Technical provisions for unit and index linked contracts and for CLASS VI contracts

The appointed actuary shall describe the criteria used to calculate the technical provisions, indicated in class D of the financial statements, set up to cover commitments deriving from life assurance policies, whose return is determined on the basis of investments for which the policyholder bears the financial risk and set up to cover the commitments deriving from CLASS VI contracts.

e) Additional provisions for unit and index linked contracts and for class VI contracts

The appointed actuary shall provide an analytical explanation of the technical reasons that made it necessary to set aside a provision in class C.II.1 of the financial statements and the criteria used in the calculations.

If the undertaking has not set up additional provisions, the appointed actuary shall describe the technical reasons for this choice.

f) Provisions for future expenses

The appointed actuary shall provide a detailed description of the procedures adopted for determining the provision for future expenses indicated in class C.II.5 of the financial statements, indicating in particular the technical bases adopted to calculate the provision.

g) Additional provisions for general risks and other technical provisions

The appointed actuary shall provide a detailed description of the procedures adopted by the undertaking to determine any additional provision for general risks and other technical provisions reported in class C.II.5 of the financial statements.

h) Provisions for bonuses and rebates

The appointed actuary shall provide a detailed description of the procedures adopted by the undertaking to determine the provision, if any, for profit sharing and drawbacks reported in class C.II.4 of the financial statements.

i) Provisions for amounts payable

The appointed actuary shall report on compliance with the calculation criteria in accordance with Article 36 paragraph (3) of Leg. Decree 209/05 used by the undertaking to set up the provisions for amounts to be paid as reported in class C.II.3 of the financial statements.

j) Technical provisions for complementary insurance

The appointed actuary shall describe the methods adopted to calculate the technical provisions for complementary insurance as reported in class C.II.2 of the financial statements.

2.2 TECHNICAL EVALUATIONS BY THE APPOINTED ACTUARY

The appointed actuary shall provide an indication of the checks he/she made during the inspection on the calculation procedures adopted by the undertaking. He/she shall also describe the analyses made on the technical bases used to calculate the technical provisions and shall refer to Annex c) in which he/she reports, for the main tariffs, the technical bases used to calculate the premiums and the technical bases used to constitute the technical provisions as posted in the financial statements.

a) Financial assumptions

The appointed actuary shall report the results of the evaluations made on the financial hypotheses adopted to calculate the technical provisions, taking into account also the actual current and prospective financial situation of the undertaking versus the commitments it has taken on.

If in the report provided for in article 46 (1) of the Regulation issued under Article 36 paragraph (1) of Leg. Decree 209/2005, the appointed actuary provides observations on the method and merits of how the current and expected returns are estimated, or if he/she indicates the need to introduce some prudential margins with regard to the determination of the additional provision for guaranteed interest rate risks, such remarks shall be appropriately highlighted.

b) Demographic assumptions and other technical bases

The appointed actuary shall report the results of the evaluations made on the demographic assumptions adopted by the undertaking in calculating the technical provisions including the hypotheses made by the undertaking to set up any additional provisions for demographic risks, and on any other technical basis used to calculate the technical provisions.

In order to highlight the prudential margins contained in the technical bases, other than the financial bases, used to calculate the technical provisions reported in the financial statements, the appointed actuary shall report the results of the comparison made by the undertaking in accordance with Article 36 (7) of Leg. Decree 209/2005.

c) Assumptions for future expenses

The appointed actuary shall report the results of evaluations made on the hypotheses adopted by the undertaking to determine the provision for future expenses including the hypotheses on the basis of which the undertaking has set up any additional provisions for expenses.

In particular, if the undertaking has determined the provisions for future expenses in accordance with Article 34 of the Regulation issued under Article 36 paragraph (1) of Leg. Decree 209/2005 and has set up also an additional provision for expenses, in accordance with Article 49 paragraph (2) of the same Regulation, the appointed actuary shall report his/her evaluations regarding the results of the analysis carried out by the undertaking on administrative expenditure and the commissions it expects to pay.

The appointed actuary shall highlight any implicit evaluations adopted by the undertaking to calculate the provision for future expenditure and shall express his/her opinion on the presence of any margins contained in the premiums and on the adequacy of the methods adopted to determine the implicit provision.

d) Other technical bases

The appointed actuary shall report the results of the evaluations made on other technical bases adopted by the undertaking to calculate the provisions.

e) Calculation procedures

The appointed actuary shall describe his/her evaluations in view of verifying the correctness of the procedures used by the undertaking to calculate the individual

provision items and he/she shall report the results of his/her evaluations.

3. VALUES

The appointed actuary shall refer to Annex d) in which he/she provides evidence of the amounts of the technical provisions for each class, broken down according to the items mentioned in point 2.1 above.

4. OBSERVATIONS

a) General observations

In this paragraph the appointed actuary shall report any further elements that are deemed to be necessary to provide an adequate understanding of the technical, management and evaluation problems underlying the quantification of the amounts set aside in the provision.

If the undertaking has applied premiums within the meaning of Article 5 paragraph (6) of the ISVAP Regulation issued in accordance with Article 32 paragraph (2) of Leg. Decree 209/2005, for one or several tariffs in the portfolio, the appointed actuary shall describe the size of the phenomenon and shall highlight the aspects of the economic and financial situation of the undertaking that will make it possible not to undermine its solvency.

The appointed actuary also expresses an opinion on the undertaking's ability to continue to acquire contracts in this specific category, taking into account the current financial situation of and the overall prospects for the undertaking.

b) Critical remarks

The appointed actuary shall illustrate any problematic aspects he/she finds in the course of the inspection. Even in the cases in which he/she feels he/she can issue a positive opinion on the sufficiency of the technical provisions, he/she may express his/her disagreement on the interpretation by the undertaking of laws and regulations and of other provisions issued on technical provisions and he/she may point out administrative and accounting inadequacies.

5. REMARKS

Where the administrative and accounting procedures do not prove to be sufficiently reliable or if there are other reasons whereby a satisfactory opinion cannot be issued on the technical provisions or that make it impossible to express a positive opinion, the appointed actuary shall provide an analytical description of the elements found, including any interventions or remarks he/she made to the undertaking during the check, and he/she shall indicate, where possible, the order of magnitude of the insufficiency of the technical provisions.

6. OPINION ON TECHNICAL PROVISIONS

Templates of the types of statements to be issued by the appointed actuary are reported below.

Where deemed necessary, the appointed actuary may add further elements to the statements in order for his/her evaluation to be absolutely exhaustive.

1) Positive opinion without remarks:

“On the basis of the foregoing, I hereby state that the procedures adopted by the undertaking in calculating the technical provisions of the Italian direct portfolio to be entered into its financial statements are correct; the amount is equal to Euro, and is in my opinion sufficient to meet the costs and obligations taken on towards the insured in accordance with the laws and regulations in force”.

2) Positive opinion with critical remarks

“On the basis of the foregoing, and even taking into account the provision of paragraph 4, point b), I hereby state that the technical provisions of the Italian direct portfolio, amounting to Euro ..., that the undertaking intends to enter into its financial statements for fiscal year, are, in my opinion, on the whole sufficient to meet the costs and obligations taken on towards the insured, in accordance with the legal and regulatory provisions in force”.

3) Negative opinion:

“On the basis of the foregoing, I hereby conclude that, owing to the relevance of the effects indicated in paragraph 5, the technical provisions of the Italian direct portfolio amounting to Euro ... that the undertaking intends to enter into its financial statements for fiscal year are not, in my opinion, on the whole sufficient to meet the costs and obligations taken on towards the insured, in accordance with the legal and regulatory provisions in force”.

4) Impossibility of issuing an opinion

“On the basis of the foregoing, I hereby conclude that owing to the relevance of the limitations indicated in paragraph 5, I am not in a position to express any opinion on the correctness of the procedures followed by the undertaking, nor on the sufficiency of the technical provisions of the Italian direct portfolio amounting to Euro that the undertaking intends to enter into its financial statements for fiscal year”.

Date.....
actuary

Signature of appointed

Annexes to the Technical Report

a) VECTORS OF THE CURRENT AND EXPECTED RETURN RATES USED TO EVALUATE ADDITIONAL PROVISIONS FOR GUARANTEED INTEREST RATE RISK

- b) AMOUNT OF THE MATHEMATICAL PROVISION BROKEN DOWN INTO GUARANTEED RATE AND STRUCTURE OF GUARANTEES**
- c) TABLE OF TECHNICAL BASES USED FOR TARIFFS AND PROVISIONS**
- d) AMOUNTS OF INDIVIDUAL ITEMS OF THE PROVISION RELATED TO EACH INDIVIDUAL CLASS**

Annex a)

VECTORS OF THE CURRENT AND EXPECTED RETURN RATES USED TO EVALUATE ADDITIONAL PROVISIONS FOR GUARANTEED INTEREST RATE RISK

NAME OF ACCOUNT/OTHER	ANNUAL RATE N	ANNUAL RATE N+1	ANNUAL RATE N+2	ANNUAL RATE N+3	ANNUAL RATE N+4
Account 1						
Account 2						
.....						

Annex

b)

AMOUNT OF THE MATHEMATICAL PROVISION BROKEN DOWN INTO GUARANTEED RATE AND STRUCTURE OF GUARANTEE

(in thousands euros)

NAME OF ACCOUNT/OTHER	GUARANTEES	STRUCTURE OF GUARANTEES (annual consolidation, guaranteed on maturity)	MATHEMATICAL PROVISION
account 1%		
%		
%		
total account 1			
account 2%		
%		
%		
total account 2			
.....%		
%		
%		
total			

Annex c)

TABLE OF TECHNICAL BASES USED FOR TARIFFS AND PROVISIONS

(FREE SCHEME)

x d)

Anne

AMOUNTS OF INDIVIDUAL ITEMS OF THE PROVISION RELATED TO EACH INDIVIDUAL CLASS

in thousands euros

TYPES OF PROVISIONS	CLASS I	CLASS II	CLASS III	CLASS IV	CLASS V	CLASS VI	total
<p>DIRECT BUSINESS Mathematical provisions for pure premiums(including carryover of premiums) Provisions for health and professional extra premiums Additional provision for guaranteed interest rate risk Additional provision for time lag Additional provision for demographic risk Other additional provisions Additional provision as per Article 41, paragraph 4, of Leg. Decree 209/2005</p> <p>Total mathematical provision for class C.II.1</p> <p>Provision for future expenses (class C.II.5) Additional provisions for general risks (class C.II.5) Other technical provisions (class C.II.5) Provision for profit sharing and drawbacks (class C.II.4) Provision for amounts payable (class C.II.3) Provision for complementary insurance premiums (class C.II.2)</p> <p>Total technical provisions for class C</p> <p>Provision class D.I contracts provided for in Art. 41, paragraph 1, of Legislative Decree. 209/2005 Provision class D.I contracts provided for in Art. 41, paragraph 2, of Legislative Decree. 209/2005</p> <p>Total provision for class D.I</p> <p>Total provision for class D.II</p> <p>Total TECHNICAL PROVISIONS DIRECT BUSINESS</p>							
Total TECHNICAL PROVISIONS REINSURANCE							
TOTAL TECHNICAL PROVISIONS							