# NET INSURANCE – INITIAL PUBLIC OFFERING (IPO)

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## Investment summary

- **Strengthening leadership, while starting to differentiate**

Net Insurance is the Italian market leader in the insurance of salary and pension backed loans. Despite the highly dynamic competitive arena, over the last five years the Group has maintained a strong and stable market share leadership and now is moving towards a growth and diversification season, aiming to replicate its successful track record:

- a larger high quality portfolio in the core business, leveraging on the reputation gained with major lenders
- fast expansion in other Property and Casualty segments

- **A global giant for a new business partnership**

AXA Group, one of the largest global insurance groups and leading reinsurer, with consolidated gross revenues of € 90 billion in 2012, has recently entered into a strategic partnership with Net Insurance, acquiring a 3% stake and becoming one of its major reinsurers.

- **A promising niche segment**

Salary and pension backed loans is the only segment, of the broader consumer finance market, that recorded a positive performance (+3,8%) in the first half 2013, shifting from 8% to 9% of the total market. Being the only fully secured personal loan, in the last years major banks networks entered the segment. The Group top 5 customers, in the first 6 months of 2013, recorded an average growth rate of about 20% compared to the same period of the previous year.

- **In a long business cycle with deferred performance records, next 5 years will be the harvesting time**

Net Insurance portfolio has a long economic cycle (average 96 months). After two 5-year cycles of industry reorganization and navigation into the ups and downs of the financial crisis, the present portfolio is characterized by an implied lower risk, mainly due to an improvement of screening policies and lending process quality. This reduction of risk rate will consistently spread its effect over the next five years financial statements. Thus the next five years look as the harvesting time.

- **Time for a strong and profitable growth**

The present organizational structure, well dimensioned and assisted by proven processing procedures, is ready to manage significantly higher volumes and complexity, so that a substantial improvement in profitability should arise from the expected fast expansion.

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# Investment overview

## 1. GROUP HISTORY

**• The instant leadership of a specialized Group in a niche market segment**

Net Insurance S.p.A. – Net Insurance - was founded in 2000 in Rome by the Amato family. Mr. Alfredo Rocchi and Prealpina Investimenti S.r.l. (Passeri family) had minority shares.

The Group is since its foundation dedicated to credit protection related to salary-backed loans and experienced a steady growth in the last ten years (2003-2012 CAGR 8%), which allowed to gain the leadership in this niche market since 2008.

The founders of the Company were driven by a strong innovation capability, being able to identify a market segment in which the supply of insurance products was generic and not specialized, while there was an increasing unsatisfied demand from lenders that were progressively entering the market segment.

Net Insurance soon gained a sound reputation as the Company specialized in the business and, despite its small size and recent history, became rapidly the market leader. The reputation and position gained attracted in the years large and prestigious banking institutions as preferred business partners.

From 2004 to 2013 Swiss RE (2004), UniCredit (2006), UBI Group (2007), Banca Monte dei Paschi di Siena (2011), Banca Etruria (2011), Veneto Banca (2012) and Banca Popolare di Bari (2013), acquired minority stakes (between 1,5%-10%) in the Group in order to establish a closer business relationship.

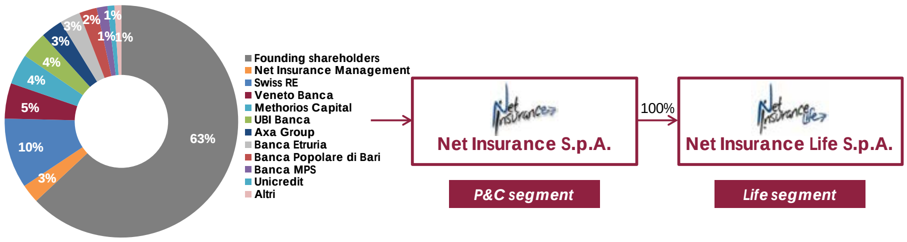
**• AXA Group joins Net Insurance partner shareholders with a 3% stake**

In September 2013 AXA Group entered a strategic partnership with Net Insurance, acquiring a 3% stake and becoming one of its major reinsurers specialized in the salary-backed loans segment.

AXA Group is one of the world's largest insurance groups and a leading reinsurer, operating primarily in Europe, North America and in the Asia-Pacific Region, with consolidated gross revenues of € 90 billion in 2012. In the P&C – Property and Casualty - segment AXA Group ranks 1st in Switzerland and Belgium with market shares of, respectively, 13% and 20%. In Italy it ranks 7th with a market share of about 4%. In the Life & Savings segment it ranks 1st in Switzerland, with a market share of 30% and 3rd in France and Belgium with market shares of, respectively, 9% and 11%. In Italy it ranks 6th with a market share of about 5%.

## 2. GROUP STRUCTURE

**Exhibit 2.1**




Source: *EnVent on Company information*

In 2008 the subsidiary Net Insurance Life S.p.A. (Net Life) was established, as sole supplier of life insurance products, under the provisions of the Italian Legislative Decree 209/2005 (Article n. 11) named "Codice delle assicurazioni private", that states the compulsory separation between life and P&C segments management. Net Life is the company dedicated to the life segment, providing principally term assurances related to salary/pension-backed loans.

Over the years the Group acquired minority stakes in small-sized companies specialized in the issue of salary-backed loans and in companies providing related services:

- Dynamica Retail (39,9% stake) and Terfinance (10,8% stake) finance customers through salary/pension-backed loans and payment delegation;
- Techub (43,9% stake), Anthilia Holding (15% stake) and Zenith Service (7,1% stake) offer services related to the personal loans industry.

As of September 2013 Net Insurance counts 109 employees, more than doubled since 2008.

The Group organizational structure is composed by four divisions: insurance, securities market, corporate services and finance.

The insurance division includes the following functions: underwriting, claims, reinsurance and portfolio management.

The Group organization is assisted by well-structured risk management procedures with a particular focus on screening policies that are put in place for private sector employees, consisting in:

- evaluating the creditworthiness of the employer by attributing a rating
- calculating the maximum acceptable amount to be insured based on the employer's rating
- periodic update of the employer's rating

# 3. MANAGEMENT

**Exhibit 3.1**

| Name | Role | Background |
|---|---|---|
| Alfredo Rocchi | Chairman | - Magistrate of the Supreme Court<br>- Member of the Judicial Council of the Appeal Court in Rome<br>- Member of the Study office of the Superior Council of Judiciary<br>- Has served the Italian judicial system in several roles |
| Giuseppe Caruso | CEO<br>General Manager | - From 1986 to 1991 Giuseppe Caruso served in the marketing functions of Gruppo Tirrena di Assicurazioni and Diner's Club d'Italia<br>- From 1991 to 2000 he served as director of the business unit Mortgage insurance at FATA Assicurazioni (Generali Group)<br>- In 2001 Mr. Caruso joined Net Insurance as CEO |
| Luigi Aiudi | CFO | - Chartered Accountant and Auditor<br>- From 1989 to 2001 Luigi Aiudi held several responsibilities in the administration and finance function of SOFID and SOFID Vita (Eni Group)<br>- In 2001 Mr. Aiudi joined Net Insurance as CFO |
| Elio Migliardi | Insurance Officer | Before joining Net Insurance in 2001, Elio Migliardi served leading insurance companies in Italy such as FATA Assicurazioni, Unipol Assicurazioni and Allsecures Assicurazioni |

Source: *EnVent on Company information*

## 4. USE OF PROCEEDS

**• Strengthening market leadership while starting a differentiation process**

Net Insurance in less than a decade has demonstrated to be able to become the clear and stable market leader in its core business of salary/pension-backed loans insurance and intends to further develop and strengthen its leadership position, through strategic partnership agreements, also supported by direct investments.

The Group also intends to diversify through the launch of new products in other specialized niches and to expand its distribution networks, through the increase in number of agents and brokers, enhancing direct distribution (internet and telephone), creating partnerships with major national banking groups and local banks.

The underlying strategic vision is the commitment to replicate the success in other segments to fuel Group growth, balance ratios trends and benefit from economies of scale.

**• Deal structure**

| | | |
|---|---|---|
| Offering structure | Issuer | - Net Insurance S.p.A. |
| | Market | - AIM Italia - Alternative Investment Market |
| | IPO structure | - 100% capital increase - 1 bonus share every 10 shares held for at least 18m |
| | Free Float | - Minimum 10% |
| | Lock up | - 24-36 months on existing shareholders |
| Timing | Pre-marketing | - End of October 2013 |
| | Bookbuilding | - End of November 2013 |
| | Listing | - Beginning of December 2013 |

## 5. BACKGROUND

### • The Italian personal loans market called "Cessione del Quinto" (salary and pension backed loans)

The Group specialization is the credit protection related to salary and pension backed loans, called in Italy "Cessione del Quinto". This kind of loan is regulated by a specific Italian law and regulation system and its peculiarity is that the lender credit is guaranteed by salary or pension income, and is reimbursed with monthly repayments, due by the employer on behalf of the debtor, that cannot exceed one fifth of the net income.

Salary-backed loans were first introduced in Italy by the Decree Law D.P.R. 180/1950, followed by the Decree Law D.P.R. 895/1950, and were originally reserved to Government and other Public Administrations employees. Following the regulatory changes introduced by Law 311/2004 and Law 80/2005, salary-backed loans have been extended to private sector employees and to retirees.

The requirements to enter into this kind of loan are an open-ended employment contract and a minimum work experience (depending on the lender and the insurer requirements).

Pension-backed loans are financing forms dedicated to pensioners, guaranteed by the Italian Social Security Institutions, whose monthly repayments too cannot exceed one fifth of pension income - without affecting the minimum residual income imposed by law, equal to € 495 in 2013 - for a maximum period of ten years.

### • Salary and pension backed loans contract mechanics

In a salary/pension-backed loan contract, the total amount to be repaid by the borrower is given by the sum of the financed principal, interest, insurance expense, agents' commissions and other procedure expenses. The interest is calculated based on the annual nominal interest rate (in Italy, TAN). This rate is driven by the cost of funding of the lenders, provided by the banking system. The insurance expense and agents' commissions are calculated based on a variable percentage on the financed capital, while other expenses are generally fixed. The final annual actual interest rate implied in the installments is the gross annual percentage rate (TAEG), that includes also insurance expenses, agents' commissions and other costs and can be significantly higher than TAN.

It is to be noted that TAEG can not exceed an upper limit which is fixed by Bank of Italy.

Each installment is calculated by dividing the total amount to be repaid by the number of installments, of course if the nominal annual interest rate increases, the financed capital decreases. For this reason, an increase of the nominal annual interest rate implies a decrease of potential claims for the insurer, whose risk is related only to the financed capital.

### • The insurance policy within the salary and pension backed loans

According to Article 54 of said Law 180/1950, an insurance coverage must be provided in all contracts. Insurance on salary/pension-backed loans protects the lender against the inability of the borrower to repay the loan upon occurrence of specific events as job loss and premature death.

The coverage of employment risk gives the insurance company the right of recourse against the debtor in case of employment loss, within the limits of the severance pay (in Italy TFR – Trattamento di Fine Rapporto) accrued to data.

In the case of life risk the insurance company does not have the right of recourse against the heirs of the borrower.

The insurance policy related to salary-backed loans, consists of:

- a P&C policy (credit class), which offers insurance against the risk of the borrower's employment (resignation, dismissal, early retirement)
- a life policy (class I), which offers insurance in the case of premature death of the borrower

Pension-backed loans are only assisted by a life insurance policy, aimed at hedging the risk of death (the sole risk) of the borrower.

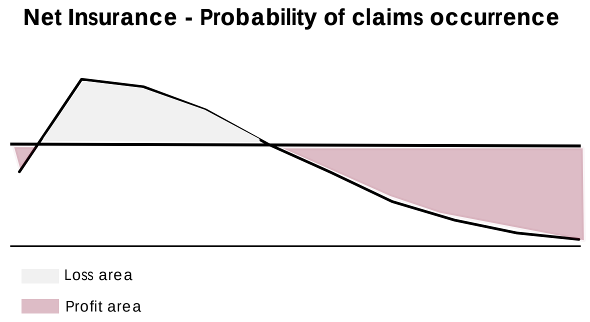
Borrowers have the right to repay the residual loan in advance. In this case, since maturity of commissions, interest and insurance premiums is deferred during the contract life, the insurance company has to refund the premiums already collected, but not yet accrued as revenues up to that point.

# 6. BUSINESS DYNAMICS AND RISKS

## • Probability distribution of claims occurrence

Considering that premiums are evenly distributed as revenues during contract life and that historically, the occurrence of claims is higher in the first half of the contract life, the consequence is that for each generation the Group has a loss area between approximately the first and the fifth year from the signing and a profit area from the sixth until the end, as shown in the table below (reported as a graphic example and not based on Group figures).

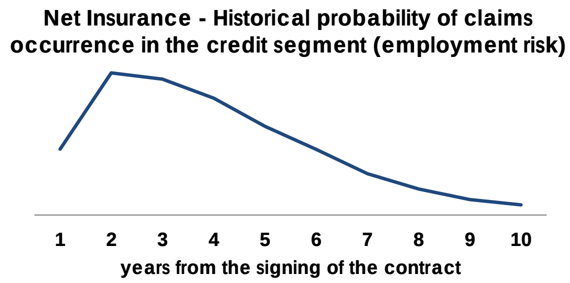
**Exhibit 6.1**




## Distribution of claims occurrence for job loss

The probability of claims occurrence for job loss, observed on historic data, is concentrated between the second and fourth year from the signing of the contract.

**Exhibit 6.2**

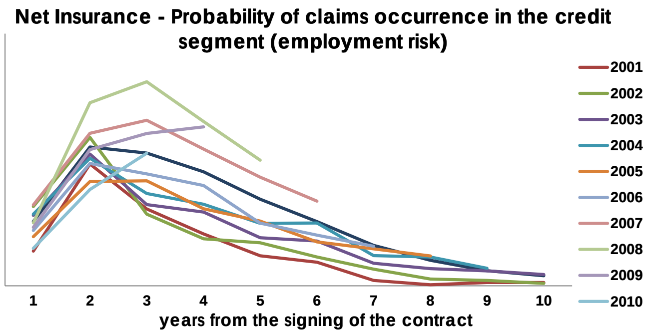



Source: *EnVent on Company data*

The analysis of job loss risk distribution by contract generation shows an increasing percentage of risk for the 2008 generation, due to changes in selection policies occurred in 2007. In a favorable market trend, accompanied also by new comers in the competitive arena, the Group decided to lower prices and establish less strict requirements for private sector employees in order to benefit from the momentum. It is to be noted that 2007 has been recorded as the year of maximum economic expansion of the decade. 2008 and 2009 were the years in which happened the general worsening of the economic climate that followed the global financial and industrial crisis. The increasing business risk has been reflected in the following 3/4 years financials, by the combined effect of an exceptional growth in 2007 and 2008 premiums and the unexpected growth of job loss risk, beginning in 2009.

On the other hand, as shown on the table below, in the 2010 generation the implied claim probability is lower due to a stricter screening policy and to an average lower insured capital due the increase of the nominal rate of interest on issued loans.

**Exhibit 6.3**




Source: *EnVent on Company data*

In the last years, considering the worsening of the macroeconomic crisis, the Group has improved its scoring tools and screening policies aimed to select, within the private sector, companies with an acceptable risk rate. The key requirements are:

- Open ended contract
- Company with more than 15 employees
- Companies not characterized by high seasonality and high employee turnover
- Scoring tool test based on the company financials

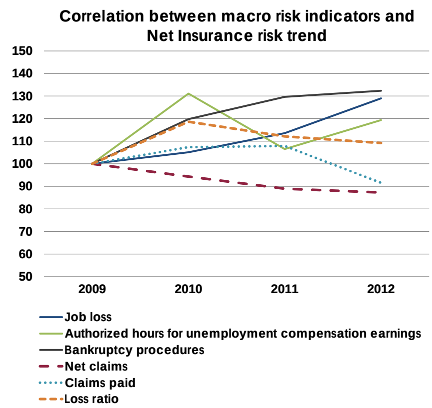
Based on the Group scoring tools, the number of private companies that have obtained an acceptable risk rate represents only the 15% of the panel (Italian private companies with more than 15 employees).

We have compared the trend of most important macro indicators, such as the number of dismissals, the number of job losses due to business shutdown, the number of bankruptcy procedures and the authorized hours for unemployment compensation earnings in Italy, and Net Insurance key risk indicators, such as claims paid, net claims and loss ratio trend over 2009-2012 in the P&C segment. As reported in the exhibit 6.4, the correlation between macro and Net Insurance indicators is low or inverse. Despite the worsening of job loss risk indicators Net Insurance performance has not been proportionally affected.

Main factors:

- only the 30% of Net Insurance portfolio is composed by private sector employees, thus exposed to job loss (see exhibit 7.1)

**Exhibit 6.4**



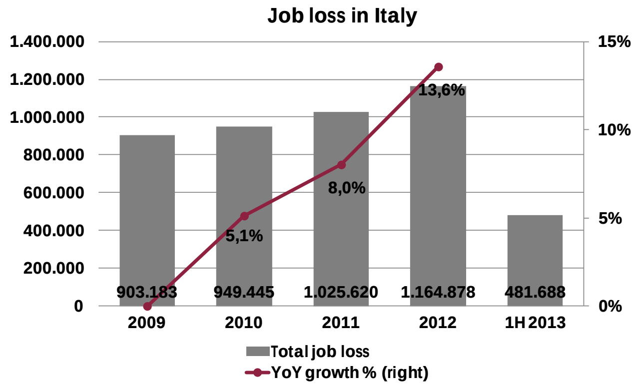

*Source: EnVent on market and Company data*

*Note: Year 2009 base 100*

- the residual risk related to private sector employees has been mitigated by the implementation of effective *ad hoc* screening procedures

The nature of permanent risk mitigating factors reinforces the expectation of a progressive reduction of claims rate in the short/mid-term.

**Exhibit 6.5**

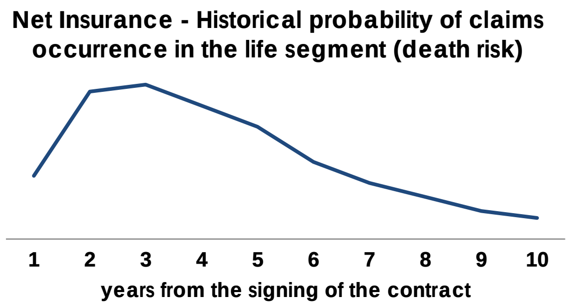



*Source: Ministry of Labour and Social Policies*

*Note: The job loss trend represented in the exhibit 6.5 is based on the number of dismissals and job loss due to business shutdown, from 2009 to first half 2013.*

## Distribution of claims occurrence related to life risk

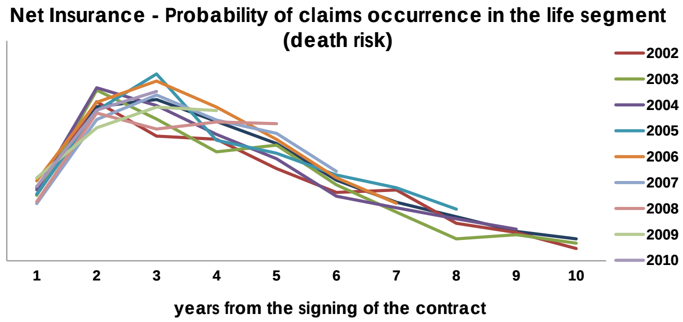
**Exhibit 6.6**




Source: *EnVent on Company data*

The probability of claims occurrence for death, observed on historic data, is concentrated between the second and fifth year of the contract.

**Exhibit 6.7**



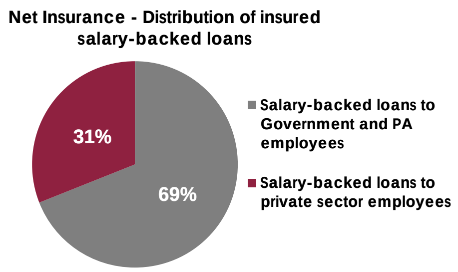

Source: *EnVent on Company data*

The analysis of death risk distribution for each contract generation shows basically a similar distribution for each generation. The Group has historically experienced moral hazard behaviors on the pension-backed loans segment, that partially explain why the death risk distribution is so stable between the second and the fifth year from contract signing. In order to reduce moral hazard behaviors, the Group has strengthened its screening procedures on pension-backed loans, introducing:

- Compulsory medical certificate presentation
- Compulsory medical examination report (only above a certain financed capital)

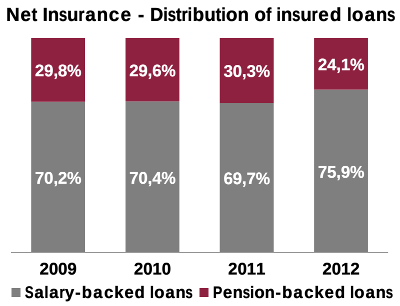
# 7. BUSINESS MODEL

**Exhibit 7.1**



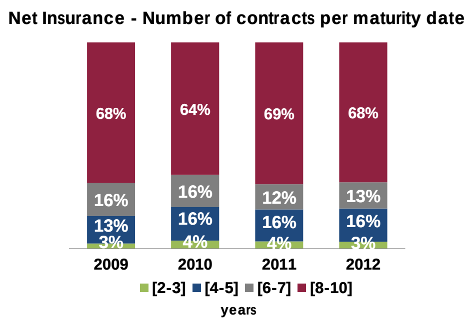

Source: *EnVent on Company data*

**Exhibit 7.2**



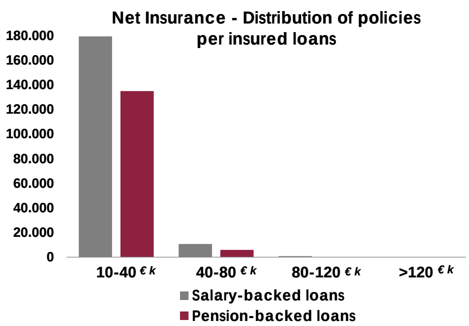

Source: *EnVent on Company data*

**Exhibit 7.3**




Source: *EnVent on Company data*

**Exhibit 7.4**




Source: *EnVent on Company data*

## • Business concept and risk management of a leader

### Core business

The Group core business, which is worth 99% of 2012 revenues, is to provide banks and consumer finance companies (B2B) with the mandatory insurance coverage on salary/pension-backed loans contracts.
The present portfolio is mainly composed by loans issued to public sector and government employees (69%), which are characterized by a lower risk rate.

In 2012 salary-backed loans insurance account for about 76% of the total insured loans (average age of the borrower of about 45), while pension-backed loans account for 24% (average age of the borrower of about 67).

Pension-backed loans have a higher price structure than salary-backed loans, due to the higher intrinsic risk, but the average financed amount lower than the one of salary-backed loans.

Over 65% of insured loans have a maturity date between the 8th and 10th year of contract, the remaining 30% is almost equally divided between a 4-5 year maturity and a 6-7 year maturity.

The average amount of insured loans is for the 90% between € 10 and 40 thousand. In particular, the 75% of total insured loans concentrates between € 10 and 30 thousand.

### Other products

Net Insurance also offers other kinds of P&C and life policies dedicated to retail customers (B2C):

- Natural events insurance
- A&H - Accident and Health – insurance
- Anti-crisis insurance, that offers pay protection in the cases of job loss, accident or sickness
- Insurance on loans, in the form of term assurance and multi-risks policies dedicated to borrowers
- Life insurance, in the form of term assurance

The Group addresses its other insurance products to the general public of consumers through a network of agents and brokers and through the channels of web marketing and direct marketing.

Following the Group diversification strategy, in the first half 2013 other products gross premiums have reached a share of 18% out of total gross premiums collected, while in 2012 were almost nil.

The impressive growth of the non-core business has been mainly driven by natural events insurance products related to the agricultural production.

In particular, the Group offers protection against the damages of hail.

Based on recent ANIA data (ANIA is the association which represents the Italian insurance companies), gross written premiums of the whole hail risk insurance segment are in the region of over € 350 million. Net Insurance, first half 2013 results, in this segment, are 2% of the total market.

The premiums collected in the natural events insurance products have been recorded through over 4.000 contracts, agreed with about 35 agriculture consortiums. About half of the premiums collected are concentrated in the northern regions of Italy (Veneto, Trentino Alto Adige, Emilia Romagna).

The distribution of this business is assigned to one broker.

## Sales channels

Net Insurance has adopted a distribution model based on agents, insurance brokers and intermediaries.

Recently the Group increased the number of promoters, aiming at widening the direct distribution of retail products.

**Exhibit 7.5**

| | 2012 | | | | 1H 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| | Agents | Brokers | Intermediaries | Total | Agents | Brokers | Intermediaries | Total |
| **Net Insurance S.p.A.** | 10 | 18 | 20 | **48** | 19 | 29 | 21 | **69** |
| **Net Insurance Life S.p.A.** | 7 | 15 | 25 | **47** | 16 | 25 | 26 | **67** |

Source: *EnVent on Company information*

## Reinsurers of core business

Net Insurance reinsures approximately the 45% of premiums related to salary/pension-backed loans and over 95% of premiums related to natural events.

The following table shows Net Insurance reinsurers for 2013, with evidence of their ratings and specialization:

**Exhibit 7.6**

| Reinsurer | Country | Ratings | Specialization |
|---|---|---|---|
| **Hannover Re** | Germany | S&P AA-; Fitch A+; AM Best A+ | P&C (credit) and life segments: salary/pension-backed loans |
| **Gen Re** | Germany | S&P AA+; Moody's AA1; AM Best A++ | P&C (credit) and life segments: salary/pension-backed loans |
| **Munich Re** | Germany | S&P AA-; Fitch AA-; Moody's AA3; AM | P&C (credit) and life segments: salary/pension-backed loans |
| **Swiss Re** | Switzerland | S&P AA-; Moody's A1; AM Best A+ | P&C and life segments: other products |
| **AXA** | France | S&P A+; Fitch AA-; Moody's AA3 | P&C (credit) and life segments: salary/pension-backed loans |

Source: *EnVent on Company information*

In 2013, SWISS RE, which was the sole reinsurer until 2011, following an headquarter's new policy, exited the salary/pension-backed segment reinsurance and started to reinsure only other products, both in the P&C and life segments.

Other major European reinsurers such as AXA, Hannover RE, Gen RE and Munich RE started to reinsure policies in the Group core business.

## Customers

**Exhibit 7.7**

| Company | Market share % | % Net Insurance portofolio | % growth 1H 2012 vs 1H 2013 |
|---|---|---|---|
| Company 1 | 6,7% | 12,0% | 4,0% |
| Company 2 | 9,0% | 11,0% | 81,0% |
| Company 3 | 4,8% | 11,0% | -24,0% |
| Company 4 | 2,2% | 8,0% | 34,0% |
| Company 5 | 11,6% | 7,0% | 5,0% |
| Total | 34,3% | 49,0% | |

Source: *Company data*

The Group top five customers are nearly 50% of total Net Insurance first half 2013 portfolio (none exceeding a 12% each) with a cumulated market share of about 35%.

Until 2008 the potential customer base used to be quite different, being the marketplace populated by a large number (25-30) of lenders operating in a nearly unregulated environment. Among them, independent companies often sales-driven, unstructured and with low commitment to ethics and risk management. As a consequence, the insured loans in the years of the fast growth were often subject to an inherent high degree of risk.

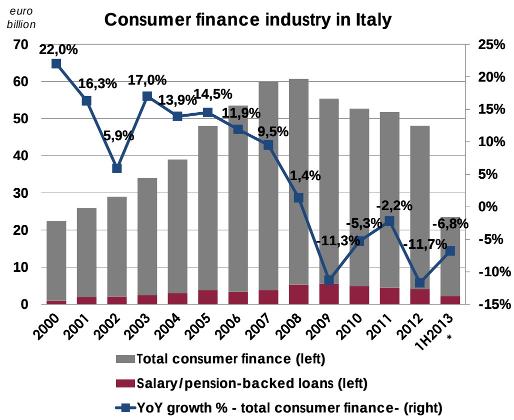
In the last five years, the Vigilance and Regulation Authority on Italian Financial Institutions (Bank of Italy) has banished small players operating out of compliance policies, triggering a process of market concentration.

As a consequence, the market today has radically changed: ten largest players account for the 80% of the marketplace and are well structured companies belonging to major banking networks.

In the first half 2013, Net Insurance sales contracts with customers belonging to major Italian banks networks account for over 95% of revenues, versus 2008 less than 60%. The improved size and quality of Net Insurance customers is an indicator of inherent ethics and reliability of the lending process and risk management.

# 8. MARKET AND TRENDS

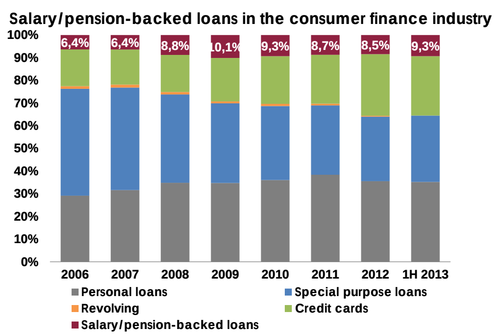
**Exhibit 8.1**




*Source: EnVent on Assofin data*

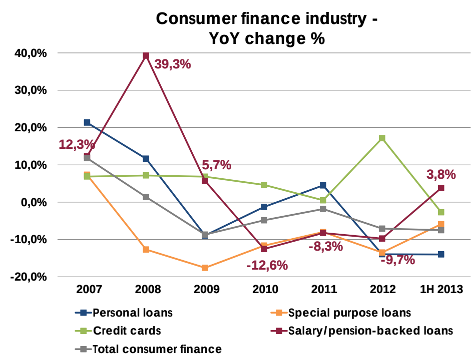
** YoY change on 1H 2012*

**Exhibit 8.2**




*Source: EnVent on Assofin data*

**Exhibit 8.3**




*Source: EnVent on Assofin data*

- **After deep regulation changes and the macroeconomic downturn, the salary/pension-backed loans market shows a significant trend inversion**

### A segment of the broader consumer finance market

Salary and pension backed loans represent a segment of the broader consumer finance industry (accounting for about 9% of financing issued), which also includes personal loans, special purpose loans and credit cards.

The consumer finance industry in Italy experienced a steady growth since the '90s, led by structural drivers as the change in the structure of Italian families, a major confidence in financial instruments and the evolution of the offered products, aiming at allowing a wider access to credit and more flexible financial products.

In 2008, the peak year (three times year 2000 figures), the whole consumer credit issued was over € 60 billion, but experienced the minimum yearly growth of the period 2000-2008 (+1,4%), due to the first signs of market maturity and to the general slowdown of the economic and financial context which started in 2008. The stagnation of final consumption, recorded in that year, due to the contraction in the real disposable income of households, represented the beginning of the present economic crisis.

Since 2009 the whole consumer finance industry has experienced negative annual growth rates, while remaining at high levels.

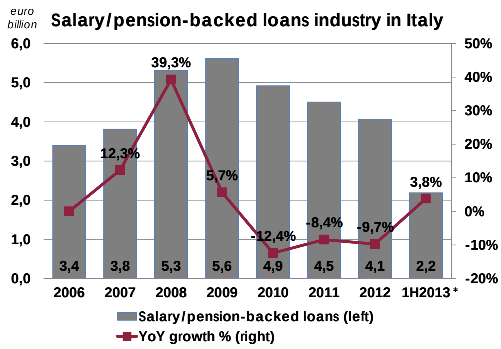
In 2012, for the fourth consecutive year, lending to households declined (-11,7% vs. 2011). The compound annual decrease rate from 2009 to 2012 was –4,6%. The weak macroeconomic context and the decrease of the real disposable income, caused a negative confidence climate among households, leading them to postpone or abandon high value purchases, thus causing the contraction of private consumption and of credit demand.

On the supply side, in the current weak and risky context, banks tightened credit conditions due to the deterioration of consumer creditworthiness and its negative impact on banks' asset quality.

### Salary/pension backed loans market performance

Historically, salary and pension backed loans followed the general trend of the consumer finance industry, experiencing a steady growth in the ten years 2000-2009. Following the enlargement of the borrowers' base to private sector employees and retirees (2005), the segment reached in 2009 a 10% share of total consumer finance industry in Italy, showing even in the crisis context, a dynamic trend (+5,7% in 2009), in countertrend with the consumer finance market that was already decreasing.

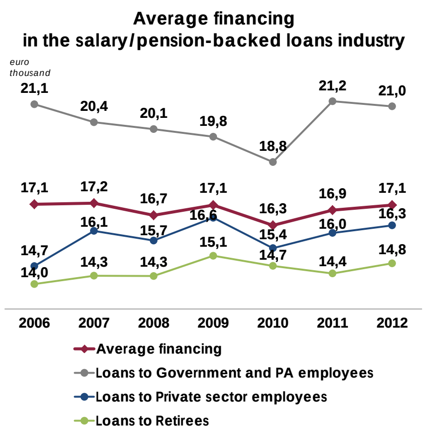
**Exhibit 8.4**




*Source: EnVent on Assofin data*

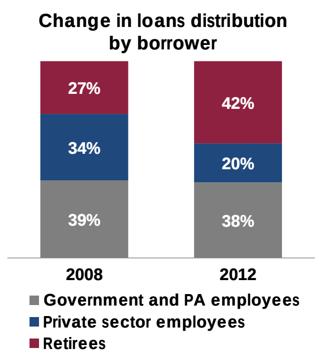
** YoY change on 1H 2012*

**Exhibit 8.5**




*Source: EnVent on Assofin data*

**Exhibit 8.6**




*Source: EnVent on Assofin data*

In 2012, despite the permanence of market turmoil, salary/pension-backed loans maintained the share of about 8,5% of total consumer finance industry, amounting to € 4,1 billion (-9,7% vs. 2011), for a total number of nearly 240.000 loans issued.

Over 42% of salary/pension-backed loans have been issued to retirees, 38% to Government and Public Administrations employees and the remaining 20% to private sector employees. Loans to Government and Public Administrations employees represent the largest average financing contract, approximately € 21 thousand vs. € 17 thousand of average financing issued in the salary/pension-backed loans industry. The change in loans distribution contracts by borrower from 2008 to 2012 reports that Government and Public administration employees have remained stable, the private sector employees have decreased by a CAGR of 18% per year (in terms of financed amounts) and retirees have increased by a CAGR of 5%. Due to macroeconomic crisis and the consequent instability, lenders looked for those customers whose income is more guaranteed.

For the first half 2013 we have observed a reversed performance of salary/pension-backed loans versus the credit finance products at large.

In general, credit finance products decreased by an average rate of about 7%, compared to first half 2012, while salary/pension-backed loans increased by 3,8%.

In the same period, the incidence of salary/pension-backed loans on total consumer finance products increased from 8,5% (2012) to 9,3%. This trend is even more remarkable if we consider only the top six player in the consumer finance industry, whose salary/pension-backed loans share has increased by almost 2% (6% in the first half 2012 vs. 8% in the first half 2013, a 30% jump).

If we isolate the sub segment of personal loans, it is noticeable that 2013 first six months recorded a 13% decrease in value with an implicit substitution effect in favor of salary/pension backed loans.

These data let us think that a switch from other consumer finance products to salary/pension-backed loans is in place, probably due to the fact that salary/pension-backed loans are secured products and in a mid-term perspective are expected to imply a lowering default rate.

## Market reorganization process on lenders' side

Until 2008 market players in the salary/pension-backed loans industry strongly increased, becoming a too large number compared to the size of the market. Many of the players had entered the market without the necessary skills and size, often taking advantage of the asymmetric information among potential customers in need of borrowing.

In 2008 the task of supervision of financial intermediaries has been reassigned from Ufficio Italiano Cambi to the Bank of Italy, which started verifying the

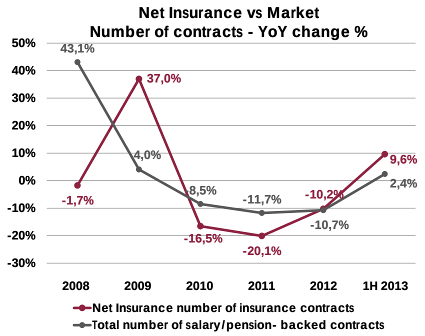
respect of the regulations on transparency of the information to provide to customers and some organizational aspects of financial intermediaries operating in the salary/pension backed loans.
The vigilance action led to the exit of several lenders. 2008 major players like Idea Finanziaria (a subsidiary of Eudea Holding, Barclays Bank Group), Delta, Ktesios, plus other minor, have been sanctioned or put under compulsory administration and soon substituted by emerging players belonging to major Italian banks networks. This was the beginning of the selection and reorganization process of the players operating in the salary/pension-backed loans industry.

The present outcome of this process is that a marketplace traditionally occupied by small independent and unregulated companies has been entered by generalist large banks networks that now dominate the marketplace.

In 2010 the reform of financial distribution networks (Legislative Decree 141/2010), which aimed at regulating the market and promoting responsible lending, caused the exit of financial intermediaries which no longer had the requirements to face the increasing competition and the progressive entrance of major financial institutions and banking groups.

The biannual analyses of Assofin data (Assofin is the association of Italian major players in the consumer credit sector) on salary/pension-backed loans lenders show that in 2008 the market was concentrated in two main players (Ubi Banca and Barclays Bank) which accounted for the 42% of the market, with lending volumes much higher than other players (over € 1 billion of the first two players versus € 200-500 million of other top ten players). It is possible to observe that in 2012 the salary/pension-backed loans market is more competitive, since there are no predominant players, and the top ten players' lending volumes, which account for about 80% of total market, are in the range of € 200-500 million.
Moreover, some banking groups which accounted for the major share of the market and several smaller financial intermediaries which were present in 2008, today are no longer present among the top ten players. While major banking groups such as Neos Finance, BNL Group, Santander Consumer Bank and Compass progressively increased their shares from 2008 to 2012.
In the first half of 2013 the first ten players (Intesa Sanpaolo and Neos Finance, IBL Banca, Compass, Deutsche Bank Group, BNL Group, Santander Consumer Bank, Prestitalia, Findomestic Group and Fiditalia) account for the 80% of the market and their lending volumes are in the region of € 400-100 million.

**Exhibit 8.7**

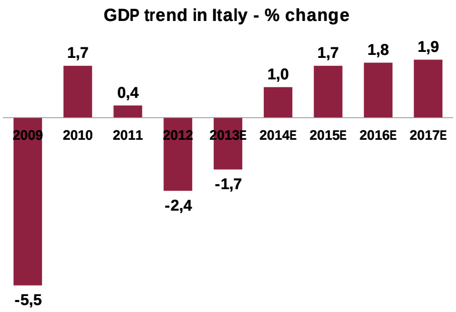



*Source: EnVent on Company and Assofin data*

## • Net Insurance is again overperforming the market in terms of issued contracts

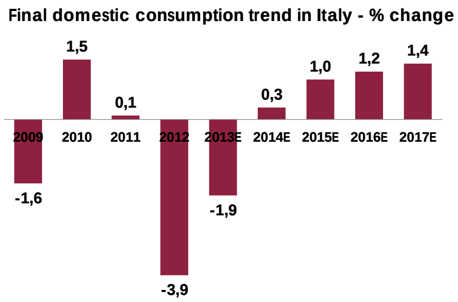
According to Assofin biannual report on consumer credit in the first half 2013 the number of salary/pension-backed loans contracts increased by 2,4%, compared to the same period of previous year, while the number of contracts insured by the Group increased by 9,6%. Net Insurance overperformance is due to the acquisition of new customers (the 1°, the 5° and the 14° player by market share in the first half 2013) that have registered an over 30% growth rate compared to the first half 2012. This trend is important not only to remark the business growth but also to underline Net Insurance capability to attract new customers within the market top players group, thanks to its high reputation for excellent service level.

**Exhibit 8.8**




*Source: EnVent on Ministry of Economy and Finance, Economy and Finance Document (DEF), September 2013; ISTAT, GDP Report, March 2013 and previous reports*

**Exhibit 8.9**




*Source: EnVent on Ministry of Economy and Finance, Economy and Finance Document (DEF), September 2013; ISTAT, GDP Report, March 2013 and previous report*

## • Growth drivers give us a positive outlook

It is common thinking that in the next few years the persisting fragility and the uncertainty on the timing and strength of the economic recovery will still affect the general consumer financing, showing low growth rates and higher risk profiles than in the past. At the same time, supply conditions will still remain selective, trying to limit risk exposure[1].

Main consumer market drivers are GDP trends and consequently consumption trends. Both drivers are estimated to be still negative in 2013 but to register a positive switch in 2014 and to keep growing from 2015 to 2017.

According to the macroeconomic main drivers trends, the general consumer finance market is estimated to grow slightly in 2014 (+0,4%) and to consolidate growth in 2015 (+2,3%)[2].

Considering the specific characteristic of salary/pension-backed loans and the positive trend already registered in the first half 2013, in countertrend with respect to consumer finance general market, we expect the salary/pension-backed loans segment to recover and to grow faster.

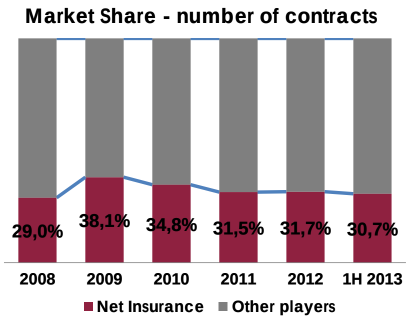
Sources:

[1] *Assofin, Report on consumer credit n. 34, June 2013*

[2] *Assofin, Report on consumer credit n. 34, June 2013*

# 9. COMPETITION

**Exhibit 9.1**




*Source: EnVent on Company and Assofin data*

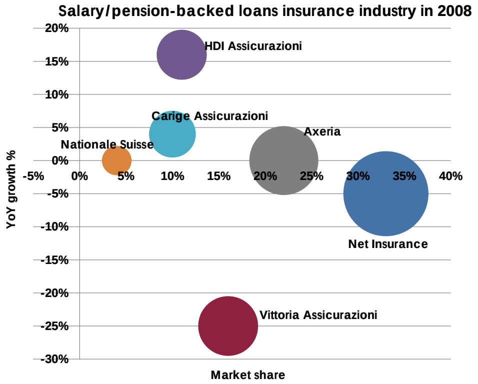
## • The leader of its business segment

Net Insurance is the number one in Italy in the credit protection of salary/pension-backed loans, both in the P&C and life segments.

Based on the number of insurance contracts issued, the Group shows a market share of approximately 30%, stable over the last five years.

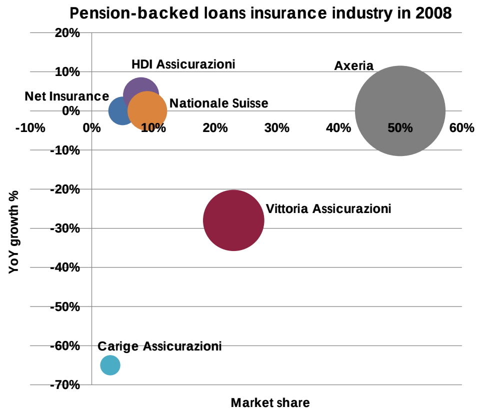
Recently large insurance companies have made an attempt to enter the pension-backed loans segment, with an initial low price strategy.

**Exhibit 9.2**



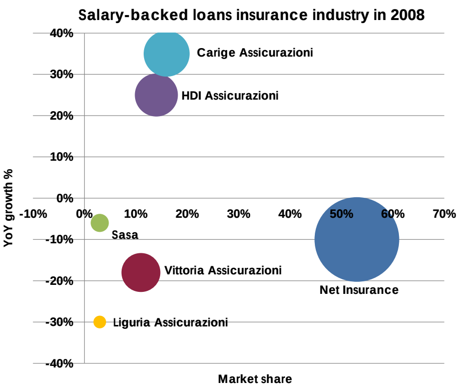

*Source: EnVent confidential industry research data, 2008*

**Exhibit 9.3**




*Source: EnVent confidential industry research data, 2008*

**Exhibit 9.4**




*Source: EnVent on confidential industry research data, 2008*

## A picture of competition dynamics between 2008 and 2012

In the last five years the competitive scenario has been very dynamic, being characterized by:

- exit of Axeria, HDI and Carige Assicurazioni, that in 2008 had a market share respectively of 20%, 10% and 10% in the salary/pension backed loans market. In particular, Axeria was the leader in the pension-backed loans market with a market share of 50%
- reduced importance of some key players such as Vittoria Assicurazioni, which in 2008 had a market share of about 15%, decreased in 2012 to approximately 5%
- entrance of new comers, mainly Cardif and MetLife that in 2012 had quickly reached respectively a 20% and 10% of market share in the salary/pension backed loans market

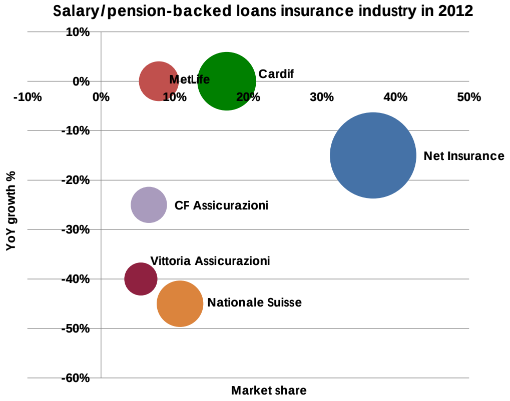
Despite the highly dynamic competitive field the Group has maintained a strong and stable market share leadership, over the last five years, with limited fluctuations. Present positions by segment, per gross premiums collected, are: 60% market share in the insurance of salary-backed loans to private sector employees, 40% market share in the insurance of salary-backed loans to public sector employees and 25% in the pension-backed loans insurance.

By analyzing the competition dynamics, we can say that in the last four years Net Insurance performance has been affected mainly by the general market slowdown and only partially by the increasing competitive pressure.

According to a research institute, in 2008 in the credit protection business of salary/pension-backed loans there were six main players. Among them Net Insurance was the leading company with a market share in the region of 30% and two new entrants, Axeria and Nationale Suisse, which quickly showed good performances and market shares.

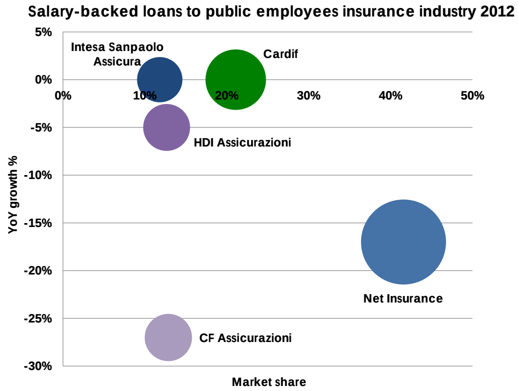
In the pension-backed loans insurance sub-segment an increasing competition could be observed: new players as Axeria, Nationale Suisse and Net Insurance (with a 5% market share in 2008, which was its first year of activity in this segment) gained significant market shares at the expense of

**Exhibit 9.5**



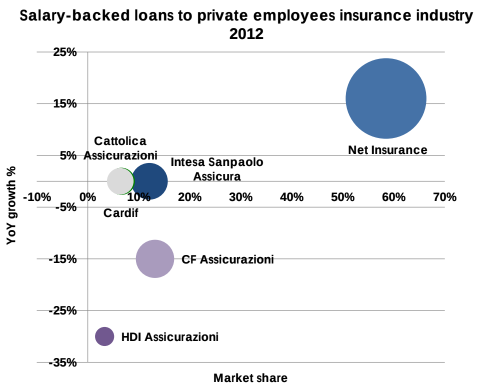

*Source: EnVent on confidential industry research data, 2012*

**Exhibit 9.6**



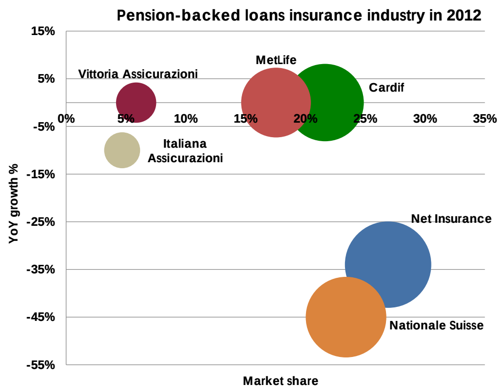

*Source: EnVent confidential industry research data, 2012*

**Exhibit 9.7**




*Source: EnVent confidential industry research data, 2012*

**Exhibit 9.8**




*Source: EnVent on confidential industry research data, 2012*

the historical players.

In the salary-backed loans insurance sub-segment a higher concentration could be observed. Net Insurance, Carige Assicurazioni and HDI Assicurazioni accounted for about the 85% of the whole segment.

According to several market commentaries[3], from 2009 to 2012 the major players in the credit insurance of salary-backed loans segment had been Net Insurance, with an average market share between 40%-50, Vittoria Assicurazioni (between 20% and 30%) and Cattolica Assicurazioni (above 5%).

In the pension-backed loans segment, the major players have been Net Insurance and Nationale Suisse with an approximate average market share of respectively 30% and 25% since 2009. In 2010 and 2011 the followers were Vittoria Assicurazioni e Cattolica with respectively an approximate market share of 20% and 10%.

## New players are making an impact in the market

In 2012, according to a research institute, Net Insurance had still an undisputed leadership in the whole market. Among the first six players, there were Cardif (BNP Paribas Group) and MetLife.

Cardif is a BNP Paribas company specialized in the credit protection through retail/bankassurance, digital and partnerships channels.

MetLife is the Italian branch of a multinational group specialized in insurance products related to savings and employee benefits.

In 2012 in the sub-segment of salary-backed loans to public sector employees, despite Net Insurance confirmed its leadership position, its main competitors changed. Net Insurance follower is now Cardif, with approximately € 10 million of collected premiums. Other top players showed similar performances: CF Assicurazioni, an Italian private company specialized in the credit protection for individuals (about € 6 million), HDI (approximately € 5 million) and Intesasanpaolo Assicura (approximately € 5 million).

For the loans to private sector employees sub-segment, a huge gap between Net Insurance (the leader with about € 27 million of collected premiums) and the followers can be observed. The second player is CF Assicurazioni with approximately € 6 million of collected premiums, followed by IntesaSanpaolo Assicura (approximately € 6 million), Cardif (€ 3 million) and Cattolica (€ 3 million).

In 2012 in the credit protection of pension-backed loans, the main players are Net Insurance and Nationale Suisse, who lost market shares in favour of Cardif (about € 20 million of collected premiums) and MetLife (about € 15 million of collected premiums).

Cardif and MetLife have entered the market in the years 2009-2010, reaching quickly a significant production of approximately € 50 million, of which € 35 million in the pension-backed loans segment only. In 2012 Cattolica and HDI significantly decreased their production in the pension-backed loans segment. In particular, HDI exited the segment at year-end.

Sources:

[3] *EnVent on confidential industry research data, 2008-2012*

*Note: Market shares in the exhibit 9.1 have been calculated based on the number of contracts insured; Market shares in the exhibits 9.2-9.8 have been calculated based on the gross premiums collected yearly*

## 10. REGULATORY FRAMEWORK

- **The regulatory framework has changed significantly in the last years**

Net Insurance Group is subject to a complex regulatory framework, primarily composed by the Legislative Decree D.Lgs. 209/2005 named "Codice delle assicurazioni private" (Code of private insurance) and the regulations issued by IVASS (IVASS is the Italian regulatory body for the supervision of insurance sector and companies), in addition to the Italian Civil Code and the Legislative Decree D.Lgs. 58/1998 named "TUF" (Consolidated law on financial intermediation).

The main specific provisions related to salary and pension-backed loans are contained in the Presidential Decrees D.P.R. 180/1950 and D.P.R. 895/1950 and in the Legislative Decree D.Lgs. 35/2005.

Key provisions are:

- Compulsory purchase of insurance protection for borrowers
- The employer is obliged in the loan repayment; in the case of a retiree, Italian Social Security Institutions are obliged in the repayment
- Lenders protected against the inability of the borrower to repay upon occurrence of job loss and death
- In the case of employment loss, the insurance company has the right of recourse against the debtor and the severance pay is recoverable from the holding institution
- In the case of life risk, the insurance company does not have the right of recourse against the heirs of the borrower

Due to the diffusion of salary/pension-backed loans, the Italian legislator recently introduced several changes in the industry specific regulation, which affected the Group activity.

In 2010 the IVASS issued the rule 35/2010 which stated that in case of early termination or transfer of a mortgage or loan, for which the borrower had an insurance coverage paid through a single premium, the insurance company is obliged to refund the part of premium already paid related to the remaining period of coverage. In the case of transfer of a loan, the new borrower/insured can choose to go on with the insurance coverage until the maturity date.

This provision of law was to be enforced only to future contracts (not applicable to in force contracts).

In 2012 the Italian Law 221/2012 (Article n. 22) stated that the obligation of refunding for the premium paid in the case of early termination of the loan (Regulation 35/2010) was to be enforced also to all the insurance contracts in force, included those signed before December the 19th 2012.

## • Bank of Italy has shown its attention for salary and pension backed loans

In the last five years the Bank of Italy stressed its role of regulatory body for the segment of salary and pension backed loans.

In 2009 the Bank of Italy issued a communication in which it asked banking and financial intermediaries to respect and enforce the rules on the salary and pension backed loans industry. In particular, it found some violations and incorrect behaviours among certain intermediaries, including:

- Failure to comply with the principles of transparency and honesty in relationships with customers
- Long distribution channels, which entail high selling costs for borrowers
- Infringement of several industry-specific rules

In addition, in order to avoid that customers were addressed to products unsuitable to their financial needs, banks and financial intermediaries have been asked to take several actions for transactions involving pension-backed loans, due to the higher costs for older people’s life insurance.

In 2011 the Bank of Italy verified that several banks and financial intermediaries substantially complied with its recommendations. Despite this, the Bank of Italy still noticed some inconsistent behaviors and incorrect practices, as persisting complex distribution network, lack of organizational control and of transparency on the pricing, infringement of the due repayments to customers in the case of early repayment, accounting violations, which the Institution is continuing to monitor.

## 11. SWOT ANALYSIS

### • Strengths

- Specialization on the insurance of salary/pension-backed loans
- Stable leading market share - over 30% -
- Know-how and scoring tools for the credit selection and risk management
- Management team with excellent experience and strong attitude to risk management
- Shareholders' base and partnerships with major banks and financial institutions
- Consolidated agreements with leading European reinsurers
- Customers' base focused on the top players in the consumer finance industry
- Conservative financial assets portfolio, composed by corporate bonds and Government bonds for over 80%

### • Weaknesses

- Small size in the Italian insurance market ruled by several major players
- Limited products offering
- High dependence on the status of job market in Italy
- Limited track record on life insurance

### • Opportunities

- Wide population of potential customers (over 20 million)
- Expected growth trend of market demand
- Improving profitability following the general risk decrease and decline of abnormal effect of 2008-2010 generations
- Diversification in new lines of business (i.e. Bankassurance) and in other niche segments (natural events insurance on agriculture)
- Diversification through multi-channels distribution
- Higher interest rates, which entail higher earned premiums
- Widening customers' base by partnerships with leading European and Italian banks and financial institutions
- Claims risk decrease thanks to the growing importance of structured and risk conscious customers

- **Threats**
  - Exposure to regulatory changes in salary-backed loans legal framework
  - Pricing pressure from potential new entrants (captive companies of major Italian/foreign banks/financial institutions) in the insurance of salary-backed loans
  - Persisting economic crisis scenario, with tightened credit conditions, reduction of consumption and increase in the number of dismissals and bankruptcy procedures
  - Moral hazard and fraud behaviors led by borrowers
  - Potential difficulties in the signing or renewal of reinsurance contracts due to the perception of high country risk

# 12. POSSIBLE CONCERNS AND MITIGATING FACTORS

- **Macroeconomic risk**

Macroeconomic risk arises from the weakness of the global economy and from the negative trends experienced by several economies, Italy included. Despite the measures adopted by individual Governments and the intervention of European and foreign institutions (ECB and FED), the future perspectives and the sustainability of sovereign debt levels remain highly uncertain.

The austerity measures recently adopted by the Italian Government adversely affected real disposable income and private consumption in 2012, leading to a decrease of total premiums collected in the insurance market (-5,6% in life segment and -2,6% in P&C segment).

*Mitigating factors:* Group end-customers are mostly represented by employees of Government and local Public Administration. The Group strategy of establishing long-term partnerships with Italian public institutions in the current persisting crisis context would enhance the countercyclical portfolio structure.

- **Market risk**

Financial market risk, the risk of unexpected losses in positions arising from movements in prices of stocks, real estate assets, currencies and interest rates, can affect the value of the invested capital and the Company solvency, since it is related to the investments incurred in order to face the obligations towards policyholders.

*Mitigating factors:* The Group invests most of its liquidity in financial instruments, of which only a minor percentage (1,45%) is represented by stock investments. The high concentration of Government bonds and other traded bonds in the portfolio leads to an evaluation of moderate risk and conservative attitude. The Group’s financial assets are all held for sale and tradable in regulated markets.

Following a stress test, the financial market risk has been valued as limited. All the components of market risk are constantly monitored by the risk management division of the Group, whose activities are assisted by an independent advisor.

- **Insurance risk**

In the current economic context, insurance risk in the credit protection business in the P&C segment is linked to the occurrence of an abnormal and unexpected increase in reported cases of job loss.

*Mitigating factors:* The proven ability to score employers and accept only low-risk rated contracts has been a key factor to limit the impact of the growth of job loss events in the last years.

- **Target market risk**

The Group business depends on the trend of the salary and pension backed loans market, since most of the insurance policies in the P&C and life segments have been issued to financial institutions that need to insure against the risk of employment or death related to employees or retirees who entered into a salary/pension-backed loan.

The risk related to the target market consists in a further contraction or stagnation of funding by financial institutions in the personal loans industry.

- **Pricing risk**

Competition on premiums may impact the Group expected profitability.

*Mitigating factors:* The Group fixes the premiums prices through structured calculation systems based on actuarial tables and on internal statistical tools for the selection of risks. In addition, the Group monitors the adequacy of its provisions for unearned premiums every six months, aiming at predicting future unexpected losses/expenses. No alignments to competition price drops, although this could imply volumes reductions.

- **Regulatory risk**

The Groups is exposed to changes in the industry-specific regulation, which can affect its activity.

- **Provisions adequacy risk**

The risk related to incurred and future claims, which originates from claim sizes being greater than expected, differences in timing and frequency of claims payments from expected.

*Mitigating factors:* Provisions calculation procedures are structured to be conservative. Life liabilities are established according to the Italian regulatory framework, which appears to remain conservative.

- **Fraud risk**

The insurance business, by its nature, and in particular the Group core business are susceptible to frauds and moral hazard behaviors by borrowers.

*Mitigating factors:* The process of substantial readdress of insurance coverage offer and premium acquisition towards the customers expressed and backed by large banking networks is progressively improving the overall quality of portfolio. According to the internal policies and procedures, Net Insurance constantly monitors the activity of its customers, aiming at detecting fraud risk.

- **Asset quality**

Asset quality deteriorated in the past as pressure on the Italian sovereign debt and banking sector continued to increase.
*Mitigating factors:* Net Insurance assets mostly consist of Italian government bonds. See exhibit 14.4 for the investment portfolio mix

- **Capital Adequacy**

Net Insurance solvency ratio appears to be significantly higher than the Italian P&C insurance business - 4,33 vs. 2,76 – based on Company and ANIA data.

- **Financial flexibility**

The Group does not have financial debt to serve, excluding limited pension adjustments.

- **Growth expectations**

The Company might encounter difficulties in achieving target growth rates. The persisting uncertain macroeconomic climate and industrial production levels may keep high job loss risk that might limit premiums collection expansion plans, both for market dropdowns and increasing need to operate a severe credit restriction policies.

# 13. HISTORICAL PERFORMANCE

## •Structurally complex accounting issues

### Eight-year long cycle

Net Insurance has a long economic cycle, being all salary-backed loans long term contracts, with a maximum duration of 120 months and an average duration of about 96 months/8 years.

The accounting consequences of multiannual insurance contracts are complex and give rise to several issues about financial information interpretation and comparability.

### Even revenues, uneven costs

The key issue is related to the fact that premiums are a definite cash income, whose accounting as revenue is evenly distributed during the contract life. Thus we have a fixed income expressed in equal amounts for each of the following 7/8 years, no credit risk and a cash amount which can/must be invested to cover the loss risk implicit in the contract. This liquidity will also generate interest or other income that, despite its nature of financial income, will *de facto* be a component of the technical result of the insurance portfolio cost/revenue dynamics.

The revenues - certain at year zero and up to year *n* – are subject to a number of costs and adjustments, all future and possible at any time during the contract life. Mainly, the cost of claims for death or job loss, and voluntary contract termination by the borrower.

Claims and contract terminations are not evenly distributed during contract life, being likely to concentrate in the central years. As documented in chapter 6, claims are historically growing to a peak at 2nd year which lasts up to 4th year and then decline gradually in the following four years, in the P&C portfolio. Life claims grow with a peak at 2nd and 3rd year, and then decline gradually.

### Asymmetrical accounting

The revenue and loss recognition accounting principles mechanics bring to a structural mismatch: each generation of contracts will record 50% of revenues and 60 to 70% of losses in the first half of contract lives; the other 50% of revenues and the residual 30 to 40% of losses in the second half.

The immediate consequence is that only at the end of a full economic cycle of eight years the loss dynamics might reflect a proper match between costs and revenues. Technical results and income and loss results would be properly comparable YoY only from now - cycle end - on. While in the first four years of life losses are likely to be erratic due to the said fluctuations. Too low the first year, too heavy in the following three years, normal in the last four/five years since new generations are producing their effects. This model would work in case of stability of premiums in the observation period.

### Adding the effect of revenue fluctuations

The reality of significant gross premiums growth and drop in a limited number of years, which is exactly what happened from 2008 to 2012, especially for Net Insurance Life that started activity at end 2008, brings a further factor of complexity. To the distorting effect of uneven loss curves is to be added the distorting effect of sudden increases and drops in premiums, that amplify the mismatches of fluctuating actual and accrued costs with respect to linear revenues recognition. Overall, the costs of a given accounting period X are related for the major part to the previous four years premiums, with predominance of the X-1 and X-2 years premiums, those which historically bring the peak claim occurrence. The earlier generations will mitigate this effect, with a decreasing or increasing effect, function of relatively low or high level of premiums.

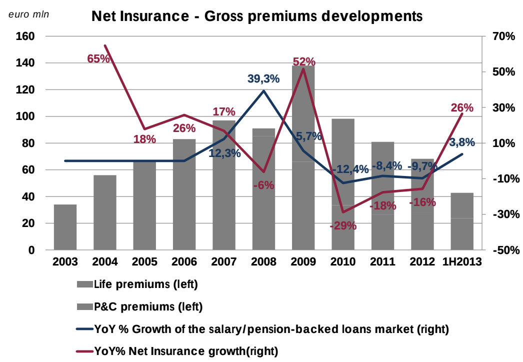
Other effects are:

Gross premiums growths will exploit their effect (peak losses) fully beginning on third year after revenue and continuing for 2/3 years, while benefits will be recorded after the $5^{th}/6^{th}$ year. Thus, 2007-2009 growth concurred significantly, if not fully generated, to 2011/2012 technical losses, while from 2013 to 2016 will probably generate operating profits.

Adding the effect of risk rate trend, any worsening or betterment of risk rate for the portion related to credit quality will consistently spread its effect over the entire residual lifecycle of each generation. However, external risk factors will remain unpredictable.

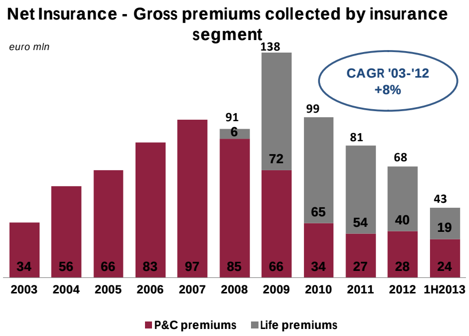
The following analysis of financials and our estimates have been extensively influenced and based on the understanding and relevance of said accounting issues.

**Exhibit 13.1**




Source: *EnVent on Company and market data*

**Exhibit 13.2**




Source: *EnVent on Company data*

## •Analysing previous years portfolio risk level, to understand present technical results

### Gross premiums collection – Net Insurance performance vs. market dynamics

Since its foundation to 2007 Net Insurance has been dedicated only to the salary-backed loans segment, experiencing a steady growth with a CAGR of 30% (2003-2007).

In 2008, the Group recorded a decrease in salary-backed loans premiums (-6%) due to increasing competitive pressure that has seen the two major followers growing at a double digit rate. In 2008, especially in the last quarter, the market experienced an exceptional increase in financed amounts (+39,3%) with a record + 78% of the pension-backed loans segment, that was perceived by the market as a secured product with a low risk level.

Net Insurance entered promptly the pension-backed market, while the growth effect on the Group gross premiums has been recorded mainly in 2009. The Group YoY premiums growth of 52% is not completely comparable with the YoY market growth of financed amounts (+39,3%), because the increase of pension-backed loans vs. salary-backed loans implies a more than proportional increase of premiums due to the fact that pension-backed loans have a higher average premium.

Between 2010 and 2012, Net Insurance gross premiums collected decreased by approximately 17% per year. Major factors:

- the worsening of the macroeconomic crisis and the consequent credit contraction
- as mentioned in chapter 8, following an extensive Bank of Italy compliance inspection activity on financial intermediaries operating in the salary-backed loans segment, the market has gone through a reorganization process that has affected premiums collection

### 2009-2012 Net Insurance gross premiums evolution by driving factor

From 2009 to 2012 Net Insurance has decreased its gross premiums of € 70 million by an average annual rate of -21%.

We believe that the major concurring factors are market trends, portfolio mix, market share dynamics and Group risk management attitude. We have observed that under the assumption of proportional impact of the market decline, the exogenous volume effect due to the credit contraction related to the general macroeconomic crisis can be equal, over the three years, to € 32 million (46% of the total effect).

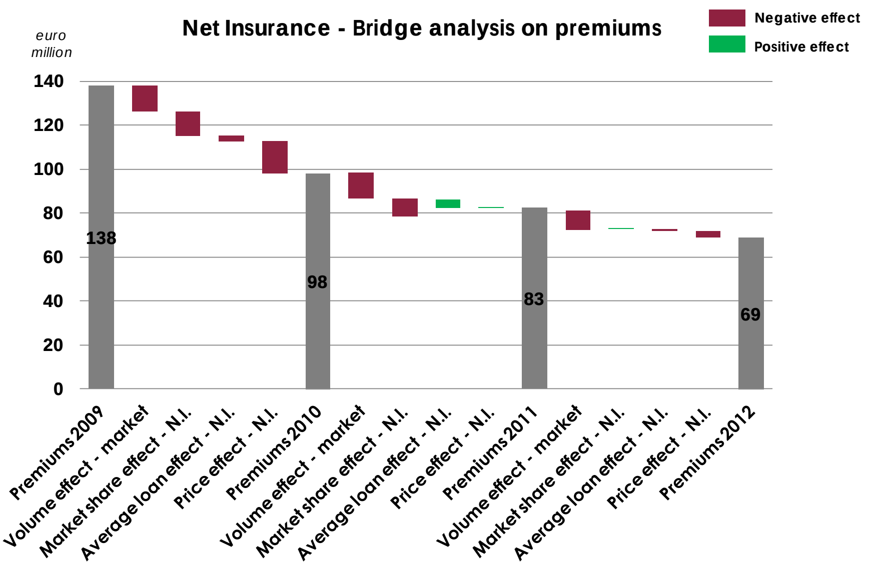
The analysis of premium incidence on borrowed amounts has shown that a further reduction in gross premiums decrease, almost equal to € 19 million, is attributable to a change in the portfolio mix. In particular, in 2010 the Group issued less contracts with elderly people which, being more risky, had higher priced premiums. The consequence is that, even assuming an unvaried number of contracts and of insured financed amounts, gross premiums would have decreased.

Consistently, the remaining portion is attributable to Net Insurance market share reduction, due to the entrance of new players mainly in the pension-backed loans sector, that impacted on the premiums collection for € 19 million (over the three years), 27% of total effect.

Accordingly:

- The market share adjustment looks as a one-off effect of the opening to life companies after the separation of life coverage from credit coverage
- 2011 and 2012 drops are substantially market driven
- 2012 market share is stable, while 2013 is recovering
- 70% of premiums reduction is correlated to external factors

**Exhibit 13.3**

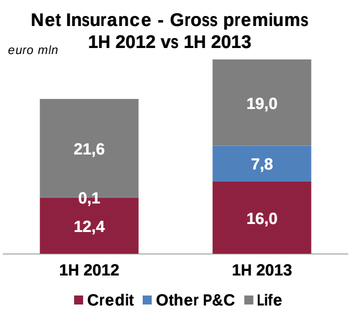



Source: *EnVent on Company and market data*

In 2012 Net Insurance still recorded a decrease – lower than before –, especially in pension-backed loans premiums collected, due to the progressive entrance of new specialized players that have raised competitive pressure on prices.

In the first half 2013 the Group has shown an increase, in terms of contracts signed, compared to the same period of the previous year (+9,6%), overperforming the market (+2,4%).

**Exhibit 13.4**



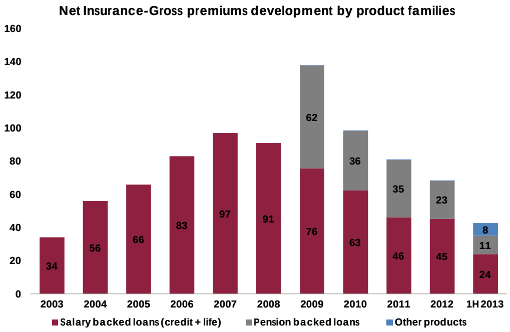

Source: *EnVent on Company data*

## Reverse trend in 2013

The first half 2013 has been characterized by a significant increase (+26%) also in terms of gross premiums collected compared to the same period of the previous year. This growth has been mainly driven by the development of other P&C products, that were negligible in the first half 2012 and a year later account for € 7,8 million, which mainly refer to natural events insurance products related to winter season. According to their seasonality, natural events products premiums are not going to be repeated in the second half 2013. On the other hand, the Group has already collected premiums related to the next spring season, that will bring year-end premiums in the region of € 8 million.

Considering the performance related only to salary/pension-backed loans premiums, the increase amounts to 3%, in line with the market (3,8%).

**Exhibit 13.5**

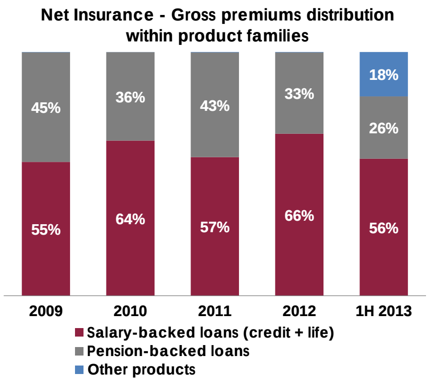



Source: *EnVent on Company data*

### Gross premiums collection – Breakdown by product families

The gross premiums breakdown by product families reported in the exhibit 13.5 highlights that the significant increase in 2009 gross premiums collection can be entirely attributable to the pension-backed loans segment, confirming the same trend of the market, that shows a 27% growth in financed amounts to retirees. In 2009 the salary-backed loans segment decreased by approximately 16%. In the same year the market of salary-backed loans recorded a decrease of approximately 2% in terms of financed amounts.

**Exhibit 13.6**




Source: *EnVent on Company data*

Between 2010 and 2012 salary-backed loans premiums decreased by an average rate of 15% per year mainly due to the reduction of financed amounts, that according to Assofin reports, decreased in the same period by an average 13%.

In the years 2010-2012, the pension-backed loans premiums decreased by an average rate of over 25%, (in particular the year 2010 recorded a decrease of -43% vs.2009) in countertrend with the market that remained basically stable in terms of financed amounts. Net Insurance loss of market share in the pension-backed loans segment is mainly due to stricter screening policies aimed at reducing moral hazard behaviors and the decision of not following the increasing competition pressure on pricing brought by new entrants in this segment.

From 2009 to 2012 the premiums mix by product families is approximately stable with salary-backed loans around 60% and pension-backed loans around 40%.

In the first half 2013, the premiums mix by product families is significantly changed. The share of the two historical core businesses is reduced in favor of new products which have reached a share of 18%.

### Technical result – P&C segment

As shown by the table 13.7, the technical result of the P&C segment has been significantly positive between 2005 and 2008 showing an organic development of the business.

It is worth to recall that the sudden drop of gross written premiums from 2009 on is due also to the shifting of all life insurance premiums to the newly incorporated Net Life Company.

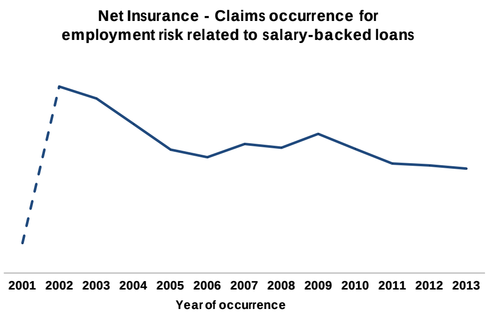
**Exhibit 13.7**

**Technical result - P&C segment**

| *thousand euro* | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** | **2011** | **2012** |
|---|---|---|---|---|---|---|---|---|
| Gross written premiums | 66.103 | 83.400 | 97.086 | 84.754 | 66.012 | 33.521 | 26.929 | 28.392 |
| Change in provisions for unearned premiums | (35.056) | (42.525) | (38.101) | (22.571) | (2.904) | 19.499 | 19.913 | 18.707 |
| Gross earned premiums (A) | 31.047 | 40.875 | 58.985 | 62.183 | 63.108 | 53.020 | 46.842 | 47.099 |
| Claims paid | (16.081) | (22.455) | (27.432) | (42.582) | (58.034) | (62.307) | (62.609) | (53.148) |
| Change in provisions for outstanding claims and other provisions | (5.630) | (4.170) | (12.580) | (5.865) | (5.247) | 2.609 | 6.331 | (2.084) |
| Net Claims (B) | (21.711) | (26.625) | (40.012) | (48.447) | (63.281) | (59.698) | (56.278) | (55.232) |
| *(B/A)%* | *70%* | *65%* | *68%* | *78%* | *100%* | *113%* | *120%* | *117%* |
| Operating costs | (13.947) | (18.929) | (21.284) | (17.356) | (12.371) | (6.518) | (5.666) | (6.314) |
| Other income | 1.574 | 2.591 | 4.007 | 4.713 | 5.770 | 2.206 | 8.392 | 6.196 |
| Reinsurance commissions, net | 5.722 | 5.044 | 3.363 | 466 | 1.858 | 6.459 | 5.096 | 2.743 |
| **Technical result (C)** | **2.685** | **2.956** | **5.059** | **1.559** | **(4.916)** | **(4.531)** | **(1.614)** | **(5.508)** |
| *(C/A)%* | *9%* | *7%* | *9%* | *3%* | *-8%* | *-9%* | *-3%* | *-12%* |
| Financial profit (loss) | 1.629 | 2.830 | 2.319 | 260 | 3.469 | 4.371 | 1.181 | 4.577 |
| **Technical result after financial profit (loss)** | **4.314** | **5.786** | **7.378** | **1.819** | **(1.447)** | **(160)** | **(433)** | **(931)** |

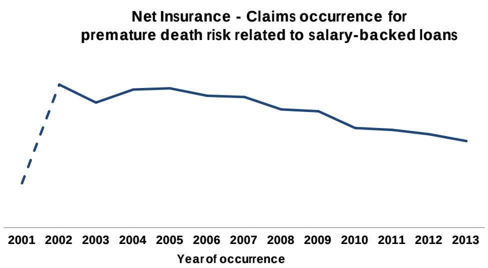
Source: *Company data*

**Exhibit 13.8**




Source: *EnVent on Company data*

**Exhibit 13.9**




Source: *EnVent on Company data*

Between 2009 and 2012 the performance turned negative, being affected by two main issues:

- Claims concentration: according to the claims occurrence probability curve on salary-backed loans (the maximum level of risk is concentrated between the 2nd and the 4th year from subscription), 2010-2012 profitability was still influenced by the high claims occurrence rate implied in the high volume of contracts subscribed between 2007 and 2009, only partially balanced by decreasing new premiums
- Shifted forward volume effect: the 2009–2012 ratio of net claims on gross earned premiums shows that profitability was also affected by high claims, due to high premiums of the previous years (on average 2005-2008 premiums are 53% higher than average 2009-2012 premiums), compared to lower premiums recorded between 2009 and 2012

However it is to be noticed that between 2010 and 2012, the value of net claims decreased of about € 5 million (around 8%), reflecting that claims occurrence is in a decreasing phase. The claims occurrence frequency distribution for unemployment risk related to salary-backed loans (table opposite) shows the number of claims occurred in a year and related to the entire Group portfolio at that year. The decreasing trend is noticeable from 2011 and in particular in 2013, mainly due to the fact that the high risk level portfolio generated in 2007-2009 is maturing over the period of maximum risk (between the second and the fourth year from contract signing) and the contracts signed between 2010 and 2011, which are characterized by a lower amount of premiums, are entering in the maximum risk period.

The same trend can be observed in the curve representing the frequency of claims for premature death related to salary-backed loans.

The first half 2013 good performance in gross premiums collection is not reflected in the related technical result, that has been affected by the recently enforcement of Law 221/2012.

The law states the obligation, for the entire portfolio, of refunding the premium paid in case of early termination of the loan.

The immediate consequence of the law is the increase of provisions for unearned premiums, affecting gross earned premiums for approximately € 4 million, as shown in the column 1H 2013 Adjusted in the table 13.10.

**Exhibit 13.10**

**Technical result - P&C segment**

| *thousand euro* | **1H 2012** | **1H 2013** | **1H 2013 Adj.** |
|---|---|---|---|
| Gross written premiums | 12.397 | 23.771 | 23.771 |
| Change in provisions for unearned premiums | 9.532 | (2.612) | 1.476 |
| Gross earned premiums (A) | 21.929 | 21.159 | 25.247 |
| Claims paid | (26.882) | (27.515) | (27.515) |
| Change in provisions for outstanding claims and other provisions | 2.832 | 3.424 | 3.853 |
| Net Claims (B) | (24.050) | (24.091) | (23.662) |
| *(B/A)%* | *110%* | *114%* | *94%* |
| Operating costs | (3.037) | (4.354) | (4.354) |
| Other income | 2.052 | 1.815 | 1.815 |
| Reinsurance commissions, net | 882 | 2.716 | 548 |
| **Technical result (C)** | **(2.224)** | **(2.755)** | **(406)** |
| *(C/A)%* | *-10%* | *-13%* | *-2%* |
| Financial profit (loss) | 1.027 | 668 | 668 |
| **Technical result after financial profit (loss)** | **(1.197)** | **(2.087)** | **262** |

Source: *Company data*

## Technical result – Life segment

The technical result of the life segment has been positive from 2009 to 2011. The figures are likely to contain a certain amount of underweight of claims rate, mainly due to the fact that the business was just started and peak effects of claims curves were still deferred.

**Exhibit 13.12**

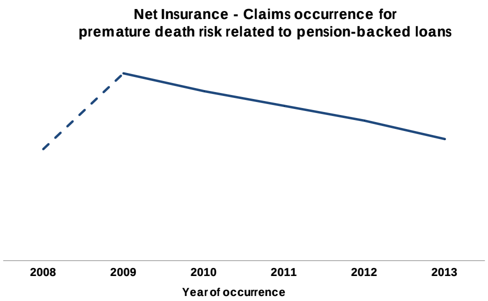
**Technical result - Life segment**

| *thousand euro* | **2008** | **2009** | **2010** | **2011** | **2012** | **1H 2012** | **1H 2013** |
|---|---|---|---|---|---|---|---|
| Gross written premiums | 5.694 | 71.830 | 64.686 | 53.994 | 39.846 | 21.605 | 19.011 |
| Change in mathematical provisions | (3.960) | (56.393) | (39.637) | (26.694) | (9.226) | (6.487) | (2.764) |
| Gross earned premiums (A) | 1.734 | 15.437 | 25.049 | 27.300 | 30.620 | 15.118 | 16.247 |
| Claims paid | (30) | (1.894) | (11.607) | (19.876) | (31.946) | (13.712) | (16.544) |
| Change in provisions for outstanding claims and other provisions | (280) | (3.562) | (2.956) | (2.139) | (1.170) | (743) | (1.260) |
| Net Claims (B) | -310 | -5.456 | -14.563 | -22.015 | -33.116 | -14.455 | -17.804 |
| *(B/A)%* | *18%* | *35%* | *58%* | *81%* | *108%* | *96%* | *110%* |
| Operating costs | (1.524) | (8.412) | (6.896) | (8.408) | (4.733) | (3.162) | (1.586) |
| Reinsurance commissions, net | 145 | 4.693 | 4.440 | 5.437 | 4.855 | 1.654 | 2.782 |
| **Technical result (C )** | **45** | **6.262** | **8.030** | **2.314** | **-2.374** | **-845** | **-361** |
| *(C/A)%* | 3% | 41% | 32% | 8% | -8% | -6% | -2% |
| Financial profit (loss) | 143 | 240 | (141) | 727 | 5.200 | 2.014 | 1.513 |
| **Technical result after financial profit/ (loss)** | **188** | **6.502** | **7.889** | **3.041** | **2.826** | **1.169** | **1.152** |

Source: *Company data*

The year 2012 has recorded a negative performance due to the combined effect of the increase (+61% vs. 2011) of claims paid and the decrease of gross written premiums (-26% vs. 2011). The increase in claims paid is related to the overproduction of years 2009 and 2010 that, according to the already mentioned claims occurrence probability curve on pension-backed loans,

**Exhibit 13.11**




Source: *EnVent on Company data*

would show its higher implied claims risk between 2012 and 2015.

The frequency of claims for premature death related to pension-backed loans (see exhibit 13.11) shows the decreasing average risk level on present portfolio compared to the one implied in 2009 portfolio.

This odd change in death risk occurrence frequency is explained by the already mentioned moral hazard behaviors that have affected mainly the pension-backed loans segment. It was mainly attributable to those financial intermediaries (representing in 2008-2009 approximately 50% of market share) that following Bank of Italy inspection have been later banished and substituted by major bank network players, more reliable and focused on quality and the ethics of business promotion activities.

The technical performance of 2012 switches from negative to positive if we consider also the interest portion of financial profit, amounting to € 5,2 million, almost 7 times the results of the previous year.

According to IAS principles, financial profit cannot be included in the technical performance of insurance companies due to its non-operating nature. While the impact on the insurance sector in general is limited, in the case of a Group operating only with multi-year premiums, financial profit can be considered as part of pricing and thus of the operations. For this reason we have added the reclassified technical result after financial profit both for P&C and life segment, in order to extend the technical result analysis.

## 14. FINANCIAL ANALYSIS

**• A good recent performance, still obscured by previous year results and changes in the regulatory framework**

**Exhibit 14.1**

| **Consolidated Profit and Loss - IFRS** | | | | | |
|---|---|---|---|---|---|
| *thousand euro* | **2008** | **2009** | **2010** | **2011** | **2012** |
| Gross earned premiums | 67.877 | 134.937 | 117.705 | 100.836 | 86.946 |
| Net premiums | 37.261 | 71.883 | 67.344 | 53.292 | 48.417 |
| Gross claims paid and Change in provisions | 48.003 | 119.360 | 111.691 | 96.594 | 91.379 |
| Net claims paid | (27.457) | (66.384) | (65.639) | (52.800) | (50.222) |
| Net income from investments | 1.052 | 4.329 | 5.634 | 3.317 | 7.549 |
| Operating costs | (18.918) | (20.783) | (16.866) | (14.073) | (11.048) |
| Reinsurance commissions | 10.681 | 16.628 | 15.208 | 14.281 | 4.971 |
| Other income | 745 | 708 | 227 | 154 | 313 |
| Other costs | (683) | (546) | (1.776) | (781) | (993) |
| **Profit (Loss) before taxes** | **2.681** | **5.835** | **4.132** | **3.390** | **(1.013)** |
| Income taxes | (883) | (1.841) | (1.602) | (1.339) | 282 |
| **Net Profit (Loss)** | **1.798** | **3.994** | **2.530** | **2.051** | **(731)** |

Source: *Company data*

**2012 losses were born in 2008-2010 premiums**

In 2012 gross earned premiums decreased by 14% (vs. 2011), mainly due to the contraction of the related loans; the market financed amounts decreased by 9,7% in the same year. The loss ratio in 2012 grows to 104% (99% in 2011) because gross claims paid have decreased not proportionally with the already mentioned decrease of gross earned premiums.

The gross claims paid in 2012 are mainly related to contracts signed in 2008, 2009 and 2010. As we have already shown, the probability of claim occurrence is concentrated between the second and the fourth year form contract subscription, thus 2012 claims are still affected by the overproduction of the years 2007-2009, characterized by less strict requirements for selection of private sector employees and lower pricing.

Net income from financial investments have shown a significant increase in the years 2009/2010 (approximately five times the income of 2008) due to the recovery of financial markets after the 2008 credit crunch crisis. In 2012, net income from financial investments is more than doubled, amounting to € 7,5 million, due to the increased return on Italian Treasury Bonds, amounting to the 52% of total investments.

In 2011 and 2012 operating costs have decreased approximately by 20% due to revised commission agreements with financial intermediaries.

Reinsurance commissions decreased by 65% due to terms and conditions of new agreements, following the negative macroeconomic context.

**Exhibit 14.2**

| **Consolidated Profit and Loss - IFRS** | | | |
|---|---|---|---|
| *thousand euro* | **1H 2012** | **1H 2013** | **1H 2013 Adj** |
| Gross earned premiums | 43.535 | 40.171 | 44.259 |
| Net premiums | 23.794 | 20.481 | 22.577 |
| Gross claims paid and Change in provisions | 42.940 | 42.844 | 42.415 |
| Net claims paid | (23.214) | (22.763) | (22.510) |
| Net income from investments | 3.617 | 2.734 | 2.734 |
| Operating costs | (6.199) | (5.940) | (5.940) |
| Reinsurance commissions | 2.550 | 5.106 | 5.106 |
| Other income | 78 | 410 | 410 |
| Other costs | (585) | (757) | (757) |
| **Profit (Loss) before taxes** | **41** | **(729)** | **1.620** |
| Income taxes | (34) | 101 | (531) |
| **Net Profit (Loss)** | **7** | **(628)** | **1.089** |

Source: *Company data*

As already explained in the technical result paragraph, the half year 2013 gross premiums collection good performance is not reflected in the first half 2013 profit and loss, that has been affected by the recently entered into force Law 221/2012. The immediate consequence of the law is the increase of provision for unearned premiums, affecting gross earned premiums for approximately € 4 million, as shown in the column first half 2013 adjusted of exhibit 14.2. Gross claims paid are nearly stable.

Reinsurance commissions increased by 100% due to higher insured volumes, mainly related to other P&C products, that being new products, have been reinsured by the Group for approximately 95% (the core business products are reinsured for 45%).

The first half 2013 consolidated profit and loss adjusted has been reported to identify, for each item, the impact of the change in the legislative framework.

**Exhibit 14.3**

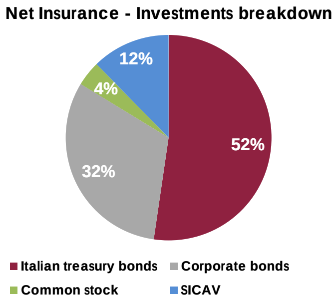
| **Consolidated Balance Sheet - IFRS** | | | | | | |
|---|---|---|---|---|---|---|
| *thousand euro* | **2008** | **2009** | **2010** | **2011** | **2012** | **1H 2013** |
| Investments | 153.694 | 204.762 | 203.538 | 188.519 | 187.362 | 186.915 |
| Reinsurance provisions | 108.107 | 138.563 | 147.519 | 151.464 | 146.094 | 150.094 |
| Gross technical provisions | (247.452) | (315.557) | (336.042) | (338.620) | (332.393) | (335.605) |
| Net technical provisions | (139.345) | (176.994) | (188.523) | (187.156) | (186.299) | (185.510) |
| Other assets | 40.015 | 45.298 | 44.769 | 71.646 | 76.175 | 87.390 |
| Financial liabilities | 0 | 0 | 0 | 0 | 0 | 0 |
| Other liabilities | (21.931) | (28.685) | (22.947) | (43.280) | (47.567) | (59.840) |
| Net assets / liabilities | 18.084 | 16.613 | 21.822 | 28.366 | 28.608 | 27.550 |
| Intangible fixed assets | 569 | 490 | 480 | 640 | 5.743 | 5.742 |
| Tangible fixed assets | 546 | 459 | 404 | 276 | 10.818 | 11.089 |
| Total fixed assets | 1.115 | 949 | 884 | 916 | 16.561 | 16.831 |
| **Total Equity** | **33.548** | **45.330** | **37.721** | **30.645** | **46.232** | **45.786** |

Source: *Company data*

Investments trend is related to collected premiums trend, the increase of 2009 is due to the year premiums overproduction and the consequent cash collected and invested.

The trend of Net Insurance technical provision is, as well, related to premiums

**Exhibit 14.4**




Source: *Company data*

generation.

In 2012 intangible assets increased significantly (around € 5 million) due to the reclassification of goodwill of the subsidiary Dynamica Retail S.p.A. (amount exceeding its equity).

The change in tangible assets (around € 10 million) is due to the purchase of a building in Rome, intended to soon become the Group headquarter.

Equity is significantly increased between 2011 and 2012, for two main reasons:

- a capital stock increase of € 6 million, has been subscripted in the first quarter 2012, by the new shareholder Veneto Banca S.c.p.A.
- earnings from financial assets increased by € 10 million as per fair value adjustments

The solvency ratio improved by 24%, the last year, reaching approximately the value of 2010, mainly due to the increase of equity.

**Exhibit 14.5**

| Solvency ratio | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|
| Required solvency margin | 13.140 | 13.769 | 17.390 | 18.091 | 19.805 |
| Items constituting the solvency margin | 31.629 | 43.650 | 35.537 | 28.903 | 39.474 |
| **Solvency ratio** | **241%** | **317%** | **204%** | **160%** | **199%** |

Source: *Company data*

The loss ratio trend, in the last four years, shows the progressive increase of claims occurred in the more recent years with the consequent loss of operational profitability.

The expense ratio shows the trend of Group reinsurance commissions and other expenses. In 2009 and 2010 decreased due to the increase of reinsurance commissions (more than doubled in 2010, while other expenses were nearly stable). In 2011, it even reported a negative value due to the fact that reinsurance commissions were higher than other expenses. In 2012 the expense ratio had a significant increase, due to the, already mentioned, contraction of reinsurance commissions.

The combined ratio reports values very close to 100% from 2009 to 2011, confirming the profitability erosion of the last four years, and a 120% peak in 2012.

**Exhibit 14.6**

| Ratios | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|
| **Loss ratio** | 70,8 | 86,3 | 95,9 | 98,7 | 104,1 |
| **Expenses ratio** | 23,0 | 10,3 | 4,3 | -0,6 | 14,3 |
| **Combined ratio** | **93,9** | **96,6** | **100,2** | **98,2** | **118,4** |

Source: *Company data*

## 15. OUR ESTIMATES

- **Mid-term financial statements are expected to report performance improvements**

**Expected technical results – P&C segment**

For the P&C segment we have estimated gross premiums increasing by a CAGR 2013-2016 of 15%.

The increase is based on the following assumptions:

- the development of the other products (mainly natural events insurance segment), that we expect to grow by a CAGR of approximately 30% in the next four years. The high growth potential is justified by the present very low market share and the promotional effort recently put in place
- salary-backed loans premiums are expected to grow by a CAGR of 6 to 9% thanks to the reversed market trend and growing volumes of Net Insurance top ten customers

The claims incidence is estimated to be significantly decreasing from 2014, due to two main effects:

- the generations related to years 2007-2009 exiting the high claims occurrence probability period (as described in chapter 5)
- lower implied claims due to the increased annual percentage rate (as described in chapter 5)

For the years 2015 and 2016 the claims incidence is estimated more stable close to the one of 2014.

Reinsurance policies are supposed to remain stable both for salary/pension-backed loans and for other products.

As a consequence, the technical margin performance is expected to be positive in 2014 and to increase noticeably in 2015 and 2016, benefiting of the continuing premiums growth.

**Exhibit 15.1**

| **P&C segment**<br>*euro million* | **2013E** | **2014E** | **2015E** | **2016E** |
|---|---|---|---|---|
| Gross premiums collected | 39 | 48 | 53 | 60 |
| Net premiums | 20 | 19 | 21 | 22 |
| Net Claims | -22 | -17 | -18 | -19 |
| Reisurance commissions, net | 2 | 2 | 3 | 3 |
| **Technical result** | **0,4** | **3,9** | **6,3** | **6,7** |

Source: *EnVent*

### Expected technical results – Life segment

For the life segment we have estimated gross premiums to increase by a CAGR 2013-2016 of around 7%.

The 2013 premiums are still supposed to be decreasing for the competitive pressure on pricing, estimated to remain high.

In the years 2014-2016, gross premiums might show a growth aligned to the salary-backed loans segment driven by the market recovery and the best customers growing volumes.

Loss ratio is expected to decline by an average rate of 5% per year, consistently with the reduction trend analyzed in chapter 5. Concurring factors would be the positive impact of improved screening policies and the growing trend of the annual nominal interest rate (TAN) with the consequent decrease of the financed capital.

Reinsurance policies are supposed to remain unchanged in comparison to previous years.

**Exhibit 15.2**

| **Life segment**<br>*euro million* | **2013E** | **2014E** | **2015E** | **2016E** |
|---|---|---|---|---|
| Gross premiums collected | 37 | 39 | 42 | 45 |
| Net premiums | 16 | 17 | 18 | 19 |
| Net claims | -16 | -17 | -17 | -17 |
| Reinsurance commissions, net | 3 | 3 | 3 | 4 |
| **Technical result** | **2,2** | **2,6** | **4,1** | **5,6** |

Source: *EnVent*

### Estimated consolidated financials

We have made a simulation of consolidated Profit & loss and Balance sheet 2013–2016, based on the two segments technical results and considering an average return on financial investment of 3,5%.

**Exhibit 15.3**

| **Consolidated Profit and Loss**<br>*euro million* | **2013E** | **2014E** | **2015E** | **2016E** |
|---|---|---|---|---|
| Net premiums | 36 | 35 | 39 | 42 |
| Other revenues | 7 | 8 | 9 | 9 |
| Net Claims | -39 | -34 | -35 | -36 |
| Other operating costs and expenses | -4 | -3 | -3 | -3 |
| **Earnings before taxes** | **1** | **6** | **10** | **13** |
| Taxes | 0 | -2 | -4 | -5 |
| **Net profit** | **0,4** | **3,5** | **6,1** | **7,9** |

Source: *EnVent*

Investments are estimated proportionally to gross premiums generation of available cash.

The reinsurance provision has been calculated based on gross premiums ceded to reinsurers.

The gross technical provisions have been calculated based on the relation between reinsurance provision and gross technical provision historically observed.

Other assets and liabilities are considered stable, except for debts towards reinsurers that are calculated based on gross premiums evolution.

Tangible and intangible assets are considered stable.

**Exhibit 15.4**

| **Consolidated Balance Sheet**<br>*euro million* | **2013E** | **2014E** | **2015E** | **2016E** |
|---|---|---|---|---|
| Investments | 196 | 222 | 245 | 271 |
| Net technical provisions | -173 | -178 | -184 | -195 |
| Other assets / liabilities, net | 8 | -5 | -20 | -34 |
| Total fixed assets | 17 | 17 | 18 | 18 |
| **Equity** | **49,0** | **56,1** | **58,6** | **60,3** |

Source: *EnVent*

### Estimated ratios

The projected loss ratio, shows in the year 2013 a still negative technical performance mainly related to the P&C segment, while in the years 2014-2016 is foreseen a progressive improvement in the technical performance which would benefit of the volumes recovery, normalized accounting shifting plus displayed effects of the reduction trend of losses recorded in the most recent generations.

**Simulation of ratios confirms structural deferral of risk valuations effects**

The expense ratio decreases significantly from 2013 to 2016, due to the increase of net premiums (CAGR 5%).

The combined ratio shows for the years 2013 and 2014 a still negative operational performance, being higher than 100.

**Ratios evolution is consistent with the eight-year cycle analysed dynamics**

Our estimates consider that the next two years profitability will be still negatively impacted by previous year's performances, while 2015 and 2016 performances will bring significant improvements.

The target ratios of 2015-2016 appear consistent with those of 2009-2010, the beginning of the eight-year cycle ending in 2016, consistently with the eight-year period volumes and risk dynamics observed.

**Exhibit 15.5**

| Ratios | 2013E | 2014E | 2015E | 2016E |
|---|---|---|---|---|
| **Loss ratio** | 107,0 | 97,1 | 88,8 | 85,9 |
| **Expense ratio** | 10,3 | 9,3 | 7,9 | 6,9 |
| **Combined ratio** | **117,2** | **106,4** | **96,7** | **92,8** |

Source: *EnVent*

We expect the solvency ratio to reach a value of approximately 230% in 2016.

## 16. VALUATION ANALYSIS

- **Valuation exercises and sensitivities lead to high value potential**

In order to have market references about industry segment multiples, as a first step we have reviewed data on public insurance companies in the Italian stock market. At first sight, certain major difference factors are to be noted:

1 – Business dynamics – Net Insurance has a long economic cycle, being all salary-backed loans long term contracts, with an average duration of about 96 months/8 years. None of the other companies has such a significant portion of revenues based on long term contracts

2 – Size and product diversification – Net Insurance is concentrated on a market niche, while other companies offering is diversified in various Property and Casualty segments

3 – Regulated niche market, but Italy only – Net Insurance core business operations are necessarily carried on in Italy. In other European markets the consumer credit industry does not have a regulated segment with mandatory credit limits, insurance coverage and other protections to lenders and insurers

4 – B2B Customers – Net Insurance customers are financial lenders, not the general public

Example consequences are that premiums earned represent 8 years of revenues, versus much shorter periods of competitors, and invested liquidity represents a similar period of claim coverage, plus the other financial and accounting issues detailed earlier in this report.

Sales are made at a B2B level with marketing and communication processes and organization different from those of retail companies.

The same factors could be identified as obstacles for the comparability with insurance companies in other countries, where the same differences can be found, plus the absence of the reference market niche.

We believe that the importance and effects of those differences are sufficient to make too subjective, if not impracticable at all, the comparability with public Italian or foreign companies.
Examples: the high relative size of financial investments versus average gross premiums; the income variability; the ratios rapid changes, etc.
On the target market: historical turbulence as per lenders entering and exiting the business, plus the volatility of the market itself; the frequency of the regulatory changes in the niche, plus the recent appearance of international new comers as competitors.

Even in case of limiting the comparisons to certain indicators -thus accepting to skip seeking consistency of revenues or asset based multiples- such as net

income or ratio analysis, this simplification could neither help because of the inherent instability.
Instability due to concurrence of factors, like market ups and downs together with the asymmetrical accounting cycles described within the performance analysis.

Taking into account the described concerns, we have considered too subjective and potentially misleading a comparable company analysis and better practicable the application of analytical methodologies.

Among them we have made reference to an adjusted net assets calculation and to a DCF methodology, adapted for insurance companies.
In both valuation exercises we have identified the following basic assumptions and key points:

1 – The market share and competitive attitude of Net Insurance is proven strong and maintainable
2 – The asymmetrical accounting cycles and related loss trend analyses drive to expectations of an harvesting cycle in the next midterm, thus we have used our forecast figures as a reliable base, to be discounted by an appropriate risk premium
3 – The standing and quality of present customer base and of partner shareholders lead to envisage a potential for further growth and recovery of activity levels
4 – The well sized and experienced organizational structure is prepared to process significantly higher volumes

We have considered that the resulting scenario is of moderate risk and growing opportunities. Accordingly, we believe that the excess coverage of net technical provisions by investments, estimated to reach over € 70 million in 2016, given the decreasing loss ratio could be at least partially considered as a permanent gain and as such could form a portion of the Company value.
As a conservative calculation, we have assumed that the excess investment should be able to cover any subsequent worsening of ratios in the second part of the cycle in which the year 2016 represents the end of the first half. We have observed that in our analysis the average investments coverage ratio from 2008 to 2016 – the preceding eight years cycle for which we have actual data – has been equal to 113% of reserves.
If we apply this percentage to 2016 investments we may have a free additional capital of approximately € 30 million (present value).
We suggest considering in a Net Insurance Group net assets or DCF valuation analysis an additional potential value ranging from a low side of € 30 million and a high side of € 60 million, the full 2016 excess investment coverage.

We have conducted valuation exercises and sensitivities based on the DCF method adjusted for insurance companies, by discounting operating earnings after taxes as per our estimates for the years 2013-2016, adding excess capital as of 2012 and an estimate of terminal value.

According to our sensitivities we suggest as key assumptions:

- discount rate from 7 to 8,5 percent
- growth rate between 2,5% (1% of perpetual real growth) to 3,5%
- terminal value calculation based on a normalized income ranging from 75% - 100% of last year earnings of our estimates

We believe that the resulting reference range is logical and consistent with an initial share price that expresses the strong leadership position and an expected mid-term performance, leaving room for a substantial upside through a quantum leap of revenues in new segments.

Please refer to important disclosures at the end of this report.

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