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# INTERIM REPORT FOR THE THIRD QUARTER 2010



## **FONDIARIA-SAI S.p.A.**

FONDIARIA-SAI S.P.A. – REGISTERED AND TURIN HEADQUARTERS - CORSO G. GALILEI, 12 – FLORENCE  
HEADQUARTERS - VIA LORENZO IL MAGNIFICO, 1 - SHARE CAPITAL EURO 167,043,712 FULLY PAID-IN – TAX,  
VAT AND TURIN COMPANY REGISTRATION NO. 00818570012 - COMPANY AUTHORISED TO UNDERTAKE  
INSURANCE ACTIVITIES PURSUANT TO ARTICLE 65 R.D.L. NO. 966 OF APRIL 29, 1923, ENACTED INTO LAW NO.  
473 OF APRIL 17, 1925

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## **CORPORATE BOARDS OF FONDIARIA-SAI S.p.A.**

### **THE BOARD OF DIRECTORS**

Salvatore Ligresti

*Honorary Chairman*

Jonella Ligresti\*

*Chairman*

Giulia Maria Ligresti \*

*Vice Chairman*

Massimo Pini \*

*Vice Chairman*

Antonio Talarico \*

*Vice Chairman*

Fausto Marchionni \*

*Chief Executive Officer - General Manager*

Andrea Brogгинi

Maurizio Comoli

Francesco Corsi

Carlo d'Urso

Vincenzo La Russa\*

Gioacchino Paolo Ligresti \*

Lia Lo Vecchio

Valentina Marocco

Enzo Mei

Giuseppe Morbidelli

Cosimo Rucellai

Salvatore Spiniello

Sergio Viglianisi

Graziano Visentin

Alberto Marras

Secretary of the Board and the Executive Committee

### **BOARD OF STATUTORY AUDITORS**

Benito Giovanni Marino

*Chairman*

Marco Spadacini

*Statutory Auditor*

Antonino D'Ambrosio

*Statutory Auditor*

Maria Luisa Mosconi

*Alternate Auditor*

Alessandro Malerba

*Alternate Auditor*

Rossella Porfido

*Alternate Auditor*

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## **INDEPENDENT AUDITOR**

RECONTA ERNST & YOUNG S.P.A.

## **GENERAL REPRESENTATIVE OF THE SAVINGS SHAREHOLDERS**

Sandro Quagliotti

## **GENERAL MANAGER**

Fausto Marchionni

Stefano Carlino

Emanuele Erbetta

## **EXECUTIVE RESPONSIBLE**

*for the preparation of the corporate accounting documents*

Pier Giorgio Bedogni

*\* Members of the Executive Committee*

The Chairman, Ms. Jonella Ligresti, and the Chief Executive Officer, Prof. Fausto Marchionni are the representatives of the company pursuant to article 21 of the Company By-Laws and have all ordinary and extraordinary administrative powers with all rights thereto, to be exercised in single signature and with possibility to confer mandates and proxies, with the exclusive exception of the following powers:

- sale and/or purchase of property above the value of Euro 15 million for each operation;
- sale and/or purchase of investments of a value above Euro 30 million for each operation and, in any case, of controlling interests;
- obtaining of loans above Euro 50 million for each operation;
- provision of non-insurance guarantees in favour of third parties.

The Chairman and the Chief Executive Officer report to the Executive Committee or to the Board of Directors in each meeting in relation to the exercise of the above powers, with particular regard to atypical, unusual or operations with related parties (where not reserved to the Board) and, in general, on the most significant operations.

The Executive Committee has all the powers not already attributed to the Chairman and to the Chief Executive Officer, except for those which for law or the company by-laws are the exclusive competence of the Board of Directors, while providing that - in accordance with the principles of correct conduct in relation to inter-group transactions and those with related parties approved by the Board of Directors' meeting of May 12, 2010 - the exclusive competence to the Board of all deliberations in relation to inter-group transactions and those with related parties which for subject, payment, terms, conditions and time period may have effects on the safeguarding of the company assets or on the completeness and correctness of the information, including accounting, relating to the issuer, with the exclusion of the operations made between subsidiary companies and subsidiary companies with associated companies. The attribution of exclusive duties to the Executive Committee in relation to specific types of operations or operations with limited amount does not exist. The Committee reports to the Board of Directors at each meeting on the exercise of its powers.

The Board of Directors was appointed by the Shareholders' Meeting of April 24, 2009. The Shareholders' Meeting of April 23, 2010 appointed Mr. Graziano Visentin as a director in replacement of Mr. Oscar Zannoni who has passed away.

The Board will expire, together with the Board of Statutory Auditors, with the shareholders' meeting for the approval of the financial statements for 2011.

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## INTRODUCTION

The Fondiaria SAI Group report at September 30, 2010, prepared on a consolidated basis, conforms with the provisions of article 154-ter of Legislative Decree No.58/98, as modified by Legislative Decree No.195/2007 (enacting the EU Transparency Directive 2004/109) and subsequent amendments.

At the end of May, the National Association of Insurance Companies published the guidelines on the minimum content required for quarterly reports of listed insurance companies; the guidelines propose an accounting-management approach concentrating on providing the most significant information, taking account of the characteristics of the insurance business and the long-term nature of the business undertaken.

In continuance of the disclosure provided in the first quarter and seeking to establish an adequate level of information, in line with the best market practice and the needs of stakeholders, it was decided to maintain the model already in use, with appropriate focus placed also on the principal management indicators.

In particular:

- in the preparation of the income statement and net financial position, consideration was taken of the instructions for the format of the consolidated financial statements as per Isvap Regulations No. 7/2007;
- all the data and accounting statements are prepared on a consolidated basis. The income statement data is compared with the relative data of the same period of the previous year; the balance sheet and financial position data are compared with the end of the previous quarter and the previous year.

In order to facilitate comparison, the same accounting principles were utilised as for the last consolidated financial statements. The present report was prepared in accordance with International Accounting Standards IAS/IFRS issued by the IASB, approved by the European Union, and on the current interpretation of the official organisations.

The quarterly financial statements have not been audited.

All of the amounts are reported in millions or thousands of Euro.

## Key Group data

(in Euro millions)	9M 2010	9M 2009	Q3 2010	Q3 2009
Net profit/(loss) <sup>(*)</sup>	(431)	1	(274)	(31)
Total Gross premiums written	9,915	9,201	2,501	2,752
of which:				
Gross Non-Life premiums written	5,150	5,143	1,446	1,437
Gross Life premiums written	4,765	4,058	1,055	1,315
Investment policies written	36	39	12	11
APE	444	375	108	122
Combined ratio – Non-Life sector	105.2%	103.3%	104.9%	106.0%
Expense ratio of the Non-Life sector	21.5%	20.9%	20.8%	20.0%
Expense ratio of the Life sector	3.4%	5.3%	3.8%	4.9%

(in Euro millions)	30/09/2010	30/06/2010	31/12/2009
Investments	37,141	36,660	34,646
Net technical reserves - Non-Life division	10,796	10,915	10,978
Net technical reserves - Life division	23,274	22,478	19,870
Shareholders' equity <sup>(*)</sup>	3,140	3,035	3,711

<sup>(\*)</sup>The result includes the minority interest share. Shareholders' equity includes the minority interest share and the consolidated result.

## ECONOMIC OVERVIEW AND THE INSURANCE MARKET

### International economic overview

The recovery of the global economy continued in the second quarter, although signs of a deceleration were seen during the summer. In the advanced economies, while strong GDP growth was recorded in the Euro Zone and in the United Kingdom, a slowdown occurred in the United States and in Japan. In the second quarter of 2010, GDP in the United States slowed to +1.7% on an annualised basis from +3.7% in the first quarter: the exceptional increase in imports contributed particularly which, net of exports, cut 3.5 percentage points from US GDP growth. In Japan GDP growth slowed substantially in the second quarter - to an annualised 1.5% from 5% in the previous quarter - affected by sluggish household consumption and a lower contribution of net exports.

International Monetary Fund forecasts predict less vibrant economic activity in the second half of the year and a further slowdown in 2011, both in the advanced economies and the emerging economies due to the completion of inventory restocking and the diminishing effect of the fiscal stimulus measures.

The Central Banks of the advanced economies have maintained or strengthened the already greatly expansive currency policies, tightening further monetary conditions in some emerging economies.

**Table 1 – Macroeconomic situation (% change in the previous year)**

	IMF			Consensus Economics	
	2009	2010	2011	2010	2011
<b>GDP</b>					
<b>World</b>	<b>(0.6)</b>	<b>4.8</b>	<b>4.2</b>	-	-
Advanced countries	(3.2)	2.7	2.2	-	-
<i>Euro Zone</i>	<i>(4.1)</i>	<i>1.7</i>	<i>1.5</i>	<i>1.6</i>	<i>1.4</i>
<i>Japan</i>	<i>(5.2)</i>	<i>2.8</i>	<i>1.5</i>	<i>3.0</i>	<i>1.3</i>
<i>United Kingdom</i>	<i>(4.9)</i>	<i>1.7</i>	<i>2.0</i>	<i>1.5</i>	<i>2.1</i>
<i>United States</i>	<i>(2.6)</i>	<i>2.6</i>	<i>2.3</i>	<i>2.7</i>	<i>2.4</i>
Emerging countries	2.5	7.1	6.4	-	-
<i>Brazil</i>	<i>(0.2)</i>	<i>7.5</i>	<i>4.1</i>	<i>7.5</i>	<i>4.4</i>
<i>China</i>	<i>9.1</i>	<i>10.5</i>	<i>9.6</i>	<i>9.9</i>	<i>9.0</i>
<i>India</i>	<i>5.7</i>	<i>9.7</i>	<i>8.4</i>	<i>8.3</i>	<i>8.3</i>
<i>Russia</i>	<i>(7.9)</i>	<i>4.0</i>	<i>4.3</i>	<i>4.9</i>	<i>4.4</i>
<b>World trade (1)</b>	<b>(11.0)</b>	<b>11.4</b>	<b>7.0</b>	-	-

Source: FMI, *World Economic Outlook, October 2010*; Consensus Economics, *September 2010*.  
(1) Goods and services.



## The European and Italian markets

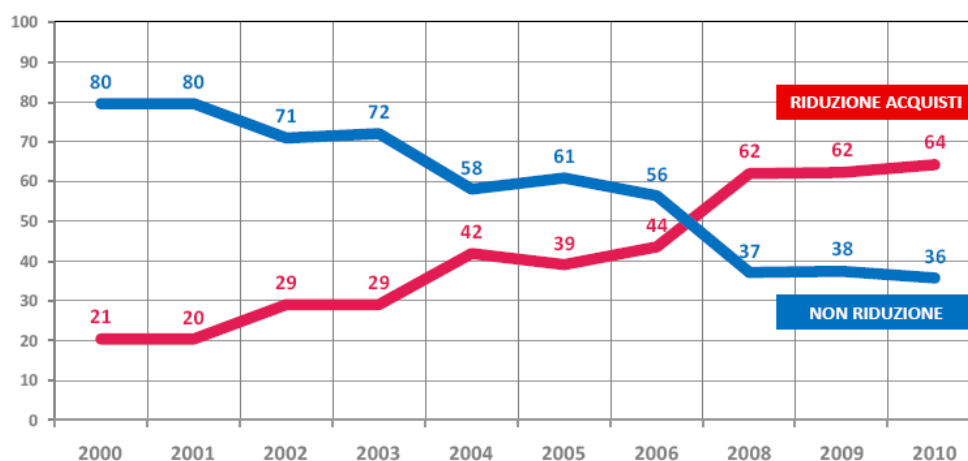
The growth differentials in the major Euro Zone economies continue to widen. Overall, GDP grew 1% in the second quarter compared to the first quarter (from 0.2% in the previous quarter).

GDP growth in Germany was strongest (2.2% in Q2). From the lowest point of the cycle, the German economy has so far grown 4.2% - approximately three percentage points more than the average of the other Euro Zone countries: in France and Italy the recovery was respectively just 1.9% and 1.3%. The greater ability of German companies to compete in the fastest growing economies is reflected in the growth of their sales on foreign markets largely exceeding that of the other Euro Zone countries.

The consumer price index in Europe confirmed that in September the inflationary trend quickened slightly on the previous quarter, due principally to the increase in energy costs. General prices in Europe in September increased by an annualised 1.8% after a 1.6% increase in August - the highest increase since November 2008.

The Italian situation is considered stable compared to the same period in the previous year: however Italian household consumption forecasts highlight the difficulties faced by Italian society at large, as reflected in the disposable income statistics and by consumption forecasts which indicate an increasing amount of individuals reducing spending.

**Graph 1 – Forecast for reduction of purchases in the coming months (in %) \***



\* Italian population 15-74 years

Source: Italian Axa Forum- value paradigms (October 2010)

In the second quarter of 2010, Italian GDP increased at a slightly improved rate than the beginning of the year (0.5% on the previous period) thanks to increased exports and machinery and equipment production, which benefitted from tax incentives expiring at the end of June. On the other hand, household consumption continued to stagnate and investment in property construction further contracted.

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In relation to domestic industrial production, the Confindustria Study Centre in September estimated a drop of 0.7% on August. In comparison to the lowest levels reached last year, from March 2009 the recovery was 0.6% monthly (7.7% annualised): however in the last three months, a slowdown was seen (5.0% annualised) with a pattern for more moderate growth established from Q4. At sector level, Istat underlined that in August the expansive signals were stronger, particularly in some 'Made in Italy' segments and for capital goods, while the remaining sectors continued to show signs of substantial stability.

In September 2010, the consumer price index, including tobacco, decreased 0.2% on August and increased 1.6% on the same month of the previous year, affected by the contraction in services prices, whose effects on the general index were offset by the growth on a monthly basis of goods prices, and in particular of food product prices.

During the credit crisis, the insurance market, thanks to its long-term vision and prudent management, experienced greater protection from the systemic risks which hit the financial and real economies, proving itself as a true economic stabiliser. Despite this, the sector has not been entirely successful in promoting the perception of the general public as being an area of refuge, guarantees and protection: the crisis has unfortunately worsened the negative perception of the sector, generating a drop in trust from customers. In fact the insurance sector appears more than others to be subject to a "contagion" effect from within the sector, such as from the disreputable behaviour of some through promises of money guaranteed only on the establishment of a determined event against a certain payment by the clients, and of related sectors, such as the finance sector.

## **The insurance sector**

Total premiums written in the Non-Life and Life Classes by Italian companies and by representatives in Italy of non-EU companies in the first half of 2010 amounted to Euro 69.5 billion, an increase of 25.5% on the same period of 2009.

The Non-Life portfolio, which totalled Euro 17.8 billion, contracted by 3.1%, accounting for 25.7% of the total portfolio (33.2% in the same period of 2009). Life insurance premiums amounted to Euro 51.7 billion, an increase of 39.8%, with a percentage of the overall Non-Life and Life portfolio amounting to 74.3% (66.8% in the same period of 2009).

Profits contracted significantly for the entire insurance sector, due in part to the deterioration of the financial management performance and for the first half of the year amounting to Euro 285 million compared to approx. Euro 2 billion in H1 2009. The result follows substantial breakeven in the technical account of the Non-Life classes (a profit of Euro 0.6 billion in the previous year), and a life technical account of Euro 0.2 billion (from Euro 1.1 billion) and a non technical management result of Euro 0.1 billion (from Euro 0.3 billion).

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### **Non-Life Division**

The premiums portfolio of the Motor TPL classes and the Maritime TPL classes totalled Euro 8.7 billion (-1.9% on the first half of 2009), comprising 48.9% of total Non-Life Class premiums (48.3% in the same period of 2009) and 12.5% of total premiums (16.1% in the first half of 2009).

The largest amount of premiums written in the other classes were: Land Vehicles with 8.6% of the other Non-Life classes (8.7% in the first half of 2009), Accident with 8.1% (8.2% in H1 2009), General TPL with 8% (8.6% in 2009), Other Property Damage with 6.9% (in line with 2009), Health with 6.1% (5.8% in 2009) and Fire and Natural Events with 5.9% (5.7% in 2009).

The analysis by distribution channel continues to highlight the large proportion of premiums written through brokerage agencies, amounting to 82.6% of the Non-Life portfolio (83.8% in 2009) and 89.5% of the Motor TPL division (90.2% in the first half of 2009).

The crisis within the motor industry also hit the insurance sector. In the July-August 2010 period, applications for new motor policies for the 18 largest insurance companies contracted significantly on Q1 2010 (-46.8% at national level), despite the incentive schemes introduced for eco-sustainable vehicles from the beginning of the year offsetting this movement to a degree.

With particular reference to the Motor TPL sector, the industry association also highlights that in Italy, against a significant reduction in premiums recorded between 2005 and 2009, that the number of claims reported and the cost of compensation has not reduced in a proportional manner, with an overall increase in claims costs in the three-year period 2007-2009. In fact the Motor TPL system in Italy presents structural anomalies which may result in a progressive increase of costs and prices, possibly triggering a dangerous spiral.

In relation to the European auto market in September, for the sixth consecutive month new vehicle registrations in Europe (considering the 27 countries of the EU and EFTA) decreased on the same month of 2009 (-9.2%), amounting to 1,261,643 (1,389,211 at September 2009). In August, the European market contracted by 12.1%. The contraction is also confirmed in Europe for the first nine months of the year: from January to September 10,564,453 new vehicle registrations were recorded (-3.7% on the same period of 2009).

In Italy, new vehicle registrations in September totalled 154,429, a decrease of 18.9% on the previous year.

Illustrating the difficulties of the current auto market, in the July-August 2010 period applications for new motor policies decreased significantly on the first quarter of the year in Italy (-47%). The concern of Italians regarding the economic situation is highlighted by the increase in the same period of claims reported (+3.2%). In contracting economies, small claims tend to increase, with consequent higher costs for insurance operators.

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In Italy, the claim frequency is the highest in Europe at 8.6%, almost double that of France (4.4%), with incidences of damage to the person five times greater than France, factors which have significantly affected the price of Motor TPL policies. In order to eliminate the fraudulent claims, the industry association has on more than one occasion highlighted the necessity to carry out a correct valuation of the small injury claims, in line with best European practice, adopting a single table for the valuation of more serious damage to the person, creating an anti-fraud agency which may consult the databanks which are scheduled to become operational from January 1, 2011, rectifying also the inconsistencies in the “family bonus-malus” regulation which, although reduced the impact of fraudulent behaviour in some personal categories on the one hand, on the other has favoured those causing claims to the detriment of other policyholders.

### **Life Division**

Class I (Insurance on human life) with Euro 38.7 billion recorded an increase of 30.2% on the same period of 2009; Class III (Insurance principally related to mutual funds or Internal Funds or indices or other benchmark values) with Euro 9.13 billion grew by 125.2% on the first six months of 2009, and Class V (Securitisation operations) increased 20.5% (Euro 2.8 billion). These Classes account respectively for 75%, 17.7% and 5.4% of Life premiums (respectively 80.5%, 11% and 6.2% in the same period of 2009).

In relation to the remaining Classes, the contribution of Class VI (Pension Funds: Euro 935.1 billion) represented 1.8% of Life premiums (2.1% in H1 2009). The total assets managed by pension funds increased by 32.3% on June 30, 2009 (Euro 9.8 billion).

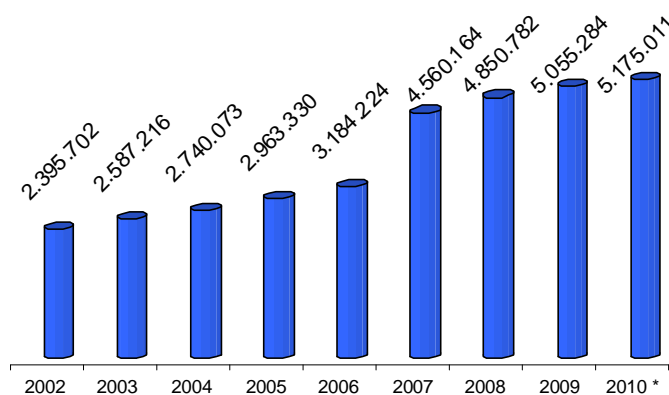
In August new policy premiums in the Life sector amounted to Euro 3.5 billion, a contraction of 16.2% on the same month of 2009: from the beginning of the year premium volumes reached Euro 46.8 billion, growth of nearly 30% on the same period of 2009. Over 75% of the volume of new premiums issued by Italian and non EU companies were placed principally through the *banking and postal channel*: at Euro 2.6 billion, a decrease (the first after nearly two years of continual growth) of approx. 15% on August 2009 was recorded. From January this channel brokered premiums of Euro 33.6 billion, growth of 29.6% on the same period of 2009.

At June 30, 2010 the total assets managed by pension funds was broken down as follows: Open Pension Funds (Euro 3.4 billion), Traded Pension Funds with guarantees (Euro 2.7 billion), Traded Pension Funds without guarantees not included in Class VI (Euro 3.7 billion).

Although experiencing growth, Pension Funds globally have not yet returned to pre-crisis levels. The assets of the 300 largest Pension Funds in the world grew in fact by over 8% in 2009, reaching USD 11.3 trillion last year. In spite of this performance, the value of these funds has decreased by 6% over the last five years and the United States remains the principal investor.

In relation to the Italian market, the performance of Open Pension Funds in the first half-year grew consistently, both in terms of the number of subscribers and in terms of net assets. Between April and June, overall subscriptions of Euro 431.5 million were recorded. Contributions from employees and self-employed persons accounted for 54.6% of subscriptions, amounting to Euro 235.4 million. Employees accounted for the largest part of contributions (Euro 173 million), 40% of subscriptions. The contribution of self-employed persons totalled 14.5% (Euro 62.5 million). Transfer operations between other Sectors and other Pension Funds comprise the remaining 45.4% of subscriptions, a contribution of Euro 196.1 million.

**Graph 2 – Number of subscribers to Complementary Pensions**



Source: Borsa&Finanza on Covip data (\* updated June 2010)

Men represent 65.5% of those subscribing to complementary pensions in Open Pension Funds. Nearly two thirds of subscribers are based in the 30 to 49 years age category, while the remainder are in the 50-59 and under 30 categories. The number of those in the youngest category, 10% of subscribers, continues however to be poorly represented.

The data relating to the general asset allocation highlights that investments in the Balanced sectors (26.9%) and the Bond Balanced sectors (23.9%) were chosen by more than half of subscribers: these sectors combined hold more than 50% of Net assets, distributed in a more or less equal manner.

From this point of view, Italy is still a very fragmented market, with products which do not have a sufficient number of subscribers to guarantee survival.

The first months of 2010 confirmed the development trend in the Italian insurance market: for 2010 ANIA forecasts total fund inflow of Euro 124.3 billion, a 5.5% increase on 2009. Overall, the sector grew at a faster pace than other European countries, with capital remaining solid despite the serious financial crises. The potential for development still remains great, although requiring a combined effort in order to break out from the current marginal levels recorded, eliminating obstacles which impede the creation of a healthy and competitive market and bringing to fruition the reform proposals for this sector to be submitted to the relevant bodies. For some time an effective collaboration between the private and public sectors has been hoped for, with a broad based role greater than just the insurance-based sector. The possible areas of intervention are extensive: in sectors such as pension, health, assistance for the elderly, protection of household and company assets, the insurance world in other European countries has a significantly greater role.

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## **Regulatory framework**

### **Taxation of the Life Division reserves**

On July 30, 2010 the enactment law of Legislative Decree 78 of May 31, 2010 was approved which introduces important provisions of a tax nature with particular reference to the taxation of insurance companies. The declared governmental objective is to rebalance the public accounts through greater tax contributions from the insurance sector.

The provision approved provides for the partial deductibility of the increase of the obligatory Life Class reserves in proportion to the amount of taxable income as a total of revenues and of income with a minimum deductibility threshold of 95% and a maximum of 98.5% of the change in reserves.

Therefore the companies which currently have a higher degree of tax exempt income will be penalised greatest such as for example those with investments in shares or who have recorded significant growth in the Life business.

Unfortunately this new tax regime will have a double impact: both for the insurance companies, who will have to reconsider the growth strategy in the Life Classes and for the consumer who will see a reduced offer of Life policies with more protection for the saver.

Although it is undoubted that everyone must support the recovery of the public accounts, provisions of this nature and specifically aimed at the insurance sector should be preliminarily agreed among the relevant parties. This would allow on the one hand a better appraisal of the situation and guarantee the revenue expected and on the other achieve a greater degree of fairness in the measures taken and without which imposes excessive penalisation on the market and on the companies operating in the sector.

### **Claims Data Bank**

On January 1, 2011 ISVAP provision of August 25, 2010 (Official Gazette 209 of 7/9/2010) entered into force which introduced the minimum thresholds (indicators of possible fraudulent behaviour) necessary to carry out research in the Claims Data Bank.

The monitoring will be focussed both on the vehicle registration and on the physical person, in order to identify any suspect incidents.

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## CONSOLIDATION SCOPE

At 30/09/2010, the Fondiaria-SAI Group, including the Parent Company, was made up of 120 Companies, of which 19 operated in the insurance sector, 1 in the banking sector, 47 in the real estate and agricultural sectors and 21 in the financial services sector; the remaining companies are various service companies. The company has 21 overseas offices.

The total number of subsidiaries fully consolidated is 84 and the number of companies consolidated under the Net Equity method is 21, while the remaining companies are consolidated under the proportional method or maintained at carrying value given their insignificant amount to the Group.

There are 93 subsidiary companies, of which 32 are controlled directly by the Parent Company.

The full consolidation continues of the Tikal R.E. and Athens R.E. Closed Real Estate Funds, in which the Group holds control and determines the management policies of the companies. This treatment is in accordance with IAS 27 and in particular with its Basis for Conclusion.

Excluded are the subsidiaries which due to their size or nature of activities are not significant for the purposes of a true and fair representation of the present quarterly accounts.

During the third quarter of 2010, the consolidation scope of the Fondiaria-SAI Group saw the following changes:

- exit from the consolidation scope of SAI Asset Management SGR S.p.A. following the sale of 90% of the holding;
- exit from the consolidation scope of Banca Gesfid S.A. following the sale of 100% of the holding.

In addition the following operations are reported:

- transfer of shares, equal to 1%, of Agrisai S.r.l. from Saifin -Finanziaria S.p.A. to Saiagricola S.p.A. which now holds the totality of shares;
- transfer of shares, equal to 100%, of Saint George Capital Management S.A. from Banca Gesfid S.A. to Saifin-Finanziaria S.p.A. which now holds control;
- change in name and scope of the company Meridiano Quarto S.r.l. to APB CAR Service S.r.l.

## ACCOUNTING PRINCIPLES

The consolidated quarterly report applied the accounting standards utilised - consistent with international accounting standards - for the preparation of the last consolidated annual accounts and to which reference should be made.

As the current report is for the quarterly period, the determination of some accounts includes the use of greater estimates and simplifications, whilst ensuring the correct application of the accounting principles.

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## Non-Life Claims Reserves

For the valuation of the technical reserves of the Motor TPL Class, we recall that from February 1, 2007, a new direct compensation procedure was put in place which, in the case of road accidents, permits non-responsible claimants, or those only partly responsible, to be compensated directly by their insurance company. From 1/1/2008 and again from January 1, 2009 the regulations for the calculation of the flat rate reimbursements were significantly modified. In particular, the single flat rate for the direct compensation convention was replaced by two separate flat rates but only for 2008 and 2009, separately applied for material damage and for any personal injury to the driver. These flat rates were further amended for 2010 with differentiation - as well as for the major geographic areas - also for the categories of vehicle.

The distinction between flat rate for vehicle damage and physical injury to the driver was eliminated, returning therefore to the situation in 2007 of an “integrated” flat rate payment which includes both damage to the vehicle and the person.

In this context, the reserve was measured separately for the various types of management under the new regime. In particular:

- for the claims within the CARD Debtor regime, the valuation was made based on the differing flat rates, from 2007 to 2010 for the various generations defined by the Technical Committee set up pursuant to Pres. Decree No. 254/2006;
- for the CARD Operator claims, the expected final cost was recorded net of the flat recoverable amounts;
- for the claims not covered by the new regime (essentially as they involve two vehicles or permanent personal injury greater than 9%), the valuation of the final cost of the claims in the current year was made revaluing the amounts indicated by the settlement offices, taking into account the average costs assumed for these type of claims, which are more costly. for the claims of previous years, already recorded in reserves, the trends relating to the claims settled in the period were noted, verifying the appropriateness of the reserves recorded at 31/12/2009.

In the Other Non-Life Classes, for both the current generation and previous generations, the technical offices estimate was supplemented utilising the parameters already utilised for the 2009 annual accounts, where there were not significant statistical changes compared to the consolidated trends.

The technical reserves relating to the reinsurers are calculated based on the portion ceded for the proportional reinsurance and in a revisional manner for the excess and stop-loss reinsurance, on the basis of the information available and utilising the same criteria for the direct premium reserves, taking into account the contractual clauses.



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## **Valuation and impairment of financial instruments**

With reference to the valuation of financial instruments, reference should be made to the financial statements at 31/12/2009.

The “fair value policy” outlined therein did not incur changes and, therefore, with reference to the listed financial instruments in active markets, the stock exchange price at 30/09/2010 was utilised.

It is also reported that some valuation processes, such as those utilised to determine any losses in value (impairment) of financial assets available-for-sale, are - given their complexity - generally made in the preparation of the annual financial statements.

Consequently in this quarterly report, also due to the limited availability of all the necessary information, the losses in value of “Available for sale” financial instruments recorded due to the application of the automatic criteria as illustrated in the consolidated financial statements of 31/12/2009 were recorded in the income statement and which identified temporal and quantitative limits for the recording of a long-term or significant drop in the fair value.

Therefore for the purposes of the objective recording of the reduction of value, the Group has defined the conditions of a prolonged and significant reduction of fair value, defined alternatively as follows:

1. a reduction of the market value above 80% of the book value at the reporting date of the accounts;
2. a market value continuously lower than the book value, for a period of two years.

## **Reclassification of financial instruments**

We recall that in accordance with IAS 39, and as enacted in October 2008 through the approval of EU Regulation No. 1725/2003, a financial asset classified as available-for-sale may be reclassified in the category “Loans and Receivables” provided it complies with the requisites contained in the definition of loans and receivables, and the Group has the intention and the capacity to hold the financial asset for the foreseeable future or until maturity.

Based on this option, it was decided to reclassify at January 1, 2009 some debt securities recorded in the accounts at December 31, 2008 for Euro 808,419 thousand from the category “Available-for-sale” to “Loans and Receivables”. These securities, principally containing subordination clauses and issued by corporate parties, were measured at fair value at December 31, 2008 through mark to model, with the objective to provide maximum transparency and clarification in the valuations in the accounts. This intention does not easily reconcile with the nature of the securities and with the difficulties to define and, therefore, provide an objective fair value, in consideration of the current economic-financial crisis which does not permit normal pricing, in particular for these types of securities.

The residual accounting value of the securities transferred at 30/09/2010 was Euro 796,481 thousand and the fair value at that date, determined on the basis of the above-mentioned mark to model method, substantially confirm the carrying value at the date of the present report. There was no permanent loss in value on any security and the effect of the amortised cost resulted in the recording of income of Euro 8,978 thousand. The residual negative AFS reserve recorded on these securities at 1/1/2009 amounted to Euro 75,222 thousand and is amortised in accordance with the provisions of IAS 39.

## OPERATING PERFORMANCE

In the first nine months of 2010 a consolidated loss of Euro 431 million was recorded (breakeven in 9M 2009): the result was significantly affected by impairments on available-for-sale financial instruments comprising equity securities in the third quarter (particularly the holdings in Generali and Unicredit) following the application of the Group impairment policy.

In particular impairments for Euro 350.5 million were recorded (Euro 78.1 million in 9M 2009). Of these, Euro 75.7 million were already recorded to the half year accounts at 30/06/2010.

Excluding this impact, net of the tax effect (moderate overall in consideration of the investment nature of the write-downs, almost all belonging to the pex sector) and the allocation of the relative share of the impairments to the life policyholders, the normalised result for the period was a loss of Euro 81 million, substantially in line, also net of impairments, with the half-year results 2010.

The operating performance for the quarter and for the first nine months compared to the same periods in the previous year is shown below:

(in Euro thousands)	9M 2010	9M 2009	Q3 2010	Q3 2009
Net premiums	9,913,662	9,189,817	2,703,858	2,973,324
Commission income	47,910	67,492	16,083	24,137
Net Income from financial instruments recorded at fair value through profit or loss	405,125	754,468	132,397	336,841
Income from investments in subsidiaries, associates and joint ventures	8,486	9,253	8,311	7,639
Income from other financial instruments and property investments	959,978	881,734	293,442	280,774
- Interest income	536,267	626,228	185,650	200,542
- Other income	146,274	139,204	48,701	42,620
- Profits realised	277,054	111,559	58,839	32,975
- Valuation gains	383	4,743	252	4,637
Other revenues	434,544	480,692	166,180	109,089
<b>TOTAL REVENUES</b>	<b>11,769,705</b>	<b>11,383,456</b>	<b>3,320,271</b>	<b>3,731,804</b>
Net charges relating to claims	(9,497,831)	(9,047,742)	(2,648,260)	(3,110,269)
Commission expenses	(23,241)	(35,617)	(7,273)	(11,644)
Charges from investments in subsidiaries, associates and joint ventures	(14,280)	(11,932)	484	(7,261)
Charges from other financial instruments and property investments	(625,645)	(330,248)	(379,531)	(71,659)
- Interest expense	(56,733)	(78,890)	(19,719)	(19,677)
- Other expenses	(55,021)	(45,488)	(19,643)	(14,787)
- Losses realised	(112,589)	(87,645)	(48,409)	(9,208)
- Valuation losses	(401,302)	(118,225)	(291,760)	(27,987)
Management expenses	(1,419,175)	(1,410,094)	(439,976)	(437,168)
- Commissions and other acquisition expenses on insurance contracts	(1,033,460)	(1,090,231)	(301,969)	(336,303)
- Investment management charges	(9,551)	(8,087)	(3,316)	(2,918)
- Other administration expenses	(376,164)	(311,776)	(134,691)	(97,947)
Other costs	(671,954)	(561,416)	(168,918)	(133,845)
<b>TOTAL COSTS</b>	<b>(12,252,126)</b>	<b>(11,397,049)</b>	<b>(3,643,474)</b>	<b>(3,771,846)</b>
<b>LOSS BEFORE TAXES</b>	<b>(482,421)</b>	<b>(13,593)</b>	<b>(323,203)</b>	<b>(40,042)</b>
Income tax	49,230	14,458	49,766	8,508
<b>NET PROFIT/(LOSS)</b>	<b>(433,191)</b>	<b>865</b>	<b>(273,437)</b>	<b>(31,534)</b>
<b>PROFIT/(LOSS) FROM DISCONTINUED OPERATIONS</b>	<b>1,762</b>	<b>-</b>	<b>(579)</b>	<b>-</b>
<b>CONSOLIDATED PROFIT/(LOSS)</b>	<b>(431,429)</b>	<b>865</b>	<b>(274,016)</b>	<b>(31,534)</b>
<b>GROUP NET LOSS</b>	<b>(345,529)</b>	<b>(3,207)</b>	<b>(200,739)</b>	<b>(23,986)</b>
<b>MINORITY INTEREST SHARE</b>	<b>(85,900)</b>	<b>4,072</b>	<b>(73,277)</b>	<b>(7,548)</b>

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In the first nine months of 2010, the key results of the Group were as follows:

- The **Non-Life Insurance Division** reported a stable result (+0.1%) in premiums and a pre-tax loss of Euro 495 million (loss of Euro 40 million in 9M 2009). The decrease is due both to the deterioration in the technical management and the impairment of AFS financial instruments represented by shares which affected the sector result for approx. Euro 274 million.

In particular the Civil Responsibility Classes continued to post negative results, with an ex-generation claims performance affected by the need to strengthen the residual load, due also to the progressive introduction of the new physical injury tables across the country.

However, with premiums written substantially unchanged, following the entry into force of the new tariffs from December 1, 2009 the premium quality improved - increasing the average premium and decreasing the policies insured and therefore the exposure to risk.

The turnaround in the Land Vehicle Classes was noteworthy – unaffected by the generalised increase in claims throughout 2009. In the General Classes the current generation performance improved on the first nine months of 2009 thanks to the introduction of new products, the review of existing product tariffs, greater controls and a reduction in discounting in the retail sector. In the corporate sector, the prudent selection of new risks continued, in addition to the review of the products in portfolio with discontinuation and/or extensive review of the guarantees given.

In this context, the current generation claims performance improved particularly in the Motor TPL division - both on Q1 2010 and on H1 2010;

- The **Life Insurance Division** recorded an increase in premiums of 17.4%, which is based mainly on the bancassurance channel (76% of the total). This result is particularly significant in consideration that the comparative data includes the Bipiemme Vita premiums (Euro 419 million in 9M 2009) sold in the first quarter of the year. The pre-tax profit of Euro 65 million (Euro 56 million in 9M 2009), benefitted on the one hand from the realisation of significant gains (of which approx. Euro 24 million from the Group's sale of Lehman Brothers securities) while also suffering impairments of Euro 76 million on AFS instruments;
- The **Real Estate sector** recorded a pre-tax loss of Euro 26 million (loss of Euro 33 million in the first nine months of 2009) due to the high amount of overhead costs not offset by significant sales. The result is affected also by the impact of costs relating to the various property development initiatives in course, including Citylife, through the subsidiary Immobiliare Milano. These costs were not offset by expected profit margins on sales which will be achieved in a later phase of the project. In addition, from the present year the properties in the sector, spun-off from Immobiliare Lombarda, are valued at cost according to the criteria of IAS 40 with consequent recording of the related depreciation;
- The **Other Activities sector**, which includes the companies operating in the financial, asset management and diversified sectors, report a pre-tax loss of Euro 27 million (profit of Euro 3 million in the first nine months of 2009). The result principally relates to the Atahotels Group, although the seasonality effects of the business improved the significant deterioration in the first part of the year. The sector result includes a loss of Euro 8 million relating to the sale of Banca Gesfid;

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- **Management expenses** amounted to Euro 1,419 million (Euro 1,410 million in the first nine months of 2009). In the Non-Life division these expenses amounted to Euro 1,149 million and represent 22.3% of premiums (22% in the first nine months of 2009), while in the Life division the total amount of the expenses was Euro 168 million and accounted for 3.5% of premiums (5.3% in the first nine months of 2009);
  - **Financial instruments recorded at fair value through profit or loss** amounted to a profit of Euro 405 million (Euro 754 million in 9M 2009). This account includes the net income from financial assets where the risk is borne by the policyholders (positive for Euro 388 million although extensively offset by the correlated increase in net charges relating to Life Division claims) and residually the adjustment to the fair value of financial instruments belonging to the sector;
  - Excluding the contribution of the financial instruments recorded at fair value through profit or loss, the **total net income from investments** amounted to Euro 328 million (Euro 549 million in the first nine months of 2009). This amount consists of Euro 536 million of interest income, Euro 57 million of interest charges, Euro 91 million of other income and net profits to be realised on real estate and securities of Euro 165 million. Net valuation gains and losses was a loss of approx. Euro 401 million and includes Euro 350 million of impairments on AFS instruments. A net loss from investments in subsidiaries, associates and joint ventures of Euro 6 million was recorded;
  - **Other revenues and costs** amounted to a net charge of Euro 237 million (net charge of Euro 81 million in the first nine months of 2009). Amortisation and depreciation of intangible and tangible fixed assets in this account totalled Euro 60 million. The change is due to the utilisation, during H1 2009 of Euro 150 million, relating to the provision made in 2008 by the subsidiary Popolare Vita against restructuring charges of the index linked policies with underlying securities of Lehman Brothers.
  - **The profit from discontinued operations** principally relates to the gain on the conferment to the Rho Real Estate Fund of the building located in Riva Tommaso Gulli in Trieste. The conferment of this building, already planned as part of the wider operation carried out in 2009, took place in March 2010 following the registration in the Friuli Venezia Giulia region land registrar;
  - The **income tax charge** was unrepresentative due to the non recording of tax savings on the valuation losses on AFS shares recorded to the Income Statement, as well as the tax losses incurred by some subsidiaries.

The table below shows the profit before taxes in each sector.

(in Euro thousands)	Non-Life	Life	Real Estate	Others Activities	IC	Total
Net premiums	5,161,337	4,752,325				9,913,662
Commission income		13,391		36,339	(1,820)	47,910
Income and charges from financial instruments recorded at fair value through profit or loss	2,978	399,917	(772)	3,002		405,125
Income from investments in subsidiaries, associates and joint ventures	20		154	8,312		8,486
Income from other financial instruments and property investments	269,066	624,747	28,731	55,475	(18,041)	959,978
Other revenues	345,777	28,366	84,810	495,901	(520,310)	434,544
<b>TOTAL REVENUES AND INCOME</b>	<b>5,779,178</b>	<b>5,818,746</b>	<b>112,923</b>	<b>599,029</b>	<b>(540,171)</b>	<b>11,769,705</b>
Net charges relating to claims	(4,167,624)	(5,330,207)				(9,497,831)
Commission expenses		(11,117)		(12,124)		(23,241)
Charges from investments in subsidiaries, associates and joint ventures	(1,188)		(4,280)	(8,812)		(14,280)
Charges from other financial instruments and property investments	(391,189)	(177,764)	(46,519)	(28,214)	18,041	(625,645)
Management expenses	(1,148,901)	(168,089)	(253)	(271,374)	169,442	(1,419,175)
Other costs	(564,844)	(66,088)	(88,195)	(305,515)	352,688	(671,954)
<b>TOTAL COSTS AND CHARGES</b>	<b>(6,273,746)</b>	<b>(5,753,265)</b>	<b>(139,247)</b>	<b>(626,039)</b>	<b>540,171</b>	<b>(12,252,126)</b>
<b>PROFIT (LOSS) BEFORE TAXES</b>	<b>(494,568)</b>	<b>65,481</b>	<b>(26,324)</b>	<b>(27,010)</b>	<b>0</b>	<b>(482,421)</b>
Income tax						49,230
<b>NET LOSS</b>						<b>(433,191)</b>
<b>PROFIT FROM DISCONTINUED OPERATIONS</b>						1,762
<b>CONSOLIDATED LOSS</b>						<b>(431,429)</b>
<b>Group loss</b>						<b>(345,529)</b>
minority share						(85,900)
<b>Pre-tax result 9M 2009</b>	<b>(40,358)</b>	<b>56,360</b>	<b>(32,531)</b>	<b>2,954</b>	<b>(18)</b>	<b>(13,593)</b>

## NON-LIFE INSURANCE SECTOR

The pre-tax result was a loss of Euro 495 million compared to a loss of Euro 40 million in the third quarter of 2009. The loss was affected by the above stated AFS financial instruments impairment for Euro 274 million (Euro 22 million in 9M 2009).

The technical performance in turn was negatively affected by:

- the reduction in premiums in the Non Motor class;
- the necessity to prudently strengthen the prior year reserves, due in part to the rulings of the Milan Court;
- the continuation of high physical injuries within the Motor TPL class, which often witnesses fraudulent behaviour.

In this context, the improvement of the Motor TPL current generation is highlighted, which saw a decrease in claims reported and a slight decrease in frequency.

The Fondiaria-SAI Group in the first nine months of 2010 recorded premiums of Euro 5,150 million (+0.1% on the first nine months of 2009). The breakdown by Class is shown in detail in the following table:

(in Euro thousands)	30/09/2010	30/09/2009	Cge. %	30/06/2010
Accident & Health	467,121	489,863	(4.64)	337,560
Marine, aviation and transport insurance	140,412	144,730	(2.98)	100,802
Fire and other property damage	578,740	557,982	3.72	423,696
General TPL	356,822	360,460	(1.01)	267,675
Credit & Bonds	65,442	63,785	2.60	46,283
General pecuniary losses	26,220	28,546	(8.15)	19,552
Legal expenses	13,976	14,659	(4.66)	10,220
Assistance	39,968	37,369	6.95	28,449
<b>TOTAL OTHER NON-LIFE DIVISION</b>	<b>1,688,701</b>	<b>1,697,394</b>	<b>(0.51)</b>	<b>1,234,237</b>
Motor vehicle TPL	2,941,458	2,897,100	1.53	2,094,146
Motor vehicles – other classes	512,049	540,896	(5.33)	370,808
<b>TOTAL MOTOR</b>	<b>3,453,507</b>	<b>3,437,996</b>	<b>0.45</b>	<b>2,464,954</b>
<b>TOTAL DIRECT PREMIUMS</b>	<b>5,142,208</b>	<b>5,135,390</b>	<b>0.13</b>	<b>3,699,191</b>
<b>INDIRECT PREMIUMS</b>	<b>7,509</b>	<b>7,225</b>	<b>3.93</b>	<b>5,066</b>
<b>TOTAL NON-LIFE DIVISION</b>	<b>5,149,717</b>	<b>5,142,615</b>	<b>0.14</b>	<b>3,704,257</b>

The premiums written in the quarter amounted to Euro 1,445 million and represent 28.1% of all premiums in the first nine months of 2010. The Parent Company in the first nine months recorded total direct premiums of Euro 2,703 million (1.9%), of which 1,847 million (3.1%) in the Motor Classes.

The subsidiary Milano Assicurazioni S.p.A. contributed direct premiums at group level of Euro 2,225 million (-1.4%), recording a decrease of 1.8% in the Motor Classes and of 0.5% in the other Non-Life Classes.

Technical reserves, net of reinsurance, amounted to Euro 10,796 million (Euro 10,557 million at 30/09/2009).

The percentage of management expenses to premiums was 21.4% (compared to 20.9% in the first nine months of 2009); this total does not include charges for the changes in capitalised commissions, amounting to Euro 37.0 million compared to Euro 55.5 million in the first nine months of 2009.

The table below shows the principal technical indicators in the third quarters of 2010 and 2009.

<i>Data shown in %</i>	<b>30/09/2010</b>	<b>30/09/2009</b>
Loss ratio	80.8	79.3
Expense ratio	21.4	20.9
<b>Combined operating ratio</b>	<b>102.2</b>	<b>100.2</b>
OTI ratio (*)	3.0	3.1
<b>Combined ratio</b>	<b>105.2</b>	<b>103.3</b>

(\*) Includes the balance of the other technical accounts.

A breakdown of the claims reported and paid on direct Italian business, including the expenses directly attributable to the claim and indirect expenses relating to the settlement structure are shown below:

	<b>Claims paid (in Euro thousands)</b>			<b>Claims reported Number</b>		
	<b>09/2010</b>	<b>09/2009</b>	<b>Cge. %</b>	<b>09/2010</b>	<b>09/2009</b>	<b>Cge. %</b>
Accident	174,714	177,438	(1.54)	67,218	73,667	(8.75)
Health	141,511	129,614	9.18	192,983	179,924	7.26
Railway	-	-	-	-	1	(100.00)
Aviation	2,506	8,255	(69.64)	22	30	(26.67)
Maritime	8,976	18,071	(50.33)	565	549	2.91
Merchandise transport	9,779	12,932	(24.38)	3,535	2,141	65.11
Fire and other natural elements	180,620	211,846	(14.74)	62,100	71,694	(13.38)
Other property damage	198,362	194,453	2.01	121,892	119,299	2.17
Aviation TPL	2,391	69	-	22	13	69.23
Maritime TPL	2,506	668	275.12	300	141	112.77
General TPL	284,701	273,209	4.21	82,150	86,639	(5.18)
Credit	71	325	(78.15)	2	6	(66.67)
Bonds	39,508	31,493	25.45	1,335	1,222	9.25
Pecuniary losses	8,698	7,014	24.01	2,663	2,799	(4.86)
Legal expenses	1,470	2,346	(37.34)	1,231	1,674	(26.46)
Assistance	13,381	18,813	(28.87)	86,457	82,753	4.48
<b>TOTAL OTHER NON-LIFE DIVISION</b>	<b>1,069,194</b>	<b>1,086,546</b>	<b>(1.60)</b>	<b>622,475</b>	<b>622,552</b>	<b>(0.01)</b>
Motor TPL	2,619,863	2,431,586	7.74	657,491	694,574	(5.34)
Land vehicles	349,224	361,526	(3.40)	255,785	282,674	(9.51)
<b>TOTAL MOTOR</b>	<b>2,969,087</b>	<b>2,793,112</b>	<b>6.30</b>	<b>913,276</b>	<b>977,248</b>	<b>(6.55)</b>
<b>TOTAL NON-LIFE DIVISION</b>	<b>4,038,280</b>	<b>3,879,658</b>	<b>4.09</b>	<b>1,535,751</b>	<b>1,599,800</b>	<b>(4.00)</b>

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In relation to the Motor Classes, following the tariff adjustments made from December 1, 2009, the premium quality improved both in terms of the average premium and a decrease in the number of overall policies and therefore risk exposure. However ANFIA (National Association of Motor Industries) estimates an overall decrease in new vehicle registrations in Europe in 2010 of 10%, with a slightly higher contraction in Italy (11%). Auto demand in the Eurozone is slow to recover despite the first signs of confidence in European business and production.

The Motor TPL Class recorded a particularly negative performance due to the contracts issued in previous years, particularly in certain regions of Centre-South Italy, with a higher percentage of claims reporting physical injury and where the risk of fraud to the company is greatest.

Current generation contracts however improved significantly, with an increase in the average policy premium and a decrease in the frequency. The effects of the actions undertaken, in relation to the increase of the average premium and the reduction in the frequency, will continue to consolidate following the continued introduction of the new tariff, the discontinuation of the multi-claim portfolio and of the actions undertaken in relation to agencies with particularly poor performances.

In relation to claims costs, the greater utilisation of the new Physical Injury compensation tables, originally adopted by the Milan Court, will result in an increase in the average claims paid and require a particularly prudent reservation policy.

Costs related to claims, which through the manner of occurrence or reporting raise suspicions of fraud against the company, continue to be incurred - a phenomenon which tends to increase in periods of economic difficulties such as that currently being experienced. The Fondiaria SAI Group has introduced an anti-fraud system which, supported by specific IT structures, identifies potentially false claims with regional investigative and settlement structures carrying out more in-depth investigations to ascertain the reality behind the events claimed. In some regions the first affects of the actions have begun to be seen, with a drop in claims by injured parties.

The **Parent Company Fondiaria-SAI** recorded 344,537 claims reported in the period in the Motor TPL Class, a decrease of 4.5%. The number of claims paid was 318,485.

The claims/premiums ratio, net of the costs for the Guarantee Fund for Road Victims, was 78.18% for the current quarter and 86.84% at global level.

The speed of settlement of the current generation on the claims managed (No Card Claim + Managed Card Claims) was 68.8% for the claims in the first nine months and 60.8% for the claims in previous years. On the claims caused, the speed of settlement was 66.7% for the current quarter and 61.7% for the previous years.

In the first nine months of 2010, the claims reported and accepted from our policyholders (including late claims) within the new compensation regime (so-called CARD managed claims system) amounted to 235,887, of which 176,192 were fully paid.

The reported claims from the clearing houses with CONSAP, in relation to the claims in which our policyholders were in full or in part responsible (so-called CARD debtor) amounted to 218,555 - of which 155,056 gave rise to the full payment of the indemnity and 63,499 resulted in the recording of a reserve.



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For accounting purposes, up to September 30 recharges were received for a value of Euro 469 million from the clearing house. The amount of the credits received was Euro 445 million.

The **Land Vehicle Classes** recovered on the previous period, which reported a particularly negative performance by some accessory guarantees such as vandalism and windshield guarantees, affecting the overall profit margin. Profit levels were assisted by the new guarantee sales methods which offset the claims recorded in relation to certain types of coverage and the adoption of specific compensation forms, particularly in relation to windshield guarantees.

In relation to the **Other Non-Life Classes**, mixed performances were seen due in part to the difficult economic context which persists. The positive results in the Injury, Fire, Legal Protection and Assistance classes were negated by the still negative performance in the General TPL Class, particularly in relation to the corporate portfolio as well as in the Health Class.

In this environment the performance monitoring activities were stepped up, with specific initiatives in the more sensitive business sectors (principally the health area) and in relation to agencies with unsatisfactory performances.

The current generation performance improved on the first nine months of 2009 thanks to the introduction of new products, the review of existing product tariffs, greater controls and a reduction in discounting in the retail sector. In the corporate sector, the prudent selection of new risks continued, in addition to the review of the products in portfolio with discontinuation and/or extensive review of the guarantees given.

The current generation claims cost in the Non Motor Classes therefore decreased on 9M 2009.

In relation to the subsidiary **Milano Assicurazioni**, the Non-Life management recorded a loss before taxes of Euro 371.1 million, principally following the impairments on financial instruments which had an effect of Euro 290 million (pre-tax profit of Euro 15 million in 9M 2009).

In relation to the technical performance, the combined ratio, net of reinsurance, amounted to 104.7% and although remaining negative, confirms the improvements on 108.9% for the full year 2009 and 105.3% in H1 2010.

In relation to insurance operations, the Motor TPL Class recorded a positive performance for contracts issued in the current year, with higher average premiums, following the gradual rollout of the new tariff and a decrease in claims, also due to the discontinuation of the multi-claim portfolio and the actions taken with agencies reporting particularly poor performances. The negative effects of contracts issued in previous years continued to be felt, particularly in certain regions of Central-South Italy, related to a higher frequency and a greater percentage of claims with physical injury. However the increased use of the new physical injury compensation tables, originally adopted by the Milan Court, have led to an increase in the average cost of claims paid, particularly in relation to significant injury claims.

Premiums written in the Non-Life Classes in the first nine months totalled Euro 2,225.1 million (-1.2% compared to 9M 2009), of which Euro 1,569.6 million relating to the Motor Classes (-1.8%) and Euro 655.5 million relating to the Other Classes, substantially in line with the first nine months of 2009 (+0.1%).

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Premiums in the Motor TPL Class were affected by the actions undertaken to recover profitability in a sector with an established technical deterioration and particularly due to the cancelation of multi-claim contracts, by the actions taken with agencies with particularly poor performances and by the recently adopted underwriting policy which limits recourse to discounts.

The drop off in new vehicle registrations has also affected the amount of premiums written, particularly following the discontinuation of government incentives, as well as the continued effects of the recently introduced regulations in the sector, with the attribution of the bonus-malus class at family level and also the application of malus only in the case of principal responsibility.

The gradual introduction of the new tariff from the end of 2009 resulted in an increase in the average premium for new contracts, with positive effects on premiums which, for the third quarter alone, resulted in an increase of 0.6% on Q3 2009.

The claims paid in the first nine months of the year were 647,341 compared to 671,939 in the same period of the previous year (-3.7%). In the Motor TPL Class, claims reported in the first nine months totalled 312,847 compared to 328,038 (-4.6%).

The claims paid in the first nine months of 2010, gross of outward reinsurance, amounted to Euro 1,888.4 million, an increase of 5.3% on Euro 1,793.3 million in the first nine months of 2009.

In relation to the telephone and internet channel, premiums written by **Dialogo Assicurazioni** amounted to Euro 23.2 million, an increase of 15.2% on the first nine months of 2009.

Advertising expenses in the period, entirely recorded to the income statement, amounted to Euro 4.5 million, substantially in line with Q3 2009.

The Motor TPL Class which represents the largest part of the portfolio, recorded an unfavourable technical performance, due partly to the higher percentage of physical damage claims and the increase in the average costs, a development common to the market as a whole. The contribution of the company to the consolidated result was a loss of Euro 10.5 million (loss of Euro 8.2 million in the first nine months of 2009).

**Liguria Assicurazioni**, with a predominantly multi-mandate sales network, recorded premiums of Euro 198.1 million, compared to Euro 204.1 million in the first nine months of 2009. The decrease (2.9%) relates essentially to the Motor Classes and the interventions taken in relation to portfolios and agencies with particularly poor performances.

The technical performance deteriorated on the first nine months of 2009, due in part to the adoption of more prudent criteria in the valuation of the claims reserves and a loss was recorded of Euro 25.9 million in the period (Euro 15.6 million in 9M 2009).

In relation to the sale of standardised products distributed by the banking partners, **Systema Compagnia di Assicurazioni S.p.A.** recorded premiums of Euro 15.1 million, an increase of over 33% on the first nine months of 2009.

The Motor TPL sector recorded an increase in the claims to premiums ratio, principally due to the performance of claims occurring in previous years while in the Other Non-Life Classes a significantly improved technical performance was reported.

A profit of Euro 0.5 million was recorded in the first nine months of the year.

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The performance of the subsidiary **SIAT S.p.A.** improved in the first nine months of 2010 compared to the same period in the previous year (from a loss of Euro 362 thousand to a profit of Euro 1,255 thousand), due to a stronger performance in the Transported Goods sector (in particular relating to indirect business), and to a lesser extent the containment in losses from the Non Motor Non-Life Classes utilisation of the claims reserve (principally delegated to third parties and relating to non recent generations). The technical profit benefited from the lower administration charges.

In relation to the Hulls sector, the situation for maritime policyholders did not change significantly on the previous year. The weakness in the numbers recorded in previous years recovered strongly and prices stabilised, even showing signs of improvement. There was substantial stability within insurance values (which in 2009 recorded significant reductions).

In relation to the “Goods” sector, the market reports the same difficulties which characterised 2009. Competition continues to be intense, traffic has not recovered and the prices of raw materials continue to remain low.

Particularly serious incidents significantly affected claims in the “Hulls” sector.

In relation to the outward reinsurance, there were no changes from the recent past, with the continued interest of the professional operators in the technical value of the policies underwritten.

The premiums written amounted overall to approx. Euro 130 million, a small reduction (approx. 2%) on the same period of the previous year.

Premiums have benefitted from the strength of the US Dollar (the currency in which a large part of the Transport business is undertaken, particularly in the “Hulls” class) against the Euro, with an exchange rate at September 30, 2010 of 1.3648 compared to 1.4643 at September 30, 2009.

These premiums relate entirely to the “Transport” sector, in that the business classified in the Motor and General Classes, based on the breakdown by division in the financial statements, are almost entirely based in the “Transport” sector.

Transport Class claims included some of particular gravity and essentially relating to the Hulls sector. In relation to the amount of claims paid, the total amount (Euro 126.6 million) is slightly above the first nine months of 2009 (Euro 119.9 million) and principally relates to the “Hulls” Class. The changes principally concerned payment timings and no other specific reasons.

At the same time, the claims reserve in the “Transport” sector has not changed significantly.

In relation to the subsidiary **DDOR NOVI SAD**, the company recorded a profit according to IAS/IFRS principles of approx. RSD 374 million (approx. RSD 812 million in 9M 2009), including:

- a decrease in gross premiums of approx. 7.1% on the same period of 2009, principally due to the portfolio review strategy and the current slow recovery of domestic GDP following the economic crisis. Contractions were reported in almost all of the Direct Classes, such as Land Vehicles (-7.5%), Fire (-2.8%), Other Property Damage (-4.4%) and Motor TPL (-15%). In particular, the Motor TPL sector continues to be affected by competitive pressures and the drop in new vehicle registrations. However, the growth in the Life sector (+7.4%) and in the Accident and Health class (+2.2%) offers signs of encouragement.

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- the seasonal effects, which affected both the premiums reserve calculated according to the “pro-rata temporis” criteria (increase of RSD 275 million, +6.8% on 31/12/2009), and the bad debt write-downs (for an amount of RSD 186 million, RSD 303 million in H1 2009);
  - direct claims settled reducing 10.6% on the same period of 2009; the decrease is particularly significant within the Land Vehicle Classes (19.5%), Other Property Damage (18.7%) and the Motor TPL Class (17.6%);
  - income related to the decrease in the total claims reserve of RSD 191 million (in the same period of 2009, outflows of RSD 6 million were recorded);
  - the constant and continuous monitoring and control of costs, following which general administrative and acquisition expenses decreased (-11.2%) on the first nine months of 2009.

## **Auto Presto&Bene**

Auto Presto&Bene, with over 36,000 claims managed in 2009, operates throughout Italy with over 1,700 workshops and 250 windshield centres. The over 9 million clients of the Fondiaria-SAI Group, a quarter of the motor insurance sector, can avail of an innovative and particularly efficient service, made possible thanks to the exclusive availability of original spare parts and guaranteed repair for life, through a network of repair centres, carefully selected by Auto Presto&Bene based on highly selective requirements (the ability to carry out high quality repairs in the shortest time possible).

The types of claims currently covered by the Presto&Bene service are for all the claims included in the direct indemnity and direct risks procedure (Land Vehicles), with savings in the order of approx. Euro 300 each for the Motor TPL Division and approx. Euro 250 each for the other Non-Life Classes.

Auto Presto&Bene assists the Policyholders through two types of intervention:

1. vehicles able to move automatically: the Agency or the consultant who responds to the free telephone number provides the details of the Auto Presto&Bene repair centre where the insured party can arrange an appointment. The specialised personnel of the centre, already alerted by the Auto Presto&Bene operating system, will provide a check of the vehicle and will carry out the repair, supplying where necessary a replacement car;
2. vehicle immobilised as a consequence of the claim: the recovery service is available free, throughout Italy, for vehicles involved in accidents immobilised, organised by the consultants at the free telephone number. Once the vehicle reaches the Auto Presto&Bene repair centre and has been checked in, the client can receive the Auto Presto&Bene courtesy car until completion of repairs to the vehicle.

The average repair time of the Auto Presto&Bene centres is 5 working days, taking into account that this statistic includes some very significant claims and complex repairs.

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## **Project for the sale of the new LIGURIA – SASA entity**

The corporate and industrial restructuring project continues concerning Liguria Assicurazioni S.p.A., Liguria Vita and the agency networks of Milano Assicurazioni distributing insurance policies under the Sasa and Sasa Vita brands.

This project, extensively set out in the 2010 Half-Year Report, provides in particular for the creation of a single insurance entity, legally separate, which regroups the agency networks more focussed on a multi-mandate offer, to be created through the share capital increases of Liguria and Liguria Vita, in accordance with article 2441, paragraph 4 of the civil code, reserved to Milano, with conferment of the business units of Milano which concern the agency networks distributing the brand products respectively of Sasa and Sasa Vita.

In relation to the possibility to develop the combined entity through sales operations, the negotiations in progress with the Clessidra Private Equity Fund have encountered some issues including those related to proposals put forward by the Clessidra Fund concerning the financial conditions of the operation (shareholding size and method of payment/financing of the transaction) and those of an operational nature (industrial outsourcing and IT agreements).

Under the current terms the Clessidra offer is not considered acceptable, although the negotiations continue.

## LIFE INSURANCE SECTOR

The Division's pre-tax profit was Euro 65 million compared to Euro 56 million in 9M 2009.

Premiums written amounted to Euro 4,765 million, an increase of 17.4% on 9M 2009. This increase is particularly significant considering that the premiums in the first nine months of 2009 included also the premiums of Bipiemme Vita for Euro 416 million.

At like-for-like terms, the increase in premiums would have been 30.8% as the contributions of Popolare Vita and Lawrence Life saw growth rates ahead of forecasts.

The details by class compared to the first nine months of 2009 are shown in the table below:

(in Euro thousands)	30/09/2010	30/09/2009	Cge. %	30/06/2010
II – Insurance on human life expectancy	3,169,196	1,950,702	62.46	2,214,709
III - Insurance as per points I and II linked to investment funds	1,251,654	1,839,349	(31.95)	1,230,052
IV – Health insurance as per art. 1 letter d) EU Dir. 79/267	158	212	(25.47)	98
V – Securitisations as per art. 40, Legislative decree 17/3/95 No. 174	342,680	266,627	28.52	264,178
<b>TOTAL DIRECT PREMIUMS</b>	<b>4,763,688</b>	<b>4,056,890</b>	<b>17.42</b>	<b>3,709,037</b>
<b>INDIRECT PREMIUMS</b>	<b>941</b>	<b>1,330</b>	<b>(29.25)</b>	<b>622</b>
<b>TOTAL LIFE DIVISION</b>	<b>4,764,629</b>	<b>4,058,220</b>	<b>17.41</b>	<b>3,709,659</b>

The premiums written in the quarter amounted to Euro 1,054,970 thousand and represent 22.1% of all premiums in the first nine months of 2010.

The Parent Company recorded direct premiums of Euro 777 million, an increase on the first nine months of 2009 (Euro 669 million).

Total premiums written by bank branches amounted to Euro 3,598 million and represent 76% of the total direct premiums written (70% in 2009).

The total premiums in the sector also includes Euro 36 million (Euro 39 million in the first nine months of 2009) of investment contracts which may not be included in application of IFRS 4 and therefore not included under premiums written but according to the deposit accounting technique.

Charges relating to claims, net of reinsurance, amounted to Euro 5,330 million (Euro 4,965 million in the first nine months of 2009).

A breakdown by Class and type of the sums paid in the direct Life segment is shown below:

(in Euro millions)	Claims	Redemptions	Maturity	Total
II – Insurance on human life expectancy	53.1	658.1	535.2	1,246.4
III - Insurance as per points I and II linked to investment funds	27.3	374.9	139.1	541.3
IV – Health insurance as per art. 1 letter d) EU Dir. 79/267	-	-	-	-
V – Securitisations as per art. 40, Legislative decree 17/3/95 No. 174	0.8	151.9	86.5	239.2
<b>TOTAL</b>	<b>81.2</b>	<b>1,184.9</b>	<b>760.8</b>	<b>2,026.9</b>

The management expenses, excluding those relating to the management of the investments, amounted to Euro 164 million (Euro 215 million in the first nine months of 2009), 3.5% of premiums (5.3% in 9M 2009).

Net technical reserves amount to Euro 23,274 million, an increase of Euro 3,404 million on the end of the previous year.

New premiums written in terms of equivalent annual premiums (Annual Premium Equivalent, APE), is calculated based on the sum of the new business annual premiums and 10% of the single premiums. The results of the above-mentioned valuations are reported below.

(in Euro millions)	30/06/2010	30/06/2009	Cge %
Traditional Insurance Companies	97,513	65,958	47.84
Bancassurance	346,542	308,725	12.25
<b>Total</b>	<b>444,055</b>	<b>374,683</b>	<b>18.51</b>

In the first nine months, the Individual Life policies underwritten by the distribution network was primarily focussed on the products related to Separated Management, as characterised by minimum guaranteed returns and capital protection:

- in the single premium form (in April, a restyling of OPEN FREE was introduced, with a lowering of the minimum single premium threshold), with particular attention focussed on the life capital maturity segment and securitisation policies;
- for the recurring premiums (in March the new OPEN GOLD product was launched and the restyling of the OPEN RISPARMIO with a decrease in the loading) which recorded a significant increase in new business;
- and for the constant annual premium (strong results for the OPEN PIÙ and OPEN ASSICURATO products, a new Mixed product launched in Q4 2009).

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In the first nine months:

- the new OPEN GOLD product was launched, a recurring premium without proportional loading on entry, which has been particularly successful with the distribution networks,
- a restyling of OPEN FREE, which thanks to the new features will appeal to a larger client base, of OPEN RISPARMIO, with a substantial decrease in the loading, and of the unit-linked - UNIT INVESTIMENTO and UNIT RISPARMIO products – which were remodelled following the enacting of the new CONSOB regulation.

The DEDICATA policy (Term Life) with differentiation for policyholders' smoking habits has suffered a decrease.

In relation to the complementary pension segment, implemented through the Individual Pension Plans, in the first nine months of the year there was substantial stability in the new business on the same period of the previous year.

In the first nine months of 2010, the “Corporate” segment, essentially based on insurance coverage related to the number of employees within companies and their remuneration, was inevitably affected by the continuation of the poor economic situation which significantly affected companies and which had a related impact on the revenues from collective insurance coverage.

Despite the unfavourable economic situation outlined above, in the complementary pension sector of “pre-existing” pension funds substantial stability was maintained, with some signs of recovery based on operations carried out in general to encourage a higher amount of contributions from existing clients and also to acquire new clients.

A similar situation may be seen in the Open Pension Funds which continue to record a contained number of new subscribers with a stable amount of contributions.

In relation to the products connected to the employee leaving indemnity, the new regulations introduced by the legislature, in addition to the credit and liquidity crisis which hit small-medium size enterprises within the current generally poor economic environment, continued to have negative impacts.

The securitisation products offered, recently expanded with new products (special mixed), continued to show signs of recovery on the previous year.

The risk coverage sector, thanks also to the restructuring of the tariff during the year, continued to improve in distribution terms for those offering personalised solutions in the collective contract insurance sector.



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In relation to the Open Pension Funds, after the year 2008 characterised by negative performances and 2009 showing a decisive recovery, the uncertainties in recent months have tested once again the structures which constitute the supplementary pension and which must support its subscribers in this current phase of economic crisis. Although fully cognisant that the performance of instruments which operate over a period of decades cannot be fully evaluated in a short-term period, the excellent results achieved by some Group investment lines are highlighted. In particular, the PREVI-GLOBAL line is now positioned as one of the strongest Open Pension Funds, both in the nine months, with a yield of 5.95% calculated between 1/1/2010 and 30/9/2010, against a market benchmark of 2.2%, and for the 5 years, with a yield of 21.94% (market benchmark of approx. 0.8%). Also the PREVI-EUROPA and PREVI-CAPITAL lines hold respectively the first and second places in the 5-year Open Funds Classification, with yields of 23.44% and 22.58%.

In the third quarter of 2010 the strong growth rates of the Life Classes of the subsidiary **Milano Assicurazioni** continued - as previously seen also in the half year. In relation to direct business, premiums written totalled Euro 362.2 million in the nine months, an increase of 17.2% on 9M 2009, at like-for-like consolidation scope and therefore excluding Bipiemme Vita. The growth related to both high insurance content traditional products distributed by the agency networks and securitisation products.

The net result was a loss of Euro 0.2 million (pre-tax result of Euro 32.1 million in 9M 2009), following impairments recorded on financial instruments of Euro 54.9 million which substantially absorbed the technical and profit margins in the period. The policy portfolio however is still predominantly made up of traditional type products, which satisfy due to their quality and the broad range of products available all customer requirements and produce satisfactory profits, in the absence of extraordinary events such as those affecting the period.

The net profit of the subsidiary **Popolare Vita S.p.A.** in the first nine months of 2010 was Euro 19.8 million (Euro 14.6 million in 9M 2009).

Gross premiums written amounted to Euro 2,343.7 million (Euro 927.7 million in 9M 2009).

The premiums in the first nine months were principally concentrated in new single premium re-valuation saving products of Class I and V in separated management (Euro 2,328 million) and in Unit Linked single premium products (Euro 15.6 million). The receipt of previous period premiums relating to pure risk and collective and individual savings policies is also considered.

Management expenses in the first nine months of 2010 totalled Euro 64.4 million (Euro 28.3 million in the first nine months of 2009).

The gross technical reserves amounted to Euro 7,881 million (Euro 5,699 million in 9M 2009) and relate for Euro 3,483 million to Class D reserves (Euro 3,602 million in 2009).

At 30/09/2010, total investments reached Euro 8,743 million, compared to Euro 7,166 million at 30/09/2009, with approx. 51% consisting of financial assets recorded at fair value through profit or loss.

The distribution network of the company consists of 2,044 bank branches belonging to the Banco Popolare Group and, in relation to only post-sales, 31 branches of Credito Emiliano.

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In Q3, the Company **The Lawrence Life Assurance Company LTD**, a subsidiary of Popolare Vita, recorded gross premiums of Euro 1,165.8 million (Euro 1,704.7 million in Q3 2009). A profit of Euro 6.1 million was recorded compared to Euro 14.8 million in 9M 2009. Gross technical reserves amounted to Euro 3,369 million (Euro 1,662 million in 9M 2009), comprised almost entirely of Class D reserves. Investments reached at the end of the third quarter Euro 3,834 million (Euro 2,105 million at 30/09/2009) and almost entirely comprise financial assets recorded at fair value through profit and loss.

### **Sale of the holding in Bipiemme Vita S.p.A.**

Banco Popolare di Milano S.c.r.l. and Milano Assicurazioni S.p.A., under agreements signed on December 23, 2009 in relation to the mutual winding-up of the partnership in the bancassurance sector and having received the necessary legal authorisations, on June 17 concluded the transfer to Banco Popolare di Milano of the 51% holding in Bipiemme Vita S.p.A. held by Milano Assicurazioni for a total amount of Euro 113 million (including, as contractually provided for, the pro-quota dividends already received by the seller).

The agreement also provides for an earn-out linked to the achievement of thresholds in favour of Milano Assicurazioni in the case in which Banca Popolare di Milano sells the majority shareholding in Bipiemme Vita S.p.A. to third parties within 12 months, as well as the maintaining by BPM of the current financial management services provided to the Fondiaria SAI Group. Currently, and based on the information available, it is not possible to estimate the effect of the above-stated earn-out clause.

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## REAL ESTATE SECTOR

The results of the real estate sector include the subsidiaries **Immobiliare Fondiaria-SAI** and **Immobiliare Milano** (following the spin-off of Immobiliare Lombarda S.p.A.), of the Closed Real Estate Funds **Tikal R.E.** and **Athens** and other minor companies.

The key data of the real estate sector is summarised below:

<b>(in Euro thousands)</b>	<b>30/09/2010</b>	<b>30/09/2009</b>
<b>Profits realised</b>	16	1,174
Total revenues	112,923	158,070
Interest expense	6,497	12,872
Total costs	139,247	190,601
Loss before taxes	(26,324)	(32,531)

<b>(in Euro thousands)</b>	<b>30/09/2010</b>	<b>31/12/2009</b>
Investment property	1,293,411	1,350,578
Financial liabilities	329,823	304,825

The pre-tax result of the sector was a loss of Euro 26 million compared to a loss of Euro 33 million in the same period of 2009. The result includes the depreciation and interest expense for the period, not offset by any income to be realised and was also affected by the unfavourable economic environment.

The costs include the various Group property development initiatives, including Citylife. These costs were not offset by profits on sales, as these will not be realised until a more advanced stage of the project.

The account property investments at 31/12/2009 was reclassified, relating to the properties held by the subsidiaries Immobiliare Fondiaria-SAI and Immobiliare Milano (previously recorded under property, plant and equipment), considering the changed use of these assets also following the spin-off operation of Immobiliare Lombarda at the end of 2009.

In the half year no significant and/or important property operations took place. Management was focussed on the current properties in portfolio.

### Castello Area

On July 8, 2010, the Company's Headquarters were notified of the request by the Public Prosecutor's Office of Florence of a Notification related to the conclusion of the preliminary findings with requested related guarantees from the Company.

The notification relates to the criminal proceedings begun by the Public Prosecutor's Office in Florence in relation to the offence of corruption. The case relates to the building works in the Castello area of Florence.

The Parent Company is charged with the illegal acts under articles 5 and 25 of Legislative Decree 231/2001 in relation to the offences at articles 319 and 321 of the Penal code. The Company proceeded to appoint defending council.

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The preliminary hearing at the Florence Court was scheduled for December 9.

From the first evaluations carried out from a financial viewpoint, considering the state of progress, no significant consequences are expected in the short-term for Fondiaria-SAI.

### **Porta Nuova Varesine Project**

Fondiaria-SAI is involved in a joint venture with the US Group Hines concerning a real estate development project in the “Porta Nuova Varesine” area of Milan, in which the parent company Premafin and the subsidiary Immobiliare Milano Assicurazioni are also involved.

The area of the Porta Nuova Varesine project is in Milan, between Via M. Gioia, Viale Liberazione, Via Galileo and Via Vespucci and provides for the development of approximately: 42,000 sq.m. for office use, 34,000 sq.m for residential use and 6,000 sq. m for retail use. In July 2009, the contract for Lot 1 including the component for office use and the related underground floors was awarded; the preliminary works began during the summer and the building work is progressing in line with the programme for the creation of 3 buildings, 2 of which of medium height and a tower of 30 floors.

In the second half of 2009 the tender phase for the awarding of the Lot 2 contract began, comprising the residential component and the relative underground floors. In March 2010 the contract was awarded and the preliminary phases and the building works began.

At the end of 2009, the organisational restructuring was completed through the transfer of the area to the Porta Nuova Varesine closed real estate fund, managed by Hines Italia SGR. This corporate restructuring did not have any impact on the overall commitments of the Group.

In March 2010, the sale began of a second residential lot of approx. 20 apartments which were successfully completed, improving the average sales values from the first lot.

The construction works of Lot 1 have reached the stage of above-ground structural works, while for Lot 2 the foundation work for the 4<sup>th</sup> basement floor is proceeding.

In February 2010 the tender for the selection of the agent to assist Hines Italia SGR in the renting of the service component of the project began. In November a short list will be drawn up of offers, from which the appointed agent will be chosen.

### **Renewal of the shareholder agreement relating to IGLI S.p.A.**

On June 12, Argo Finanziaria, Autostrade per l’Italia and for the Fondiaria SAI Group Immobiliare Fondiaria-SAI S.r.l. and Immobiliare Milano Assicurazioni S.r.l. signed a renewal and modification agreement for the shareholder pact – to which the parties already subscribed and with expiry on June 12 - which concerns 100% of the share capital of IGLI, the holding company which in turn holds, as its only asset, a 29.9% stake in Impregilo S.p.A.

The new agreement substantially confirms the governance regulations already in place both for IGLI and for Impregilo. For further information reference is made to the Consolidated Half-Year Report.

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## OTHER SECTORS

The sector includes the Group companies operating in the banking, hotel and diversified sectors, as opposed to the insurance and real estate sectors.

The sector pre-tax result was a loss of Euro 27 million (loss of Euro 3 million in 9M 2009).

At the end of the third quarter, the Net Equity, including the loss of Euro 4.5 million (Euro 0.4 million in 9M 2009), amounted to approx. Euro 115 million.

Operating performance highlights were as follows:

- net service revenues, including net commissions, overall recorded an increase of Euro 2.8 million, from Euro 3.7 million to Euro 6.5 million;
- in 9M 2010 operating costs amounted to Euro 18.8 million compared to Euro 16.1 million in the previous period. Personnel costs increased by 18% due to the increase in the number of employees. Other administration expenses increased by 14% on the previous year.

At September 30, 2010, assets managed by **BancaSai** amounted to Euro 1,711 million compared to Euro 1,463 million at December 31, 2009. Both direct deposits, increasing from Euro 813 million at December 31, 2009 to Euro 947 million, and indirect deposits, increasing from Euro 649 million at the end of 2009 to Euro 764 million, reported growth.

Bond issues saw strong growth. The bond stock reached Euro 181 million at September 30.

During the period the number of current accounts increased from 16,283 at December 31, 2009 to 16,667 at September 30.

The total amount in current accounts totalled Euro 753 million compared to Euro 732 million at December 31, 2009.

Total indirect deposits increased to Euro 764 million at September 30, 2010 from Euro 649 million at December 31, 2009. Total managed savings increased from Euro 398 million to Euro 437 million, with administered savings growing from Euro 251 million to Euro 327 million.

At September 30, 2010, the overall value of loans to clients increased to approx. Euro 801 million (Euro 713 million at 31/12/2009). The positive trend in loans confirms the growing role of the Bank in the economic system and owes much to the attention paid to the customer, in particular Small to Medium Sized Enterprises. In the period the increase in commitments followed an increase in loans undertaken by companies and also within the mortgage sector, all within an environment of more stringent lending conditions.

In relation to credit afforded to businesses, the Bank has focused on improving relationships in the Small to Medium Enterprise sector, in particular offering services tailor-made for the needs of individual enterprises.

The Bank continues to focus on the “fractioning of the risk” which is still one of the important requisites of the loan portfolio, both in relation to the distribution by economic activity and concentration by individual client.

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Particular attention is given to the granting of commercial credit lines to businesses for the inherent characteristics of this technical form, related to their capacity to ensure greater client loyalty, to the margins generated, and to their ability to be an indicator of the state of our counterparties, through the verification of the returns on the portfolio.

The increased deterioration of loans appears to have finally exhausted itself and comprises overdue and non-performing loans, or the persistent breaching of credit limits, caused by the current recession, and in particular the widespread deterioration of the SME's and households.

Impairments were made against these loans whose risk levels resulted in the prompt instigation of necessary recovery actions. The overall cost of credit (including therefore the recovery of values and the adjustment of values, in addition to the portion of net provision for risks and charges concerning the provision of credit) at September 30, 2010 amounted to Euro 7.3 million (Euro 2.5 million at the end of the same period of the previous year).

Bank capital requirements amounted to Euro 115.7 million at September 30, 2010 (Euro 118.5 million at the end of 2009).

## **Atahotels**

In the first nine months a loss of Euro 20.1 million was recorded, compared to a loss of Euro 19.5 million in 9M 2009. The third quarter reported a better performance than previous quarters (loss of Euro 1.5 million) due to the seasonality of the tourism sector.

The company continues to be affected by the difficult economic situation and in particular by the problems in the congresses sector, in which Atahotels enjoys a leadership position.

In the first part of the year volumes in the Milan area generally fell, particularly in the conferences sector, while in the summer months the resorts were affected by the crisis (lower number of guests than originally forecast, shortening of average vacation durations and last minute bookings, with the sector resorting to discounted promotional campaigns).

The Company decided not to follow the market trend of reduced prices, deciding against smaller margins so as not to reduce average sales margins within a contracted market, with hopes of an upturn from 2011.

Revenues in the first nine months amounted to Euro 90.4 million, increasing 4.4% on Euro 86.6 million in the same period of the previous year, achieved however with the contribution of Residence The One, inaugurated only in July 2009.

Costs remain substantially unchanged on the previous year (Euro 66.6 million in 9M 2010 compared to Euro 67.3 million in the same period of 2009), allowing therefore an improvement of the gross operating profit of 24% (Euro 4.6 million) compared to the same period of the previous year. Rentals increased by 17% to Euro 25.5 million.

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Depreciation totalled Euro 8.5 million (particularly relating to the restructuring works and improvements on the buildings managed). Bad debts in the period were almost entirely covered by the specific provisions made in previous periods, without income statement effects in the period examined.

The result in the period included net financial charges of Euro 1.1 million and investment impairments of Euro 953 thousand.

Due to the combined effect of the losses recorded and share capital injections by shareholders for Euro 20 million (of which Euro 10.0 million on March 18 and Euro 10.0 million on June 30), the shareholders' equity totals Euro 10.2 million.

In order to regain profitability, initiatives continue to restructure the company and in particular rationalise and contain costs. Among the initiatives undertaken, we highlight the centralisation of some staff functions with savings in terms of resources and the optimisation of processes, as well as the outsourcing of some hotel services in order to render the relative costs more flexible and link them more closely to revenues. The hotel rental contracts with both companies of the Fondiaria SAI Group and third parties are also currently being reviewed.

### **Sale of 100% of Banca Gesfid SA to PKB Privatbank SA completed**

Fondiaria-SAI S.p.A., concluding negotiations conducted for the company by Paolo Ligresti, agreed on September 16, 2010 the sale of 100% of the share capital of the subsidiary Banca Gesfid SA to PKB Privatbank SA, with the purchasing company acquiring the relevant authorisations from the Swiss authorities. The transfer was agreed at a price of CHF 124.4 million, which will result in a gain in the individual financial statements of Fondiaria-SAI of approx. Euro 31 million.

## ASSET AND FINANCIAL MANAGEMENT

### Investments and liquidity

At 30/09/2010, the volume of investments amounted to Euro 37,141 million, an increase of 7.2% on 31/12/2009. This increase is principally due to the growth in premiums from the bancassurance companies.

The account property investments at 31/12/2009 was reclassified, relating to the properties held by the subsidiaries Immobiliare Fondiaria-SAI and Immobiliare Milano (previously recorded under property, plant and equipment), considering the changed use of these assets also following the spin-off operation of Immobiliare Lombarda at the end of 2009.

The investments, tangible fixed assets and liquidity at 30/09/2010 compared to 30/06/2010 and 31/12/2009 are shown below.

(in Euro thousands)	30/09/2010	Percent. 09/10	30/06/2010	Percent. 06/10	Cge. %	31/12/2009
<b>INVESTMENTS</b>						
Investment property	2,995,853	7.78	3,012,699	7.90	(0.56)	3,011,505
Investments in subsidiaries, associates and joint ventures	375,843	0.98	374,123	0.98	0.46	366,688
Investments held to maturity	595,574	1.55	609,984	1.60	(2.36)	808,473
Loans and receivables	2,474,034	6.42	2,756,763	7.23	(10.26)	2,908,010
Financial assets available-for-sale	21,441,993	55.63	20,369,507	53.41	5.27	18,896,658
Financial assets at fair value through the profit or loss account	9,257,580	24.03	9,536,861	25.01	(2.93)	8,655,108
<b>Total investments</b>	<b>37,140,877</b>	<b>96.39</b>	<b>36,659,937</b>	<b>96.13</b>	<b>1.31</b>	<b>34,646,442</b>
Tangible fixed assets: buildings and other fixed assets	619,451	1.61	624,937	1.64	(0.88)	500,329
<b>Total non-current assets</b>	<b>37,760,328</b>	<b>98.00</b>	<b>37,284,874</b>	<b>97.77</b>	<b>1.28</b>	<b>35,146,771</b>
Cash and cash equivalents	769,429	2.00	849,445	2.23	(9.42)	576,033
<b>Total non-current assets and cash equivalents</b>	<b>38,529,757</b>	<b>100.00</b>	<b>38,134,319</b>	<b>100.00</b>	<b>1.04</b>	<b>35,722,804</b>

The financial assets available-for-sale and the financial assets valued at fair value through profit or loss are as follows:

(in Euro thousands)	30/09/2010	30/06/2010	Cge. %	31/12/2009
<b>Financial assets available-for-sale</b>	<b>21,441,993</b>	<b>20,369,507</b>	<b>5.27</b>	<b>18,896,658</b>
Equity securities	1,596,270	1,606,137	(0.61)	1,695,610
Fund units	808,085	791,829	2.05	937,833
Debt securities	19,035,624	17,969,530	5.93	16,261,242
Other financial investments	2,014	2,011	0.15	1,973
<b>Financial assets at fair value through the profit or loss account</b>	<b>9,257,580</b>	<b>9,536,861</b>	<b>(2.93)</b>	<b>8,655,108</b>
Equity securities	29,089	23,941	21.50	97,857
Fund units	447,558	452,623	(1.12)	410,088
Debt securities	8,261,249	8,471,062	(2.48)	7,470,196
Other financial investments	519,684	589,235	(11.80)	676,967



The account **Investment property** includes the buildings held by the Group for rental to third parties or investment purposes. The gross carrying value was Euro 3,365 million (Euro 3,323 million at 31/12/2009), of which Euro 886 million (Euro 875 million at 31/12/2009) related to the land component, while the depreciation provision amounted to Euro 370 million (Euro 311 million at 31/12/2009).

The account **Investments in Subsidiaries, Associates and Joint Venture Companies** includes the investments in associated companies, which were valued under the equity method, in addition to the carrying value of some investments in subsidiaries which are not fully consolidated, either due to the insignificant value for the purposes of a true and fair presentation of the accounts or as the companies are under restructuring or are non operating. The most significant investments included in the account are: CityLife (Euro 70.0 million), Fondo Immobiliare Rho (Euro 57.1 million), IGLI (Euro 56.7 million), Garibaldi S.c.a. (Euro 46.5 million) and Finadin (Euro 36.8 million).

**Loans and receivables** are summarised in the table below:

(in Euro thousands)	30/09/2010	31/12/2009	Changes
Bank and interbank receivables	874,652	976,933	(102,281)
Debt securities	1,032,038	1,020,997	11,041
Time deposits and repurchases	-	136,193	(136,193)
Loans on life policies	57,686	61,327	(3,641)
Deposits held by reinsurers	27,406	28,570	(1,164)
Receivables from sub-agents for indemnities paid to agents terminated	239,574	232,305	7,269
Other loans and receivables	242,678	451,685	(209,007)
<b>Total</b>	<b>2,474,034</b>	<b>2,908,010</b>	<b>(433,976)</b>

The decrease in the account “Bank and interbank receivables” follows the deconsolidation and sale of Banca Gesfid.

The reduction in the account “Other loans and receivables” is due to the transfer of Intesa SanPaolo shares owned by the Parent Company to subscribers of the mandatory issued by the subsidiary Sainternational.

The **Investments held to maturity** amount to Euro 596 million (Euro 808 million at 31/12/2009) and principally relate to listed debt securities, servicing life policies with specific assets.

The **Available-for-sale financial assets** include bonds and equity securities not otherwise classified.

In particular, the account includes debt securities of Euro 19,035.6 million (Euro 16,261.2 million at 31/12/2009), equity securities of Euro 1,596.3 million (Euro 1,695.6 million at 31/12/2009), as well as units in investment funds of Euro 808.1 million (Euro 937.8 million at 31/12/2009) and other financial investments of Euro 2.0 million (Euro 2.0 million at 31/12/2009).

The **Financial assets valued at fair value through profit or loss** includes the securities held for trading as well as those designated by the group in this category.

This account includes the investments and the financial instruments relating to insurance contracts or investments issued by insurance companies for which the investment risk is borne by the policyholder.

The account therefore includes debt securities of Euro 8,261.2 million (Euro 7,470.2 million at 31/12/2009), equity securities of Euro 29.1 million (Euro 97.9 million at 31/12/2009), units in investment funds of Euro 447.6 million (Euro 410.1 million at 31/12/2009) and other financial investments of Euro 519.7 million (Euro 677.0 million at 31/12/2009).

In relation to the **Tangible fixed assets**, they include both buildings for direct use and property inventories for which the criteria of IAS 2 were applied.

The table below shows the results of the financial and real estate activities for the first nine months of 2009 compared with the same period in the previous year:

(in Euro thousands)	30/09/2010	30/09/2009	Changes
<b>Net income from financial instruments recorded at fair value through profit or loss</b>	405,125	754,468	(349,343)
<b>Net income from investments in subsidiaries, associates and joint ventures</b>	(5,794)	(2,679)	(3,115)
<b>Income from other financial instruments and property investments of which:</b>			
Interest income	536,267	626,228	(89,961)
Other income	146,274	139,204	7,070
Profits realised	277,054	111,559	165,495
Valuation gains	383	4,744	(4,361)
<b>Total income</b>	<b>1,359,309</b>	<b>1,633,524</b>	<b>(274,215)</b>
<b>Charges from other financial instruments and property investments of which:</b>			
Interest expense	56,733	78,890	(22,157)
Other charges	55,021	45,488	9,533
Losses realised	112,589	87,645	24,944
Valuation losses	401,302	118,224	283,078
<b>Total interest expense and charges</b>	<b>625,645</b>	<b>330,247</b>	<b>295,398</b>
<b>TOTAL NET INCOME</b>	<b>733,664</b>	<b>1,303,277</b>	<b>(569,613)</b>

Impairments on capital financial instruments in the AFS sector amount at 30/09/2010 to Euro 350.5 million, of which Euro 75.7 million already recorded to the half-year financial statements at 30/06/2010. The impairments recorded in the third quarter included Euro 159.6 million relating to a shareholding in Generali and Euro 98.5 million relating to that in Unicredit.

The net income from financial instruments recorded at fair value through the profit and loss includes net income relating to contracts in the Life sector whose risk is borne by the policyholders for Euro 388 million (net charges of Euro 702 million in Q3 2009). This income is related to the charges of a similar amount recorded in the commitments to Life policyholders.

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## Management of the investments

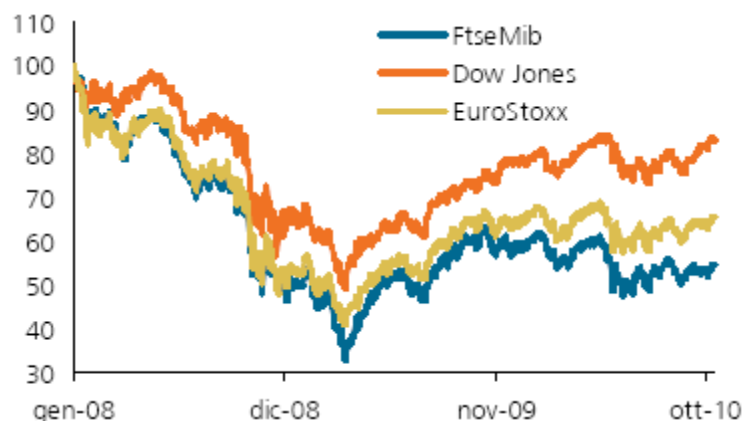
In the months following the summer break, the financial markets were relatively volatile: investors focused their attention on the extent of the global slowdown and on the ability of the Central Banks to intervene - in particular the Federal Reserve.

In Europe, fears concerning further public debt problems in Ireland and Portugal once again put pressure on the spreads of the peripheral countries. Share prices were affected by these uncertainties with quite volatile movements.

At the moment of writing, the markets have become more upbeat with expectations of a new round of quantitative easing by the Federal Reserve which will pump further liquidity into the system, favouring therefore the purchase of more risky assets.

Within this backdrop are the positive indications from the first quarterly reports, with groups belonging to the S&P500 recording growth in earnings per share of 33% on the same period of 2009 - the fourth consecutive quarter in growth, following on from a record of nine consecutive contracting quarters. The European stock markets also indicated signs of growth thanks to the breaking of important resistance ceilings.

**Graph 3 - Euro Stoxx, Dow Jones and FTSE MIB from January 2008**



*Source: Bloomberg*

In September, on the currency exchange market, the Dollar weakened against the principal currencies: the exchange rate between the US Dollar and the Euro stands at approx. 1.35, while the strengthening of the Yen was halted following the actions taken by the Japanese Central Bank.

On October 7, the Board of the European Central Bank decided not to alter the official discount rate on principal refinancing operations, on marginal refinancing operations and on deposits at the central bank, confirming the respective rates at 1.00%, 1.75% and 0.25%.

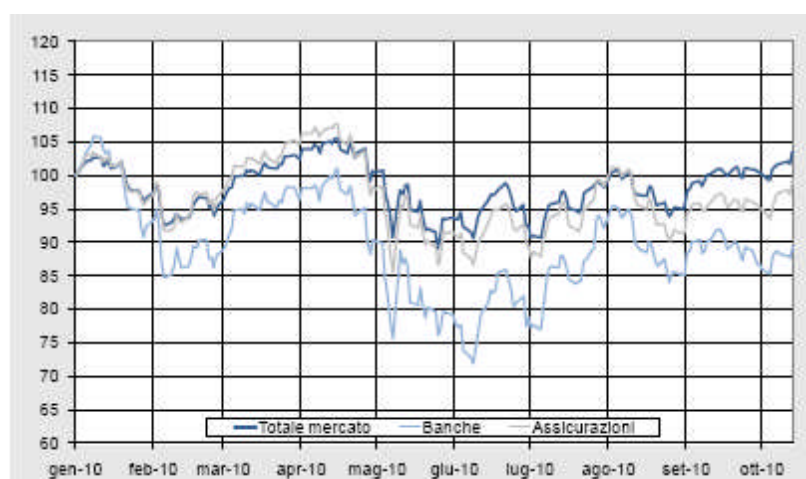
**Table 2 – Performance of the principal market variables**

		Current	Cge. % from 1/1/2010
Currency	Euro/USD	1.40	(2.5)
	Euro/Yen	113.9	(14.7)
	Euro/GBP	0.87	(1.5)
European rates (%)	Official rates	1.00	0.00
	Euribor 3 months	0.99	0.29
	Bund 2 years	0.81	(0.52)
	Bund 10 years	2.37	(1.02)
USA rates (%)	Official rates	0.25	0.00
	T-Note 2 years	0.36	(0.78)
	T-Note 10 years	2.56	(1.28)
Commodity (\$)	WTI	81.3	(2.9)
	Copper	8.381.5	171.5
	Aluminium	2.343.3	50.1
	Natural Gas	3.5	(43.2)

Source: Bloomberg at 18/10/2010

Also in Italy, in August and September the market was extremely volatile, with drops in August due to poor economic reports - in particular in relation to employment - and in September a strong recovery in the economic data. The Italian market in the second quarter improved ahead of expectations, particularly concerning the industrial sector which benefited from increased exports to emerging markets. The insurance sector data however was weaker.

**Graph 4 - Sector indices of the Euro Zone**



Source: Thomson Reuters, Datastream

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With particular reference to the “fixed income” segment, the activities of the Fondiaria SAI Group in the Non-Life sector in the third quarter of 2010 included extensive government securities operations, with the Corporate component of the portfolio remaining substantially unchanged.

High spread differentials in the countries of the Euro Zone, between the peripheral and “core” countries, has enabled significant trading activity: within this the Italian component remained stable, while the exposure to Germany was progressively reduced and that towards France slightly increased. Due to the significant uncertainties on the market and concerns over the sustainability of the deficits of peripheral countries, no investments were made in countries such as Greece, Portugal and Ireland. The overall percentage of the CCT component was slightly increased in the Non-Life Portfolios, due to the good spreads offered and the “creation” of a new CCT class related to the Euribor.

In the Life sector, at an operational level, based on the macroeconomic situation described above, the activities in the bond sector principally concerned tactical changes.

In particular, the difficult points of some segments of the yield curve, affected by the above-stated issues, provided opportunities to benefit from the various positions opened in the year.

Operations were therefore carried out with a view to maximising the performance and led to a redefinition of the bond portfolio which, at the end of the quarter, presented a lower duration and a higher exposure to government securities.

The management activities considered the ALM profiles of each portfolio, seeking to fulfil the investment objectives with strong returns and in line with the profiles of the policies.

In relation to the “equity” segment, the activities of the Fondiaria SAI Group on the portfolios benefited from the strong market volatility in September with significant trading activity carried out.

### **Fondiaria-SAI**

The Non-Life Division is composed of 58.6% of fixed income bonds, 33.4% at variable rate and a residual 8% in money market instruments.

The total duration of the portfolio is 2.09 years and the return on the Non-Life portfolio is equal to 2.05%.

The Life Division has a higher fixed rate bond allocation (83.4%), compared to the variable quota of the same class (16.6%), with a total duration of the portfolio of 5.64 years and a return of 4.31%.

### **Milano Assicurazioni**

The Non-Life Division is composed of 61.8% of fixed income bonds, 34.9% at variable rate and a residual 3.3% in money market instruments.

The total duration of the portfolio is 2.25 years and the return on the Non-Life portfolio is equal to 2.04%.

The Life Division has a higher fixed rate bond asset allocation (84.6%), compared to the variable quota (15.4%), with a total duration of the portfolio of 5.20 years and a return of 4.43%.

## Net technical reserves

(in Euro thousands)	30/09/2010	30/06/2010	31/12/2009
<b>Non-Life technical reserves</b>			
Unearned premium reserve	2,345,422	2,620,279	2,587,895
Claims reserve	8,438,030	8,282,253	8,376,629
Other reserves	12,744	12,632	13,542
<b>Total Non-Life reserves</b>	<b>10,796,196</b>	<b>10,915,164</b>	<b>10,978,066</b>
<b>Life technical reserves</b>			
Reserve for sums to pay	280,763	196,812	153,354
Actuarial reserves	15,590,545	14,902,448	13,339,830
Technical reserves where the investment risk is borne by policyholders	7,284,887	7,393,648	6,265,181
Other reserves	117,342	(15,390)	111,319
<b>Total Life Reserves</b>	<b>23,273,537</b>	<b>22,477,518</b>	<b>19,869,684</b>
<b>Total</b>	<b>34,069,733</b>	<b>33,392,682</b>	<b>30,847,750</b>

The technical reserves of the Non-Life Division at 30/09/2010 include the unearned premium reserve of Euro 2,345 million, calculated under the pro-rata basis, and the claims reserve of Euro 8,438 million.

The technical reserves of the Life Division are those relating to insurance contracts and investment contracts with discretionary participation elements as per IFRS 4. This account does not include the liabilities relating to the policies (prevalently index and unit-linked) which, having an insignificant insurance risk, are governed by IAS 39 and are therefore recorded under financial liabilities.

The technical reserves of the Life Division increased, compared to the value calculated in accordance with Italian GAAP, by Euro 24.2 million (Euro 7.7 million at 31/12/2009) due to the accounting of the deferred liabilities towards policyholders, consequent of the application of the shadow accounting technique as per IFRS 4.

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## Financial liabilities

Within the financial liabilities a separation was made between operating debt and financial debt. In particular, the operating debt relates to the financial liabilities where there is a correlation with a specific asset account.

The breakdown of the financial liabilities is shown below:

(in Euro thousands)	30/09/2010	30/06/2010	31/12/2009
<b>Financial liabilities</b>			
Sub-ordinated liabilities	1,039,620	1,040,749	1,040,425
Financial liabilities at fair value through profit or loss account	1,769,692	1,879,598	2,085,415
Other financial liabilities	1,230,153	1,608,053	1,624,620
<b>Total financial liabilities</b>	<b>4,039,465</b>	<b>4,528,400</b>	<b>4,750,460</b>

For the **Subordinated liabilities** account, reference should be made to the section on debt.

The account **Financial liabilities at fair value through profit or loss** includes at 30/09/2010 Euro 1,720 million (Euro 2,058 million at 31/12/2009) relating to liabilities from financial contracts issued by insurance companies, treated under the deposit accounting method which, substantially, requires the recognition in the income statement of only the profit margins and the recording under financial liabilities of the premiums, increased by the revaluations in the period.

**Other financial liabilities** included Euro 319 million (Euro 579 million at 31/12/2009, including the contribution of Banca Gesfid) relating to client deposits at the subsidiary Banca SAI and Euro 269 million relating to deposits with reinsurers (Euro 266 million at 31/12/2009).

The residual refers for Euro 553 thousand to financial debt items commented on above.

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## Fondiarria SAI Group debt

In order for a correct representation of the accounts under examination, information is provided below of the financial payables, which is the total amount of the financial liabilities for which it is not possible to establish a correlated specific asset account.

The situation is summarised in the table below:

(in Euro millions)	30/09/2010	30/06/2010	31/12/2009
Subordinated loans	1,039.6	1,040.7	1,040.4
Mandatory Sainternational	-	182.9	182.5
Banks and other lenders	552.5	552.4	447.9
<b>Total debt</b>	<b>1,592.1</b>	<b>1,776.0</b>	<b>1,670.8</b>

The account **Subordinated loans** include the following loans of the Parent Company and Milano Assicurazioni with Mediobanca, with ISVAP authorisation. For a summary of the amounts and the characteristics, reference is made to the 2009 Financial Statements with no significant changes taking place.

Against a nominal Euro 1,050 million, Interest Rate Swaps were subscribed of Euro 800 million. The mark to market of these positions at September 30, 2010 was negative for Euro 43.6 million.

On 27/09/2010, the bonds of a total nominal value of Euro 180.4 million relating to a Repayable Bond, the so-called Mandatory Sainternational will be repayable through the delivery of 44,000,000 Intesa SanPaolo ordinary shares, formally owned by Fondiarria-SAI, at the exchange price of Euro 4.10 per share, and therefore with a premium of 35.13% compared to the prices of the Intesa SanPaolo ordinary shares at the moment of the definition of the offer price.

Therefore the related debt was settled.

With reference to Bank and other lenders, amounting to Euro 552.5 million, the most significant amounts are reported below:

- Euro 134.4 million refers to the loan of the Tikal R.E. Closed Real Estate Fund with Intesa Sanpaolo, with this latter as Bank Organiser, Agent and Lender. The purpose of the loan is to improve the return on own capital and therefore the capital invested by the participants. The amount involves a total credit line of Euro 280 million, utilised for investments in new projects and to undertake improvements in view of future sales and increase profitability. The cost of the loan is Euribor plus a variable credit spread between 70 and 110 b.p. The Fund, since the previous year, has utilised interest derivative instruments in application of a hedging policy on the potential risk of an increase in interest rates on the loan granted;



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- Euro 113.5 million refers entirely to the debt of the subsidiary Immobiliare Fondiaria-SAI. This refers principally to the bank loan signed by Marina di Loano with Intesa SanPaolo with maturity on 17/03/2014 and an interest rate of Euribor at 3 months increased by 300 basis points. The company utilised a derivative instrument, in application of a hedging policy on the potential risk of an increase in interest rates on the loan granted. There are also two mortgages in place. The first in relation to the subsidiary Crivelli with maturity on 27/6/2017 at an interest rate of Euribor at 6 months increased by 90 basis points; the second for the subsidiary Meridiano Secondo with maturity on 25/9/2012 at an interest rate of Euribor at 3 months increased by 90 basis points;
  - Euro 69.7 million refers entirely to the debt of the subsidiary Immobiliare Milano Assicurazioni. This relates to the re-negotiation of the debt of Immobiliare Lombarda in 2005. The interest rate on the loan is Euribor plus a spread of 0.9%. The maturity dates are variable up to December 31, 2012. In the first quarter of 2007, Immobiliare Lombarda agreed a loan of approx. Euro 38 million with Efibanca, in order to acquire the investment in IGLI. The interest rate on the latter loan is at Euribor plus a spread of 0.83% and the expiry date is 31/12/2012;
  - Euro 110.5 million refers to the bonds issued in 2009 by BancaSai in part variable interest rate and in part fixed interest rate, with variable expiry from 2011 to 2014;
  - Euro 75 million relates to a senior loan contract concluded on 24/06/2009 between Fondiaria-SAI S.p.A. and Mediobanca with issue date of 25/1/2010 and repayment date of 31/1/2011, applying a spread of Euribor at 12 months plus 200 bps. The Parent Company will repay the above-stated loan in a single payment on maturity, while utilising ordinary liquidity available;
  - Euro 49.4 million principally refers to short-term loans for fixed use (so-called “hot money”) obtained by the subsidiary Finitalia from various credit entities.

In addition to the above-stated Mediobanca senior loan of Euro 75 million maturing 31/1/2011, there are also loans with maturity in the coming 12 months of approx. Euro 141 million, entirely relating to subsidiary companies in the real estate sector.

## TREASURY SHARES, SHARES OF THE HOLDING COMPANIES AND ITS SUBSIDIARIES

At 30/09/2010 and at 31/12/2009, the Parent Company holds treasury shares and shares in the parent company Premafin Finanziaria as shown in the table below:

(in Euro thousands)	30/09/2010		31/12/2009	
	Number	Book value	Number	Book value
<b>Treasury shares held by:</b>				
Fondiarria-SAI	3,200,000	64,366	3,200,000	64,366
Milano Assicurazioni	9,982,557	229,261	9,982,557	229,261
Sai Holding	1,200,000	28,306	1,200,000	28,306
<b>Total</b>	<b>14,382,557</b>	<b>321,933</b>	<b>14,382,557</b>	<b>321,933</b>
<b>Saving treasury shares held by:</b>				
Fondiarria-SAI	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Shares of the holding company held by:</b>				
Fondiarria-SAI	18,340,027	16,123	18,340,027	19,189
Milano Assicurazioni	9,157,710	8,051	9,157,710	9,582
Saifin - Saifinanziaria	66,588	58	66,588	70
<b>Total</b>	<b>27,564,325</b>	<b>24,232</b>	<b>27,564,325</b>	<b>28,841</b>

## SHAREHOLDERS' EQUITY

Shareholders' equity at 30/09/2010 was as follows:

(in Euro thousands)	30/09/2010	30/06/2010	31/12/2009
<b>Shareholders' Equity</b>	<b>3,140,022</b>	<b>3,034,943</b>	<b>3,710,651</b>
<b>Group Net Equity</b>	<b>2,336,877</b>	<b>2,242,471</b>	<b>2,716,187</b>
Share Capital	167,044	167,044	167,044
Capital reserves	209,947	209,947	209,947
Retained earnings and other reserves	2,624,705	2,617,427	3,010,474
Treasury shares	(321,933)	(321,933)	(321,933)
Translation reserve	(29,277)	(14,699)	(3,857)
Profit or loss on available-for-sale financial assets	26,517	(272,910)	(53,957)
Other gains and losses recorded directly in equity	5,403	2,355	51,062
Group loss	(345,529)	(144,790)	(342,593)
<b>Minority interest shareholders' equity</b>	<b>803,145</b>	<b>792,472</b>	<b>994,464</b>
Minority capital and reserves	882,736	882,708	1,071,435
Gains and losses recorded directly in equity	6,309	(77,613)	(28,051)
Minority interest loss	(85,900)	(12,623)	(48,920)

The profits or losses on available-for-sale financial assets derive from the fair value adjustment of the financial instruments classified in this category, net of the relative deferred taxes and of the part attributed to policyholders. The significant change on June 30 principally follows the impairments in the third quarter for the amount of Euro 205.7 million which effectively transferred the charges from the fair value adjustment of the relative financial instruments from this reserve to the result for the period.

Consequently the financial instruments recorded in the Available-for-sale category at September 30 overall reported a net gain of Euro 114.1 million compared to the market prices at the end of the quarter (without taking account of the tax effect and any recognition of life policyholders). For the shares which presented losses, the difference between the book value and the stock market value at September 30 was, in almost all cases, under 50% of the book value.

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## **OTHER INFORMATION**

### **Sale of non-strategic assets**

#### **Sale of investments**

Concerning the sale of the Liguria-Sasa insurance entity, reference is made to the comments on the Non-Life insurance sector.

The BoD of Fondiaria-SAI mandated the Chief Executive Officer to explore possibilities concerning the insurance company DDOR Novi Sad, including the sale of the majority holding.

Informal contacts have been made with a few selected foreign industrial operators in order to establish the interest level for investments in the Serb company.

#### **Real estate operations**

In relation to the building owned by the Parent Company in Milan known as Torre Velasca, in July 2010 an open competitive sales procedure was begun through publication on a specific internet site of the principal data of the building, and of the manner and timelines for the sales procedures.

The sale was also communicated through four advertisements from the end of July to the beginning of September in a national daily newspaper.

The procedure establishes that by December 3 the sale will be completed following a due diligence phase.

Milano Assicurazioni owns a building in Milan at Via Cordusio No. 2 and Via G. Casati No. 1. This is a prestigious mixed use building with a high value based on its architectural characteristics, its location in the historic centre of Milan and the recent investments made which will ensure a significant profit margin. In view of the policy to gradually reduce the real estate component of the investment total - currently higher than our competitors' average - Milano Assicurazioni has explored the possibility to sell the building, considering also that the sale would result in a significant gain.

A competitive sales procedure was therefore begun in June among selected companies including the largest operators in the real estate sector internationally. Currently the due diligence phase is almost complete for the parties who have made interesting offers and binding offers have been made for the purchase of the building, which will be examined by the relative boards of the company. The closing of the operation is scheduled by the end of the current year.

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## Transactions with related parties

The Board of Directors has previously approved specific conduct principles for the undertaking of significant transactions, inter-group transactions and transactions with related parties, including those relating to real estate construction projects, as recommended by the Self-Governance Code for listed companies. The Internal Control Committee, in undertaking its consultative functions, was appointed to carry out a preliminary examination, as is common practise, of the inter-group and related party transactions - which in accordance with the above-stated principles are subject to examination and approval by the Board of Directors or by the Executive Committee.

In line with the conduct principles in question, the guidelines on inter-group and related party transactions were drawn up (and approved by the Board of Directors) in accordance with ISVAP regulation No. 25 of May 27, 2008.

According to that established in the conduct principles and in the above-stated guidelines, inter-group transactions and those with related parties require, and as applied to the situation detailed below, the acquisition of a specific fairness opinion concerning the correctness of the transaction values, in addition to, where necessary, a specific legal opinion in the case in which the nature of the contract demands a more in-depth legal analysis.

The conduct principles and the guidelines are included in the Corporate Governance report, published in accordance with the relevant regulations to which reference is made.

The Company some time ago began the necessary actions for the adoption of the procedures concerning transactions with related parties established by CONSOB with resolution No.17221 of March 12, 2010, and with the examination and approval of the procedures by the Board of Directors of the Company scheduled to take place by the end of the current month of November in consideration of the deferment to December 1 of the deadline for the adoption of the procedures decided by CONSOB with resolution No.17389 of June 23, 2010.

The Board of Directors therefore on September 22, 2010 appointed a steering committee comprised exclusively of independent directors, appointed to examine the procedures in question and draw up an opinion to be submitted to the Board of Directors which will be called to approve the procedures.

Therefore, although the present quarterly report has not been prepared in accordance with the disclosure obligations established by IAS 34 (Interim Accounts), disclosure on the significant transactions with related parties is included, with those reported concerning only transactions with business entities and with a value threshold of above Euro 5 million (this refers to balance sheet and income statement values as at and for the period ended 30/09/2010):

- in the current year Euro 1 million was paid to “IM.CO. S.p.A.” in relation to the real estate operations concerning the land at Milan, Via Confalonieri-Via de Castilia (Lunetta dell’Isola).  
The operation began in 2005 with the sale to “IM.CO. S.p.A.” of the above-mentioned land and provides for the purchase from “IM.CO. S.p.A.” for Euro 93.7 million of a building for office use under construction on the land sold.

The payments made to IM.CO. S.p.A. in the first nine months of 2010 amount to Euro 43.1 million, recorded in the account Property Investments;

- the Property Investments account at September 30 includes Euro 103.5 million of payments on account in previous periods to the company “Avvenimenti e Sviluppo Alberghiero S.r.l.” in relation to the execution of the real estate contracts on the building areas at Via Fiorentini, Rome. We recall that this operation, undertaken in 2003, included the sale to “Avvenimenti e Sviluppo Alberghiero S.r.l.” of a site and the purchase of the completed real estate complex under construction on the land in question at a price of Euro 110 million, including the supplementary contract signed in 2009. No payments were made in the current period in relation to this operation;
- concerning the real estate initiatives at the Loano Tourist Port (through the subsidiary Marina di Loano) and the building in Milan, Via Cambi (through the subsidiary Crivelli), in the first nine months of 2010 the two companies incurred charges from the related party Marcora Costruzioni for Euro 35.4 million. Of these, Euro 22.6 million relate to the works for the construction of the Loano port and Euro 12.8 million to the building owned by the subsidiary Crivelli S.r.l.  
The amounts paid in the period to Marcora Costruzioni were respectively Euro 19.8 million for Marina di Loano and Euro 12.0 million for Crivelli.  
These charges are recorded to property, plant and equipment as they are considered inventory of real estate operations in progress;
- Property Investments include Euro 19.3 million relating to payments in advance made by the subsidiary Immobiliare Fondiaria-SAI to the related party IM.CO. S.p.A. for the future construction of the hotel complex with wellness centre which is currently in progress in the municipality of S. Pancrazio Parmense (Parma).  
In the first nine months of the year charges were incurred of Euro 0.14 million and payments made of Euro 0.48 million;
- finally in relation to the subsidiary BancaSai, the company granted credit lines to the related parties IM.CO. S.p.A. and Sinergia Holding S.p.A. respectively for Euro 9.8 million and Euro 7.9 million.

## Sales organisation and personnel

The personnel of the Fondiaria SAI Group at 30/09/2010 was comprised as follows:

	30/09/2010	31/12/2009
Italian companies	6,716	6,531
of which Parent Company:	2,618	2,659
Foreign entities	1,906	1,886
<b>Fondiaria SAI S.p.A. Group</b>	<b>8,622</b>	<b>8,417</b>

In addition, the employees of the foreign companies include 777 brokers.

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In relation to the Italian Companies the increase in the third quarter of the year is principally due to the hiring by Atahotels of seasonal Summer employees.

From 16/09/2010 Banca Gesfid SA no longer belongs to the Group and a decrease in the foreign company workforce of 62 was recorded.

With reference to the third quarter of 2010, the national distribution of the Fondiaria-SAI Agents was as follows:

	<b>Mandate SAI</b>	<b>Mandate Fondiaria</b>	<b>Total at 30/09/2010</b>	<b>Total at 31/12/2009</b>
North	392	254	646	607
Centre	136	158	294	333
South	209	144	353	366
<b>TOTAL</b>	<b>737</b>	<b>556</b>	<b>1,293</b>	<b>1,306</b>

In the third quarter of 2010, the Group totalled 3,382 agencies (3,490 at 31/12/2009), operating through 2,693 sales points (2,875 at 31/12/2009) representing the traditional distribution channel.

## **Cultural and Social Initiatives**

In a difficult time for the market, focus was placed particularly on managing the media impact of the 2009 results and in highlighting the actions undertaken by the Group at a financial-industrial level to safeguard profitability, in line with the objectives of the 2009-2011 Group Industrial Plan. In particular in relation to the restructuring initiatives all issues relating to the corporate-industrial restructuring projects for the creation of a single multi-mandate Liguria-Sasa entity were communicated to the public and the market. The actions taken to contain costs within the Motor TPL division were also highlighted, with the establishment of a new more personalised tariff and a review of discounting and in relation to claims, the consolidation of the “Auto Presto & Bene” project and the reorganisation of the settlement network.

Communication activities also focused on the role of the company in important Milanese property projects and provided visibility to the new initiatives in the health field concerning the creation of a Florence-based oncology centre.

In relation to the societal role of the company, commitments undertaken in previous years were reconfirmed with non-profit organisations and associations operating in the health field.

Among those supported were the “Italian Cancer Patient Association (AIMaC – Associazione Italiana Malati di Cancro)”, which offers to patients and their families a free information service on the various neoplasia and related therapies, guaranteeing also important psychological support and the “Association providing support for those affected by Prader-Willi and their families”, committed to scientific research, knowledge and the search for a cure to a rare genetic disease which affects the physical, intellectual and the behavioural development of infants.

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Support was also provided for the “Italian Therapeutic Community Federation (F.I.C.T. - Federazione Italiana Comunità Terapeutiche)”, which is comprised of associations and private entities and non-profit organisations providing help for those with social difficulties or marginalised, with particular attention to those dependent on substances with the objective, through educational courses and Christian-based rehabilitation, to re-integrate individuals.

In the cultural field Fondiaria-SAI assisted in the creation of the “Towards 2011 – The Founding Fathers” exhibition, promoted by the Senate of the Italian Republic as part of the 150 year celebration of Italian unity: focussing on the Founding Fathers of the Italian state - from the initial promoters of the ideal to those actively involved in bringing about unity.

Fondiaria-SAI, always sensitive to the needs of the community in which it is based, reconfirmed support for the “Metropolitan Interests Association (AIM - Associazione Interessi Metropolitaniani)”, a cultural centre founded by a group of Milan based banks and businesses to promote research and projects which can aid Milan in its cultural, social and economic development.

In the sports area, among other initiatives, the sponsorship of A.S. Masseroni Marchese was renewed, one of the major “soccer schools” in Milan, which supports in its activities more than 400 children and organises also social projects concerning the school and the family.

In the third quarter, for the seventh consecutive year the sponsorship and support continued of the inaugural show of the Regio di Torino Theatre. The first show, the “Boris Godunov” of Musorgskij, which took place at the beginning of October, confirmed the success of the commitment which the Parent Company renewed in 2010.

### **Group solvency margin at 30/09/2010 and projection for year ended 31/12/2010**

In accordance with the provisions in relation to the correct solvency margin, at 30.09.2010 the ratio between the constituting elements and the amount of the solvency margin requested was approx. 109% (121% at 31/12/2009).

By December 31, 2010, taking account of the normal operations and excluding extraordinary and unforeseeable events, a further reduction of the excess is forecast, with a coverage ratio however above 100%.



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## **SIGNIFICANT EVENTS AFTER THE END OF THE QUARTER**

### **Standard & Poor's reviews the Rating**

On October 1, 2010 the rating agency Standard & Poor's revised the rating of the Fondiaria-SAI Group and its principal subsidiary Milano Assicurazioni S.p.A. from BBB+ to BBB.

This revision is due to reduced funding opportunities which, in the opinion of the rating agency, stems from the weakening of the financial profile of Premafin Finanziaria; the capacity of the Group to recover the profit levels of the recent past has been hindered by the continuation of the crisis on the financial markets, in addition to a difficult non-life insurance market, particularly within the Auto sector, in which the Group is the undisputed leader.

Standard & Poor's however also considers that the actions taken by management to re-establish a strong operating performance are beginning to bear tangible results, with an improvement in the combined ratio from 108% in 2009 to 105.4% in the first half of the current year. The agency also forecasts the return to a positive technical result in the Non-Life sector in 2011.

The outlook improves from negative to stable in consideration of the ability of the Group to maintain a dominant position in the Italian insurance market in the medium term.

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## OUTLOOK

Within an overall economic and financial scenario which continues to be unstable, the first positive signals in relation to the technical part have emerged, confirming the effectiveness of the actions undertaken to recover profitability. On the other hand, the Group will continue to pursue the activities related to reducing the risk profile, balancing the asset allocation and whose effects will become evident in 2011.

Based on that set out above, it is possible that the group performance, strongly affected by the impairments made on AFS investments in the first nine months of the year, will be confirmed also for the full year. In light therefore of the Interim Results for the first nine months of 2010, the distribution of a dividend for 2010 is not forecast.

In pursuance of the Risk Tolerance objectives established by the Board of Directors and which target a solvency margin not below 120%, based on the current solvency criteria (Solvency I), the Board of Directors have decided to further explore the various options to strengthen the balance sheet provided by the sale of non-strategic assets and of group companies, therefore achieving improvements in the solvency margin.

Considering the volatility of the financial markets and the uncertainties relating to possible sales prices, the Board of Directors has also appointed the Chief Executive Officer to examine the possibility of a share capital increase.

*Milan, November 10, 2010*

*For the  
The Board of Directors  
The Chairperson*

*Ms. Jonella Ligresti*

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**DECLARATION IN ACCORDANCE WITH ART. 154 BIS, PARAGRAPH 2, OF LEGISLATIVE  
DECREE 24/02/1998, N. 58**

The undersigned Pier Giorgio Bedogni, as Executive Responsible for the preparation of the corporate financial documents of Fondiaria-SAI S.p.A.

affirms

pursuant to the provisions of article 154 bis of the “Finance Act for financial intermediaries” that the Interim Report as at September 30, 2010 corresponds to the underlying accounting documents, records and accounting entries.

*Milan, November 10, 2010*

*The Executive Responsible  
for the preparation of the corporate accounting documents*

*Dr. Pier Giorgio Bedogni*