PREMAFIN FINANZIARIA S.p.A.
Holding di Partecipazioni

CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2011

PREMAFIN FINANZIARIA S.p.A.
Holding di Partecipazioni

STATEMENT OF FINANCIAL POSITION
INCOME STATEMENT

PREMAFIN FINANZIARIA - S.P.A.
Holding di Partecipazioni

CONSOLIDATED FINANCIAL STATEMENTS
AS OF 31.12.2011
(in thousands of Euros)

STATEMENT OF FINANCIAL POSITION

ASSETS		2011	2010
1	**INTANGIBLE ASSETS**	**1,517,604**	**1,642,445**
1.1	Goodwill	1,422,447	1,523,280
1.2	Other intangible assets	95,157	119,165
2	**PROPERTY AND**	**405,349**	**598,072**
2.1	Property	318,928	504,218
2.2	Other tangible assets	86,421	93,854
3	**REINSURANCE ASSETS**	**701,880**	**823,184**
4	**INVESTMENTS**	**33,817,046**	**36,031,914**
4.1	Investment property	2,776,452	2,912,189
4.2	Equity investments in associates and joint ventures	116,795	353,014
4.3	Investments held to maturity	599,713	592,138
4.4	Loans and receivables	3,688,865	3,159,211
4.5	Financial assets available-for-sale	17,608,557	20,275,298
4.6	Financial assets at fair value through profit or loss	9,026,664	8,740,064
5	**OTHER RECEIVABLES**	**2,349,186**	**2,314,653**
5.1	Receivables from direct insurance operations	1,698,430	1,747,611
5.2	Receivables from reinsurance operations	78,637	101,773
5.3	Other receivables	572,119	465,269
6	**OTHER ASSETS**	**1,803,838**	**996,578**
6.1	Non-current assets or disposal group classified as held for sale	87,151	3,452
6.2	Deferred acquisition costs	30,301	87,603
6.3	Deferred tax assets	1,155,062	361,199
6.4	Tax receivables assets	316,587	388,015
6.5	Other assets	214,737	156,309
7	**CASH AND CASH EQUIVALENTS**	**1,004,105**	**628,404**
	TOTAL ASSETS	**41,599,008**	**43,035,250**

PREMAFIN FINANZIARIA -
Holding di Partecipazioni

CONSOLIDATED FINANCIAL STATEMENTS
AS OF 31.12.2011
(in thousands of Euros)

STATEMENT OF FINANCIAL

	SHAREHOLDERS' EQUITY AND	2011	2010
1	**SHAREHOLDERS' EQUITY**	**1,274,415**	**2,270,116**
1.1	**Shareholders' equity attributable to the Group**	**(32,065)**	**350,230**
1.1.1	Share capital	410,340	410,340
1.1.2	Other equity instruments	-	-
1.1.3	Capital reserves	21	21
1.1.4	Retained earnings and other reserves	664	263,360
1.1.5	(Treasury shares)	(43,183)	(43,183)
1.1.6	Reserve for currency translation difference	(14,985)	(18,713)
1.1.7	Unrealized gain or loss on financial assets available for sale	(127,658)	338
1.1.8	Other unrealized gains and losses through equity	6,332	9,608
1.1.9	Net loss for the year	(263,596)	(271,541)
1.2	**Shareholders' equity attributable to Minority interest**	**1,306,480**	**1,919,886**
1.2.1	Non-controlling interest capital and reserves	2,680,192	2,627,767
1.2.2	Unrealized gains and losses through equity	(600,208)	(31,256)
1.2.3	Net loss for the year	(773,504)	(676,625)
2	**PROVISIONS**	**337,122**	**359,982**
3	**INSURANCE CONTRACT**	**35,107,505**	**34,827,972**
4	**FINANCIAL LIABILITIES**	**3,527,671**	**4,187,367**
4.1	Financial liabilities at fair value through profit or loss	1,349,506	1,677,807
4.2	Other financial liabilities	2,178,165	2,509,560
5	**PAYABLES**	**795,951**	**839,437**
5.1	Payables from direct insurance operations	78,999	91,887
5.2	Payables from reinsurance operations	84,912	106,862
5.3	Other payables	632,040	640,688
6	**OTHER**	**556,344**	**550,376**
6.1	Liabilities directly associated with non-current assets or disposal group classified as held for sale	-	-
6.2	Deferred tax liabilities	133,452	132,060
6.3	Tax payables	18,147	54,931
6.4	Other liabilities	404,745	363,385
a	**TOTAL LIABILITIES AND SHAREHOLDERS'**	**41,599,008**	**43,035,250**

PREMAFIN FINANZIARIA - S.P.A.
Holding di Partecipazioni

CONSOLIDATED FINANCIAL
AS OF 31.12.11
(in thousands of Euro)

INCOME STATEMENT		**2011**	**2010**
1.1	Net premiums	10,527,344	12,585,297
1.1.1	*Gross premiums written*	*10,850,258*	*12,911,503*
1.1.2	*Premiums ceded to reinsurers*	*(322,914)*	*(326,206)*
1.2	Commission income	24,433	57,317
1.3	Net income from financial instruments at fair value through profit or loss	304,043	378,291
1.4	Income from equity investments in subsidiaries, associates and joint ventures	1,872	55,795
1.5	Income from other financial instruments and investment property	1,192,109	1,283,378
1.5.1	*Interest income*	*828,565*	*722,362*
1.5.2	*Other income*	*150,680*	*169,736*
1.5.3	*Realized profits*	*212,559*	*390,804*
1.5.4	*Unrealized gains and reversal of impairment losses*	*305*	*476*
1.6	Other income	666,721	551,762
1	**TOTAL INCOME**	**12,716,522**	**14,911,840**
2.1	Net insurance benefit and claims	(10,240,770)	(12,152,941)
2.1.2	*Claims paid and change in insurance contract liabilities*	*(10,406,857)*	*(12,341,912)*
2.1.3	*Reinsurers' share*	*166,087*	*188,971*
2.2	Fee and commission expenses	(15,855)	(28,421)
2.3	Expenses from investments in subsidiaries, associates and joint ventures	(7,114)	(21,558)
2.4	Expenses from other financial instruments and investment property	(977,508)	(826,033)
2.4.1	*Interest expense*	*(90,584)*	*(88,072)*
2.4.2	*Other expenses*	*(69,277)*	*(77,999)*
2.4.3	*Realized losses*	*(142,293)*	*(166,095)*
2.4.4	*Unrealized losses and impairment losses*	*(675,354)*	*(493,867)*
2.5	Operating expenses	(1,887,042)	(1,928,904)
2.5.1	*Commissions and other acquisition expenses*	*(1,406,623)*	*(1,426,987)*
2.5.2	*Investment management cost*	*(16,437)*	*(14,645)*
2.5.3	*Other administrative expenses*	*(463,982)*	*(487,272)*
2.6	Other expenses	(1,047,250)	(981,028)
2	**TOTAL EXPENSES**	**(14,175,539)**	**(15,938,885)**
	LOSS BEFORE TAXES	**(1,459,017)**	**(1,027,045)**
3	**TAXES**	**391,067**	**77,117**
	LOSS AFTER TAXES	**(1,067,950)**	**(949,928)**
4	**PROFIT FROM DISCONTINUED OPERATIONS**	**30,850**	**1,762**
	LOSS FOR THE YEAR	**(1,037,100)**	**(948,166)**
	Loss for the year attributable to equity shareholders of the Group	**(263,596)**	**(271,541)**
	Loss for the year attributable to Minority interest	**(773,504)**	**(676,625)**

PREMAFIN FINANZIARIA -
Holding di Partecipazioni

CONSOLIDATED FINANCIAL STATEMENTS
AS OF 31.12.11
(in thousands of Euros)

STATEMENT OF COMPREHENSIVE INCOME	**2011**	**2010**
CONSOLIDATED LOSS	(1,037,100)	(948,166)
Change in reserve for translation differences	*(33,859)*	*(17,438)*
Profit or loss on available-for-sale financial assets	*(638,678)*	*25,019*
Profit or loss on cash flow hedges	(12,153)	(16,524)
Profit or loss on net foreign investment hedge	-	-
Change in the shareholders' equity of holdings	4,168	646
Change in the revaluation reserve for intangible assets	-	-
Change in the revaluation reserve for property, and equipment	*(544)*	*(8,764)*
Income/(charges) on non-current assets or disposal group classified as held for sale	-	*675*
Actuarial gains and losses and adjustments to employee defined benefit plans	*(7,344)*	*(2,522)*
Other items	*(8,085)*	*826*
TOTAL OTHER COMPONENTS OF COMPREHENSIVE INCOME	(696,495)	(18,082)
TOTAL CONSOLIDATED COMPREHENSIVE INCOME	(1,733,595)	(966,248)
of which attributable to the Parent Company	(391,140)	(287,885)
of which attributable to non-controlling interest	(1,342,455)	(678,363)

Premafin HP S.p.A. is a public limited company incorporated under Italian law: the addresses of its registered office and of the locations in which its main activities are carried out are provided in the introduction to the financial statements. The main activities of the Company and of its subsidiaries are described in the Directors' Report and in the section entitled "Segment Information".

In accordance with the requirements of IAS 1.8 - *Presentation of Financial Statements* these consolidated financial statements comprise the Statement of financial position, the Income Statement, the Statement of changes in shareholders' equity, the Cash Flow Statement and the Notes to the financial statements. They also include attachments pursuant to ISVAP Regulation 7 of 13 July 2007 and the information required by Consob, the Italian stock market regulator, as per Article 9, paragraph 3 of Legislative Decree 38/2005.

The consolidated financial statements of Premafin HP S.p.A. aim to present a financial statements model that complies with the presentation and disclosure requirements of the International Financial Reporting Standards (IFRS) and that takes into account the formats and instructions issued by the Supervisory Authority with Regulation 7 of 13 July 2007, and subsequent amendments.

The consolidated financial statements of Premafin HP have been prepared in accordance with the IAS/IFRS on an ongoing concern basis..

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2011

With regard to the statement of changes in shareholders' equity, the statement required by Regulation 7/07 is provided; this complies with the instructions contained in IAS 1, which allows a free-form statement with a series of minimum disclosure requirements.

In particular:

- the "Unrealized gain and loss on financial assets" available-for-sale" relate to the recorded effects of the evaluation of the related financial instruments net of the effects attributable to the policyholders and recorded as a deferred liability to policyholders;
- the "Allocation" column shows the allocation of profit for the year, the allocation of profit for the previous year to reserves, increases in share capital and other reserves, and changes in unrealized gains and losses recorded directly in equity;
- the "Adjustments for reclassification to the income statement" column shows gains and losses previously recognised directly in equity which are reclassified to the income statement in accordance with international accounting standards;
- the "Transfers" column shows ordinary dividend distribution and decreases in capital and other reserves, including the acquisition of treasury shares and the portion of profit or loss deriving from the valuation of available-for-sale financial assets attributable to policyholders and not recognisable as insurance liabilities.

PREMAFIN FINANZIARIA - S.P.A.
Holding di Partecipazioni
CONSOLIDATED FINANCIAL STATEMENTS
AS OF 31.12.11
(in millions of Euros)
STATEMENT OF CHANGES
IN SHAREHOLDERS' EQUITY

		Balance at 31.12.09	Change to closing **balances**	Allocation	Reclassification to income statement	Transfers	Balance at 30.06.10	Balance at 31.12.10	Change to closing **balances**	Allocation	Reclassification to the income statement	Transfers	Balance at 31.12.11
Shareholders' equity pertaining to the Group	**Share Capital**	**410,340**	**-**	**-**	**-**	**-**	**410,340**	**410,340**		**-**	**-**	**-**	**410,340**
	Other equity instruments	**-**	**-**	**-**	**-**	**-**	**-**	**-**		**-**	**-**	**-**	**-**
	Capital reserves	**21**	**-**	**-**	**-**	**-**	**21**	**21**		**-**	**-**	**-**	**21**
	Retained earnings and other reserves	**393,006**	**-**	**(129,646)**	**-**	**-**	**263,360**	**263,360**		**(262,696)**	**-**		**664**
	(Treasury shares)	**(43,183)**	**-**	**-**	**-**	**-**	**(43,183)**	**(43,183)**		**-**	**-**	**-**	**(43,183)**
	Profit (loss) for the year	**(134,417)**	**-**	**(137,124)**	**-**	**-**	**(271,541)**	**(271,541)**		**7,945**	**-**	**-**	**(263,596)**
	Other components of comprehensive income	**7,578**	**-**	**(60,324)**	**45,203**	**(1,224)**	**(8,767)**	**(8,767)**		**(150,172)**	**22,628**	**-**	**(136,312)**
	Total pertaining to the Group	633,345	-	(327,094)	45,203	(1,224)	350,230	350,230	-	(404,923)	22,628	-	(32,065)
Shareholders' equity pertaining to Minority	**Minority capital and reserves**	**3,088,469**	**-**	**(460,702)**	**-**	**-**	**2,627,767**	**2,627,767**		**52,425**	**-**		**2,680,192**
	Profit (loss) for the year	**(278,397)**	**-**	**(398,228)**	**-**	**-**	**(676,625)**	**(676,625)**		**(96,880)**	**-**		**(773,505)**
	Other components of comprehensive income	**(29,518)**	**-**	**(141,263)**	**141,736**	**(2,211)**	**(31,256)**	**(31,256)**		**(683,210)**	**114,259**	**-**	**(600,207)**
	Total pertaining to Minority interests	2,780,554	-	(1,000,193)	141,736	(2,211)	1,919,886	1,919,886	-	(727,666)	114,259	-	1,306,479
Total		3,413,899	-	(1,327,287)	186,939	(3,435)	2,270,116	2,270,116	-	(1,132,589)	136,887	-	1,274,414

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2011

With regard to the cash flow statement, the attachment required by Regulation 7/07 and which complies with IAS 7 is provided herein. IAS 7 specifies certain , which provides for a free-form statement with a series of minimum requirements for the preparation of cash flow statements and for the presentation of cash flows deriving from operating activities, and requires either the use of the direct method, which shows the principal categories of gross receipts and payments, or the indirect method, in which the results for the period are adjusted for the effects of non-cash items, any deferrals or accruals of future operating receipts and payments and revenues or costs relating to financial cash flows deriving from investing and financing activities.

The cash flow statement shown below, prepared using the indirect method, gives separate presentation of the net cash flow deriving from operating activities and the net cash flows from investing and financing activities.

PREMAFIN FINANZIARIA - S.P.A.
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CONSOLIDATED FINANCIAL
AS OF 31.12.11

CASH FLOW STATEMENT
(indirect method)
(in thousands of Euros)

	2011	2010
Loss before taxes	**(1,459,017)**	**(1,027,045)**
Non-cash adjustments	**1,838,087**	**4,148,823**
Change in Non-Life unearned premium reserve	(38,698)	35,638
Change in the claims reserve and other Non-Life insurance contract liabilities	809,273	217,426
Change in the actuarial reserves and other Life insurance contract liabilities	(87,191)	3,233,185
Change in deferred acquisition costs	57,302	54,508
Change in provisions	(1,833)	61,529
Non-cash income/charges from financial instruments, investment property and investments	609,218	230,202
Other movements	490,015	316,335
Change in receivables and payables from operating activities	**(360,730)**	**(188,208)**
Change in receivables and payables from direct insurance and reinsurance operations	(155,245)	(141,597)
Change in other payables and receivables	(205,485)	(46,611)
Income taxes paid	**(125,644)**	**(29,466)**
Net liquidity generated/absorbed by cash items relating to investing and financing activities	**(543,788)**	**(584,988)**
Liabilities from financial contracts issued by insurance companies	(368,904)	(449,522)
Payables to bank and interbank customers	(48,530)	(52,101)
Loans and receivables from bank	98,711	(48,347)
Other financial instruments at fair value through profit or loss	(225,065)	(35,018)
TOTAL NET CASH FLOW FROM OPERATING	**(651,092)**	**2,319,116**
Net liquidity generated (absorbed) by investment property	28,986	84,100
Net liquidity generated (absorbed) by equity investments in subsidiaries, associates and joint ventures	161,209	47,047
Net liquidity generated (absorbed) by loans and receivables	(628,095)	(385,148)
Net liquidity generated (absorbed) by investments held to maturity	(7,575)	216,335
Net liquidity generated (absorbed) by available-for-sale financial assets	1,263,818	(2,034,837)
Net liquidity generated (absorbed) by tangible and intangible fixed assets	(35,754)	(16,970)
Other net liquidity flows generated (absorbed) by investments	(15,000)	228,635
TOTAL NET CASH FLOW FROM INVESTING ACTIVITIES	**767,589**	**(1,860,838)**
Net liquidity generated (absorbed) by Group equity instruments	-	-
Net liquidity generated (absorbed) by treasury shares	-	-
Distribution of dividends relating to the Group	-	-
Net liquidity generated (absorbed) by capital and reserves pertaining to Minority interests/	563,094	(192,542)
Net liquidity generated (absorbed) by subordinated liabilities and by financial instruments in holdings	-	-
Net liquidity generated (absorbed) by other financial liabilities	(303,890)	(228,577)
TOTAL NET CASH FLOW FROM FINANCING	**259,204**	**(421,119)**
Impact of exchange differences on cash and cash equivalents	**(47)**	**(3,282)**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	628,404	591,245
INCREASE (DECREASE) IN CASH AND CASH	375,701	37,159
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	1,004,105	628,404

PREMAFIN FINANZIARIA S.p.A.

Holding di Partecipazioni

CONSOLIDATED FINANCIAL STATEMENTS

AS OF 31 DECEMBER 2011

EXPLANATORY NOTES

PART A

ACCOUNTING POLICIES

Section 1 – **Declaration of compliance with international accounting standards**

These consolidated financial statements have been prepared in accordance with the international accounting standards (IAS/IFRS) issued by the IASB (International Accounting Standards Board), and endorsed by the European Union and as currently interpreted by official bodies.

Following the coming into force of EC Regulation 1606 of July 2002, those European companies whose shares are traded on regulated markets must adopt IAS/IFRS for the preparation of their consolidated financial statements, in order to improve comparability and transparency at a European level.

The application within the EU of the international accounting standards – known as IAS for those issued up to 2001 and IFRS for those issued thereafter, as well as the relative interpretations, known as SIC (Standing Interpretations Committee) and IFRIC (International Financial Reporting Interpretations Committee) – is subject to an homologation process, to ensure that the international accounting standards are compatible with EU Directives, and is concluded with the publication of the documents adopted in the Official Gazzette of the European Union.

Legislative framework

- IAS 1 – Presentation of financial statements (Revised)
- IAS 24 – Related-party disclosures (Revised)
- IAS 32 – Financial Instruments: Presentation (Revised) – Classification of rights issues
- IAS 34 – Interim financial reporting (Amendments) – Significant events and transactions
- IFRS 1 – First-time adoption of International Financial Reporting Standards (Revised)
- IFRS 3 – Business combinations (Revised)
- IFRS7 – Financial instruments: disclosures (Amendment) – Clarification of disclosures
- IFRIC 13 – Customer loyalty programmes
- IFRIC 14 – The limit on a defined benefit asset, minimum funding requirements and their interaction (Revised)
- IFRIC 19 – Extinguishing financial liabilities with equity instruments

The content of the more significant of the above standards and interpretations is described below.

IAS 1

The amendment clarifies that an entity must present an analysis of the statement of comprehensive income for each component of shareholders' equity, either directly in the statement of comprehensive income itself or in the notes to the financial statements.

IAS 24

Further information is provided in relation to the definition of "related party" (e.g. two entities that are influenced significantly by a third entity are not to be considered related parties), and reporting obligations for government-related entities are simplified.

IAS 34

The revised standard requires that the interim financial statements update the information relative to significant events and transactions disclosed in the most recent annual financial statements; examples are provided of the significant events and transactions for which it would be necessary to provide additional information (potential changes in liabilities or assets, changes in the classification of financial assets as a result of a change in the purpose or use of such assets, transfers between the different levels of the hierarchical scale of fair value, and changes in commercial or economic circumstances affecting the fair value of the company's assets and liabilities).

IFRS 3

Non-controlling interests may be measured either at fair value or proportionately to the non-controlling interest's share of the acquired entity's identifiable net assets; the revised version specifies that the choice is applicable only to instruments currently owned that provide an entitlement to a proportional share of the acquired entity's equity in the event of liquidation. All other components of non-controlling interests must be valued at their respective fair value at the acquisition date, unless other IFRS require a different valuation criteria.

IFRS 7

It is noted that providing qualitative disclosures in the context of quantitative disclosures gives the readers of financial statements a better view of the exposure to risk arising from financial instruments; information must be provided relative to the credit risk connected to those financial instruments whose book value does not best represent the entity's maximum exposure to credit risk, and the financial effect of the related guarantees; the entity is no longer required to provide the book value of financial assets that would have otherwise expired or decreased in value but whose terms were renegotiated.

IFRIC 19

The document stipulates that equity instruments issued in order to extinguish a financial liability (fully or partially) must be valued at fair value on the date of extinguishment (if this cannot be reliably determined, the fair value of the extinguished liability must be adopted) and that the difference between the book value of the extinguished liability and the price paid (=fair value of equity instruments) must be recognised on the income statement.

The application of the abovementioned amendments/revised standards had no significant impact for the Group.

As regards those standards for which the endorsement process is still under way, in particular IFRS 9, IFRS 10, IFRS 11, IFRS 12 and IFRS 13, we are as yet unable to make a reasonable estimate of the impact thereof, given the current best practice regarding interpretation and potential improvements.

Section 2 – Basis of Presentation

The financial statements have been prepared in accordance with the going concern concept.

Business continuity

In consideration of that described in the section "Significant events after the year-end" contained in the Director's Report (to which reference should be made for the definition of the terms utilised herein), the preparation of the financial statements as at 31 December 2011 on a going concern basis is based mainly on the successful implementation of the Unipol Agreement and on the finalisation of the Restructuring Agreement in the context of the Integration Plan and the Reorganisation Plan.

The Premafin Recapitalisation Commitment assumed by UGF pursuant to the Unipol Agreement is also subordinate to the fulfilment of a series of conditions, some of which are completely or partially outwith the control of the parties to the Unipol Agreement. In addition, some of the conditions are completely or partially waivable by UGF.

The main conditions of the Unipol Agreement yet to be fulfilled regard authorisational aspects, and negotiational aspects to be defined by the companies involved in the Integration Project, as well as negotiational aspects with the lender banks of the Premafin group.

Also, given the time required for the authorisations and corporate procedures relative to the Integration Project, it is not currently possible to foresee the date of occurrence of the said conditions, nor is there any reason to believe that these cannot be met.

As a result of the above, despite the existence of uncertainty regarding the Company's ability to continue its business as a going concern and in light of the progress of the negotiations underway both with the companies involved in the Integration Project and with Premafin's lender banks (which have issued Highly Confident Letters) and the integration and reorganisation plans described in the Director's Report, the directors are reasonably confident that the Company will have sufficient funds to continue operations in the foreseeable future. For this reason, it continues to adopt the going concern concept in the preparation of the financial statements.

Finally, for information purposes, we would point out that between 2011 and 2012, the Company received additional offers from institutional investors to sustain its investment in Fondiaria-SAI through adequate recapitalisation of the Company.

The consolidated financial statements have been prepared in accordance with the ISVAP instructions contained in Regulation 7 of 13 July 2007.

Section 3 – **Consolidation methods**

CONSOLIDATION

FINANCIAL STATEMENTS USED FOR CONSOLIDATION

The consolidated financial statements have been prepared on the basis of the financial statements of the Group companies, as approved by the respective Boards of Directors, were used. These financial statements were adjusted and restated to reflect the application of the international accounting standards.

CONSOLIDATION METHODS

Line-by-line consolidation

The consolidated financial statements include the financial statements of the Parent Company and of the Italian and foreign companies over which Premafin has the power to exercise control as defined by paragraph 4 of IAS 27, taking account also of potential voting rights.

Control is deemed to exist also if the Parent Company owns half or less of the voting rights of an entity and it also has:

- control of more than half of the voting rights in virtue of an agreement with other investors
- the power to determine the financial and operating strategy of the entity under a clause in the entity's by-laws, or of a contract
- the power to appoint or remove the majority of the members of the Board of Directors or equivalent governing body of the entity
- the power to exercise the majority of the voting rights at meetings of the Board of Directors or equivalent administrative body.

Under the line-by-line consolidated method, the book value of investments is eliminated against the relative equity, and the total assets and liabilities as well as the income and charges of the subsidiary companies are recorded in the consolidated financial statements.

The share of net equity and of results for the year attributable to non-controlling interests are recorded under specific headings in the statement of financial position and income statement.

The differences between the carrying value of the equity investments and the Group share of equity at the acquisition date are allocated to specific fixed assets when the higher cost reflects their fair value, and to other specific intangible assets (including, for example, the Voba (value of business acquired), the Vif (value in force), the value of the premiums and of the client list), in this case also valuing non-controlling interests and the tax effect, and, residually, to goodwill, where the higher price paid reflects the value of prospective future operating results.

Proportional consolidation

In accordance with IAS 31, the consolidated financial statements also include companies in which the Parent company has joint control with the other shareholders on the basis of a contractual agreement. In this case, such companies may be consolidated using either the equity method or the proportional method.

Equity method consolidation

Associates are valued using the equity method in accordance with IAS 28. An associate is an entity in which the Parent Company has a significant influence without being a subsidiary or a joint venture.

In accordance with IAS 28.6, significant influence is presumed when the investment held, directly or indirectly, amounts to at least 20% of voting rights at the shareholders' meeting of the investee company.

Under this procedure, the consolidated financial statements only include the Group's share of the booked equity pertaining to the equity investment, including the operating result for the year, but not the individual items in the financial statements.

Other consolidation operations

The other consolidation operations mainly consist of the standardisation of the financial statements of the companies to be consolidated in terms of substance (the valuation criteria for financial statement entries) and in terms of presentation.

In particular, use of a rigid financial statement format, such as that required by the Supervisory Authority, together with use of a common reporting package for all of the Group companies, ensures compliance with the formal standardisation criteria.

The consolidation procedure included the following :

- the elimination of dividends paid or resolved upon by consolidated companies
- the elimination of inter-company transactions, both in the income statement and in the statement of financial position
- the elimination of gains or losses deriving from sale/purchase transactions between Group companies and relating to equity values, even if relative to companies consolidated under the equity method
- the necessary adjustments to standardise accounting principles within the Group
- the recognition, where applicable, of the tax effects resulting from any adjustments made to apply uniform valuation criteria to items in the financial statements or from other consolidation adjustments.

DATE OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements close at 31 December 2011, as do all the financial statements of the fully consolidated companies.

There were therefore no problems with standardised accounting in respect of reporting periods, since the financial years of the companies included in the consolidation are identical.

CURRENCY

These financial statements are expressed in Euros (€), since this is the currency in which the majority of Group transactions are carried out. Considering, therefore, the substantial uniformity of the functional currency with the presentation currency of the consolidated financial statements, the conversion of financial statements expressed in currencies other than the Euro was carried out by applying current exchange rates at year-end for items in the statement of financial position and the average rate for the year for items in the income statement.

The exchange rates utilised for the principal currencies other than the Euro are reported in the notes to the financial statements.

The financial statements also indicate whether the amounts reported are in thousands or millions.

Section 4 – Accounting principles and valuation criteria

The accounting principles adopted are consistent with those used in the previous year.

The valuation criteria used for the main items of the financial statements are shown below.

ASSETS

1. INTANGIBLE ASSETS

Goodwill

In accordance with IAS 38 - *Intangible assets* and IFRS 3, goodwill is considered to have an indefinite useful life and therefore is not systematically amortised but rather is subject to impairment testing on an annual basis or within a shorter period when events or circumstances occur that could give rise to a permanent loss in value.

For this purpose, the Group:

- identified the cash flow generating units relative to the goodwill recorded;
- this identification was made taking into account the minimum organisational level at which goodwill is monitored by senior management;
- determined the recoverable value of cash generating units as being the higher of their fair value and their value in use;
- identified the future cash flows of these cash generating units in those cases where value in use has been used for goodwill;
- appropriately discounted the future cash flows in order to determine the "recoverable value" of goodwill and record any loss in value.

Intangible assets with indefinite useful life

Intangible assets with indefinite useful life principally consist of brands, which do not have limitations in terms of useful life from a contractual, legal, economic and competitive viewpoint. Intangible assets with indefinite useful life are not amortised but are subject to impairment testing on an annual basis, or more frequently if there is an indication that the asset may have been impaired.

Other intangible assets

In accordance with IAS 38, an intangible asset is recorded only if it is identifiable, controllable, if its cost can be reliably quantified and if it is capable of generating future economic benefits.

Consequently, starting up and expansion costs and research and advertising costs are charged to the income statement when incurred.

Intangible assets that may be capitalised are amortised on a straight-line basis over the estimated useful lives of the assets, subject to verification that no impairment indicators exist. There are no intangible assets generated internally.

The notes to the financial statements provide indication on the useful life of the various categories of intangible assets.

2. PROPERTY AND EQUIPMENT

This item includes buildings for use by the Group and other tangible fixed assets.
IAS 16 – *Property, plant and equipment* stipulates that buildings for use by the enterprise be initially recorded at cost; subsequent recognition may be made based on the cost model (paragraph 30) or based on the recalculated value model (paragraph 31).
Consistent with the method used for investment property, the Group decided to use the cost principle for the valuation of buildings for both its own use and for investment use. Reference should be made to the section relating to investment property.
The assets held through finance lease contracts, where the majority of the risks and rewards related to ownership have been transferred to the Group, are recognised as assets of the Group at the lower of their fair value or of the current value of the minimum lease payments. The corresponding liability due to the lessor is recorded in the financial statements under payables. The relative costs are recorded in accordance with the procedures established by IAS 17.

Also included in this category are buildings classified as inventory in the financial statements of the companies operating in the real estate sector. These are valued, in accordance with IAS 2, either at cost (including purchase cost, transformation and other costs incurred) or at the net realisable value, whichever is lower. In particular, the purchase cost of the buildings completed and the property initiatives in progress is determined based on historic cost plus the costs incurred for work of an extraordinary nature, which increase their value permanently, or the purchase cost of equity investments allocated to the assets up to the current value attributed to them at the time of purchase. The cost is also increased by incremental expenses and, for buildings under construction, by capitalisable financial expenses when specifically construction-related.
With regard to agricultural activities, for advance payments on crops, work completed was valued at the reporting date, while for organic activities fair value was measured by comparing production values and market values.

3. REINSURANCE ASSETS

The item refers to the obligations of reinsurers arising from reinsurance contracts in accordance with IFRS 4. The reinsurance assets are recognised and accounted for in line with the accounting principles applicable to the underlying direct insurance contracts.

4. INVESTMENTS

Investment property

Investment property refers to properties held for rental purposes and/or for the appreciation of the capital invested.

IAS 40 – *Investment property*, which governs the properties held by the enterprise for investment purposes, provides that, at the moment of the acquisition of the buildings, these be recorded at cost, while in subsequent evaluations the entity can choose between the cost valuation and the fair value.

The fair value is the price at which the ownership of the building can be exchanged between knowledgeable and willing parties in an arm's-length transaction, which is normally referred to as the market price.

Except as indicated below, the Group has chosen to use cost as the principal valuation method for all buildings used by the entity, held as investment property or leased/rented out to third parties.

In accordance with IAS 16, as referred in IAS 40, it was decided to:

- separate the value of the land from the value of wholly owned buildings located thereon, as the former is not subject to depreciation, given its unlimited duration;
- record depreciation on the net value thus determined, applying specific technical and economic depreciation rates determined in relation to the expected residual useful lives of the individual components of the buildings, represented by the structure and related plant.

Investment property is subject to impairment testing, including the comparison between carrying value and the estimated fair value determined by independent valuation experts.

The revaluations carried out on buildings in previous years were not excluded from the process of recalculating costs, as they concur to determine amortised cost by reflecting the change in the price indices or were performed to approximate the fair value of the buildings at the revaluation date.

On the other hand, we have used fair value as a substitute for cost for the properties transferred to the Tikal closed-end property fund, in continuation of the option adopted in the first-time adoption phase.

Any gain or loss deriving from the derecognition of an investment property is recorded in the income statement in the year of derecognition.

Equity investments in subsidiaries, associates and joint ventures

The item includes equity investments in associates valued at equity, and certain equity investments in subsidiaries which the Group regards as non-material and which are therefore maintained at cost. As previously described in the section relating to consolidation methods, no entity subject to joint control with other parties (joint ventures) is included in this item, due to the application of the proportional consolidation method.

Financial Instruments

IAS 39 – *Financial instruments: recognition and measurement* states that financial instruments are to be classified, not according to their nature, but based on their use within the entity's operations. In particular, IAS 39 stipulates the following categories for financial assets:

- "financial instruments at fair value through profit or loss", which includes securities held for trading in the short term period and securities which, having the necessary characteristics, are initially recognised in this category;
- "loans and receivables" which, in addition to receivables and loans as defined by the Italian accounting principles, also includes unlisted debt securities not destined for sale whose recovery depends exclusively on the creditworthiness of the issuer;
- "financial instruments held-to-maturity", which includes debt securities with fixed maturity and fixed or determinable payments which the entity intends to, and is capable of, holding to maturity;
- "financial instruments available-for-sale" comprises those securities which cannot be classified in the above categories.

At initial recognition, financial assets are recorded at fair value, which generally corresponds to the price paid for their acquisition. Subsequently, in accordance with IAS 39, different valuation criteria are applied to the various categories of financial instruments. In particular:

- Financial instruments at fair value through profit or loss are valued at fair value, with the difference between fair value and initial value is recorded in the income statement.
- Financial instruments held-to-maturity and loans and receivables are valued at amortised cost, calculated using the effective interest rate method.
- Financial instruments available-for-sale are valued at fair value and the differences are recorded directly in a specific reserve in shareholders' equity. This reserve is reversed to the income statement when the financial instrument is realised or in the event of an impairment loss.

The normal sales and purchases of financial assets are recorded at the transaction's settlement date, i.e. the date at which the Group receives or delivers these assets.

In addition, in accordance with IAS 32, any gains or losses deriving from the sale/purchase of treasury shares is recorded in the income statement, while the amount paid or received is recorded directly in shareholders' equity.

This method is also adopted for the sale of shareholdings not resulting in loss of control. Thus, as long as control is maintained, profit and loss from dilution are recorded in equity for the purposes of a clearer representation of the result for the year. This accounting method is not applied, however, to the sale of equity investments in subsidiaries that are held in the portfolios under separate management of the Life segment, since there is a specific mechanism for consolidating these profits within the benefits payable to policyholders.

In addition, for the acquisitions of further equity investments in companies that are already subsidiaries, the difference between the purchase cost and book value of the non-controlling interest shareholdings acquired, is recorded in shareholders' equity, in accordance with the economic entity theory.

Reclassification of financial instruments

We would point out that, in accordance with IAS 39 currently in force, as amended on 13 October 2008, a financial asset classified as available for sale may be reclassified to the category "Loans and receivables" provided that it complies, at the acquisition date, with the requirements for this classification and that the company also has both the intention and the capacity to hold the financial asset for the foreseeable future or until maturity. The choices made and the effects thereof are recorded in the notes to the financial statements.

Using this option, the Group reclassified at 1 January 2009 certain debt securities appearing in the financial statements as of 31 December 2008 for Euro 808,419 thousand from the "Available for sale" category to the "Loans and receivables" category. These securities, mainly containing subordination clauses and issued by corporate entities, were measured at fair value at 31 December 2008 by mark to model, with the objective of providing the utmost transparency and clarity in financial statement valuations. This intention is not easily reconciled with the nature of the securities and with the difficulty of defining and therefore providing an objective fair value, due to the current economic and financial crisis, which does not permit normal pricing, particularly for these types of securities.

The value transferred is equal to 2.4% of total Group investments at 1 January 2009: therefore this reclassification was not considered significant for the purposes of preparing the appendix "Analysis of reclassified financial assets and effects on the income statement and total income".

For the residual value of the financial instruments transferred, reference should be made to the comments on the "Loans and receivables" item in the notes to the financial statements.

Loans and receivables

This item includes loans as defined by IAS 39.9, excluding trade receivables.
In particular, this item includes the deposits of reinsurers at the ceding companies, certain debt securities held that are not listed on an active market, mortgages and loans given, as well as loans on life policies and time deposit contracts.
The latter includes the value of the "time deposit" securities acquired, while the value of the "time deposit" securities sold is recorded under financial liabilities in the item "Other financial liabilities".
The interest and the difference between the "current" and "forward" value is recorded as income deriving from other financial instruments.
Loans and receivables are measured under the amortised cost method, using the effective interest rate criteria.

Investments held to maturity

This item includes financial instruments with fixed maturities and fixed or determinable payments, which the Group has both the intention and capacity to hold until maturity. Specifically, it includes debt financial instruments of the Life segment servicing policies with specific provisions. Investments held to maturity are measured at amortised cost method using the effective interest rate criteria.

Measurement of the fair value of financial instruments

We would point out that the valuation methods for the financial instruments available for sale (AFS) and the respective impairment policies did not change during 2011 and are therefore in line with those used in 2010.

Fair value represents the payment for which an asset may be exchanged or a liability settled in an arm's-length transaction between knowledgeable and independent parties, at a certain measurement date; therefore, it is the price that would be paid in an ordinary transaction, or in a transaction involving willing market participants, therefore excluding forced transactions.

Measurement of the fair value of the financial instruments is based on the assumption that the company and the Group are going concerns.

The criteria for the hierarchy for the determination of fair value, based on market parameters, are shown below:

Level 1: Quoted price in active markets

The valuation is the market price of identical financial instruments based on quotations on an active market.

Level 2: Valuation methods based on observable market parameters

The valuation of the financial instrument is not based on the market price of the financial instrument subject to valuation, but on prices available from market quotations of similar assets or through valuation techniques for which all the important inputs (such as credit and liquidity spreads) are taken from observable market data.

Level 3: Valuation methods based on non-observable market parameters

Measurement of fair value is based on valuation techniques which are mainly based on significant input not available on the market and results, therefore, in estimates and assumptions made by management. In the event that fair value cannot be reasonably determined, the financial instrument is valued at cost.

For the purposes of recognising impairment of instruments AFS, the Group has identified the conditions for a prolonged or significant reduction in fair value, defined on the basis of either:
1. reduction of the market value of more than 60% of the original cost at the reporting date of the financial statements
2. a market value continuously lower than the original book value, for a period of two years.

In addition, for debt securities in the AFS segment, reference was made to the presence of one of the qualitative impairment factors set out in paragraph 59 of IAS 39, including what is stated in point a), i.e. the significant difficulties of the issuer or debtor, which resulted in the write-down of all of the Greek securities held in the portfolio.
Additional information required by IFRS 7 is disclosed in the notes to the consolidated financial statements.

Financial assets available-for-sale

This item includes all non-derivative financial assets, designated as available for sale. The item relates to the majority of the financial assets of the Group, i.e. equity securities that are mainly listed, investment fund units and debt securities (both listed and unlisted), which the Group has designated as belonging to this category.

As previously shown, profit and loss deriving from changes in the fair value of these assets are recorded directly in equity until they are sold or are impaired. At that moment the profit or loss, already recorded in equity, is regocnised in the income statement for the period.

Impairment of financial instruments in the AFS segment

The financial instruments belonging to the AFS segment derive almost entirely from the consolidation of the Fondiaria-SAI Group. The method adopted is based on the following rules:

Paragraph 59 of IAS 39 mentions the following qualitative factors as indicators of possible impairment:

- significant financial difficulties of the issuer;
- breach of contract or non-payment of interest or capital;
- the risk of commencement or the commencement of receivership of the issuer;
- the elimination of an active market for the financial assets subject to valuation;
- data which indicate the existence of a significant decrease in estimated future cash flows for a group of financial assets, including:
    - unfavourable changes in the status of payments of beneficiaries in the Group
    - local or national economic conditions connected to defaults relating to assets within the Group.

Paragraph 61 of IAS 39 stipulates that objective evidence of the impairment of an equity instrument must include information on important changes with an adverse effect on the technological, market, economic or legal environment in which the issuer operates; in addition, a prolonged or significant reduction in the market value of an equity instrument below the original purchase cost constitutes objective evidence of impairment.
Following the publication of the "IFRIC Update" in July 2009, it became clear that the two "significant or prolonged" criteria must be applied separately and not jointly. The requirement of the abovementioned Joint Document 4 of 3 March 2010 had already been applied by the Group starting from the 2009 half-year report.
Therefore, for the purposes of the recognition of the reduction of value, the Group has defined the conditions for a prolonged and significant reduction of fair value, defined as either of the following:

1. reduction of the market value of more than 60% of the original cost at the reporting date of the financial statements
2. a market value continuously lower than the original book value, for a period of two years.

When the above conditions occur, the entire negative reserve is recognised in the income statement.

Government bonds issued by Portugal, Ireland, Greece, Spain and Italy.

Greek sovereign debt

On 21 July 2011, a group of about 30 major international financial institutions announced their involvement through the IIF (Institute of International Finance) in supporting the release of a second aid package for Greece.
The offer presented by the IIF was based on four options for exchanging existing Greek sovereign debt for newly issued bonds by rolling over maturing bonds or buying back bonds held at a discount.
Given the different indicators of impairment in the last half-year, it was decided to write down the value of the Greek government financial instruments with maturity date prior to 2020.
It should be noted that the Greek government bond exchange offer was approved on 24 February 2012, providing for every Euro 1,000 of nominal value of the bonds outstanding to be substituted with:

- 20 Greek government bonds with an overall nominal value of Euro 315 and maturity within 11 to 30 years;
- two new bonds issued by the European Financial Stability Facility (EFSF) for a total nominal value of Euro 150;
- GDP-linked bonds issued by Greece with a notional value equal to that of the new bonds received in exchange (Euro 315) which will produce additional interest should the Greek GDP growth exceed a pre-established threshold;
- short-term zero coupon bonds issued by the EFSF to hedge against the unpaid interest accrued on existing Greek government bonds issued on the date of the agreement.

The plan, which established 8 March as the deadline for declarations of intent, had an acceptance rate among investors of about 95%. Group companies accepted for all the bonds held.
With this in mind, these financial statements recognise a permanent loss of value pursuant to Article 16, paragraph 3 of Legislative Decree 173/1997 relative to all Greek government bonds in the portfolio. In addition, despite a strong decrease in the number of transactions, it was prudently decided to consider the respective market as active and therefore reference was made to market prices as an indication of the prices at which the bonds can be knowingly exchanged.

Financial assets at fair value through profit or loss

This item includes financial instruments held for trading in the short term, as well as assets that the Group has placed in this category in accordance with IAS 39 currently in force. The category therefore includes debt securities and equity securities, both listed and unlisted, as well as open positions on derivative finance contracts held for both efficient management and for fair value and cash flow hedges.

This item also includes financial instruments hedging insurance or investment contracts issued by the insurance company for which the investment risk is on policyholder, as well as financial assets deriving from the management of pension funds (Class D investments under Italian GAAP).

Pursuant to the above-mentioned amendment to IAS 39 in October 2008, financial assets through profit or loss has become an "open" category and, therefore, if the asset is no longer held for sale or repurchase in the short term, it may be classified outside the category. It may also be reclassified in the presence of "rare circumstances" established by IAS 39.50B. As highlighted by the same IAS Board, the deterioration of the global financial markets in the final four months of 2008 was a clear example of this.

5. OTHER RECEIVABLES

This item includes trade receivables as described by IAS 32 AG4 (a) in application of IAS 39.

The principal receivables recorded under this item relate to positions with: policyholders for premiums due, agents and other brokers and co-insurance and reinsurance companies.

The receivables are valued at amortised cost using the effective interest rate method, identified by calculating the rate which matches the present value of the future cash flows of the receivable to the amount of the loan granted.

The amortised cost method is not used for short-term receivables. These receivables are valued at historical cost, which coincides with the nominal value, and are periodically subject to impairment testing. Similar criteria are used for receivables without established maturities.

Periodically, an estimate is made of doubtful receivables. Bad debts are written down at the time of identification, taking into account financial effects relating to the presumed realisable period, where significant.

6. OTHER ASSETS

Non-current assets or disposal group classified as held for sale

This item includes non-current assets held for sale or assets of a discontinued group, pursuant to IFRS 5. These assets are recorded at cost and valued at the lower of their carrying value and their fair value, net of expected selling costs.

Deferred acquisition costs

Acquisition commissions due to brokers for the acquisition of long-term policies are capitalised and amortised over the average duration of the contracts to which they refer. For the Life segment, amortisation is carried out up to the limits of policy loading. Periodically, the future use of the unamortised acquisition commissions is reviewed. All other charges incurred for the acquisition of risks relating to long-term contracts and for their management are recorded in the income statement in the year in which they are incurred.

Current and deferred tax assets

The current tax assets item refers to assets of a fiscal nature as defined and governed by IAS 12.

The Group records the effects relating to current and deferred income taxes based on the valuation of the fiscal charge for the period, determined in accordance with current fiscal regulations. Where there exist timing differences between the result for the year and the taxable income, deferred tax is calculated taking into account the nominal tax rate in force at the time of their estimated reversal and making appropriate adjustments in the event of a change in rates compared with those applied in previous years.

Deferred tax assets are recorded up to the limit of their probable recovery in relation to the entity’s capacity to generate future taxable income.

Also recorded in this item are assets deriving from the payment of taxes pursuant to Article 1, paragraph 2 of Decree Law 209/02 as passed into law by Article 1 of Law 265/2002, as subsequently amended. This is in compliance with Regulation 7 of 13 July 2007, even if the above-mentioned assets do not relate to income taxes.

At the year-end, current and deferred income tax assets are reported net of the corresponding tax liabilities in accordance with the compensation rules stipulated by IAS 12.

Other assets

This item includes transitory reinsurance accounts, deferred commissions payable for contracts not falling within the scope of IFRS 4 and other sundry assets that do not come under the abovementioned asset categories.

Financial service contracts related to financial insurance policies

Index-linked and unit-linked products of a financial nature are divided into a financial contract component (IAS 32 and 39) and a service contract component (IAS 18) for the management of the investor's position.
With regard to the service component of index and unit linked contracts, IAS 18 requires that:

- revenues and costs relating to the same transaction are recorded simultaneously
- associated revenues and costs for a transaction involving services must be recorded with reference to the state of completion of the transaction.

The state of completion may be determined using various methods. Specifically, when services are performed through an indeterminate number of actions over a specified period, revenue and costs are recognised on a straight-line basis over the specified period unless there is evidence that the use of another method would better represent the state of completion.
On the basis of the above considerations, the amortisation of the costs incurred on financial contracts and, conversely, the portion of revenue not yet matured relative to these contracts were determined using the straight-line method.
Therefore, for the financial contract component the liability is measured at fair value, while for the service contract component, while given that the revenue flows (loading) are not aligned with cost flows (commissions and management costs), revenues are deferred (deferred income revenue - DIR), as are acquisition provisions (deferred acquisition cost - DAC).

For index-linked products, the DIR and DAC estimates, amortised for the period from commencement to the valuation date, are calculated with direct reference to the portfolio in force, taking into account the total loading and acquisition provisions by tranche.

For unit-linked financial products, the revenue flows, loading and management commissions (the latter estimated) are deemed higher than the relative cost flows and are recorded on an accruals basis over the residual duration of the contract.

7. CASH AND CASH EQUIVALENTS

This item includes cash, bank current accounts and deposits repayable on demand as well as other highly liquid investments, readily convertible into cash and without any risks.

These balances are recorded at nominal value.

SHAREHOLDERS' EQUITY AND LIABILITIES

1. SHAREHOLDERS' EQUITY

Attributable to the Group

This item includes equity instruments and the related Group equity reserves.

The item "Retained earnings and other reserves" includes reserves from the first-time application of international accounting standards, consolidation reserves, and catastrophic and equalisation reserves pursuant to IFRS 4.14 (a), as well as reserves deriving from share-based payments.

The item "Profit or loss on financial assets available-for-sale" includes profit or loss resulting from the valuation of available-for-sale financial assets net of both the related deferred tax (where applicable) and the part attributable to policyholders and recorded under insurance liabilities (shadow accounting).

The item "Treasury shares" includes, as an adjustment to Group equity, the book value of the equity instruments of the entity that prepares the consolidated financial statements, held by the entity itself and by the consolidated companies.

Attributable to non-controlling interests

This item includes the equity instruments and components and the related equity reserves attributable to non-controlling interests.

2. PROVISIONS

This item includes the liabilities defined and governed by IAS 37. Provisions for risks and charges are made only when the Group has an actual obligation (legal or implicit) which derives from a past event and for which it is possible to make a reasonable estimate of the presumed financial obligation. Where the actuarial effects are significant, the provisions are determined by discounting the expected future cash flows using a rate of discount which reflects the current market cost of money; in this case the adjustment made for the passage of time is recorded as a financial charge.

3. INSURANCE CONTRACT LIABILITIES

This item includes the commitments deriving from insurance contracts gross of reinsurance. Specifically, they include the provision made following the verification of the adequacy of liabilities and deferred liabilities towards policyholders.

The general regulations on insurance contract liabilities, pursuant to Articles 36 and 37 of Legislative Decree 209/05, state that the insurance contract liabilities must always be sufficient to permit companies to meet, as far as is reasonably foreseeable, their commitments on insurance contracts; therefore they are calculated according to individual financial statement criteria and no recalculation of the insurance contract liabilities was made as per IFRS 4.

In particular:

Non-Life unearned premium provision

Article 37 of Legislative Decree 209/05 requires recognition of the premium provision under two components: the "provision for premium fractions" and the "provision for risks in progress".

- *Provision for premium fractions*

  This is calculated in all classes, applying the pro-rata method analytically, on the basis of gross premiums recognised, net of acquisition expenses, as outlined in Articles 51 and 52 of Legislative Decree 173/97.
  For risks deriving from hailstorms and nuclear energy, the calculation was applied as per Article 15 *et seq*. of ISVAP Regulation 16/2008.
  For the Credit class, the provisions of Article 7, paragraph 4 of ISVAP Regulation 16 were applied for contracts entered into or renewed before 31 December 1991.
  In the Other Property Damage, Fire, Injury and Transported Goods classes, further provisions were made for natural calamity, also in accordance with ISVAP Regulation 16.
  In the Bond class, supplementary provisions were made in accordance with Article 12 of ISVAP Regulation 16.

- *Provision for risks in progress*

  This component of the premium provision is created in accordance with Article 9 of Regulation 16/08 to cover the risks incumbent on the entity after year-end, to meet all the costs for claims that could arise on contracts giving rise to the formation of provisions for premium fractions, to the extent that the expected costs of these risks exceed the provision for premium fractions.
  The calculation procedure adopted for the provision of this provision reflects the empirical method suggested by the Supervisory Authority in the above-mentioned Regulation, applied separately for each class, and, within each class, for each type of risk included. The ratio of claims utilised was valued also taking into account a retrospective period in relation to the particular nature of each class or of the individual types of risks included.

Non-Life claims provision

The claims provision represents the total amount of funds which, from a prudent valuation made on the basis of objective elements, are necessary to meet the payment of claims open at year-end, as well as the relative settlement expenses.

The claims provision was valued according to the provisions of Articles 27 *et seq*. of Regulation 16/08, taking the last cost as the calculation criteria, to take into account all foreseeable future expenses, based on historical and projected data. This also includes the estimate relating to the claims incurred but not reported at year-end.

Specifically:

Motor TPL class

It should be noted that February 2007 saw the introduction of the direct indemnity regime which, in the event of a road accident, allows victims who are not responsible, or responsible only in part, to be compensated directly by their insurer.

Starting from the 2011 financial statements, actuarial statistical models were developed that analyse claims up to 2006 and subsequent claims separately, dividing the latter into claims not falling under the direct indemnity regime (primarily because they involve permanent physical damages from injuries resulting in an invalidity of greater than 9% or because more than two vehicles were involved) and those falling under the CARD handler regime.

With this in mind, the Chain Ladder and Fisher Lange actuarial methods were used in order to calculate the final cost for the claims provision.

The provision relative to IBNR claims was calculated pursuant to Article 32 of ISVAP Regulation 16 of 4 March 2008, using a method that provides an estimate of the IBNR provision, by number and by value, based on past experience and taking into account the trend in late claims and their relative average cost, as well as the average cost of claims reported during the year. The estimate of the expected number of late claims was made separately between No CARD and CARD.

The lump sums relative to CARD Management and CARD Debtor were recognised based on the amounts and rules defined by the Technical Committee instituted pursuant to Presidential Decree 254/2006.

- *Other Non-Life classes*

  The valuations were made analytically on a each individual claim by the settlement department. These valuations were adjusted by management based on the results of specific valuation models, in order to determine the final cost of the claims. These models take into account past experience in relation to the adequacy of the claims provision as well as changes in, and the effective occurrence of, late claims.

  - Settlement expenses

    With regard to the quantification and allocation process for settlement expenses, we would point out the following:
    - on payment, the external expenses are directly allocated to the individual claims, while the individual expenses are broken down by class and, within this, by year, based on the amount of the payment (indemnity plus external expenses)
    - on the provision, external and internal expenses are a component of the valuation of the provision at latest cost and are subsequently determined by applying a percentage, defined on the basis of past trends in settlement expenses, to the total provision.
  - Late claims provision

    Given that the valuation of the claims provision at latest cost is carried out by year of occurrence, the claims provision includes the provision necessary to meet the claims attributable to the year but not yet reported at the year-end, estimated with reference to historical experience in previous years.

Other technical provision

In accordance with Article 37, paragraph 8 of Legislative Decree 209/05, this item includes the ageing provision, comprising insurance contracts against long term disease for which the company has renounced the right of withdrawal; the provision was calculated in accordance with paragraph 8 of the above-mentioned Article.

Catastrophic and equalisation provisions

IFRS 4 “Insurance contracts” defines insurance liabilities as the net contractual obligation of the insurer pursuant to an insurance contract.
Based on this definition, financial statements prepared in accordance with IAS/IFRS may not include any component of the premium provisions which, although mandatory under Italian GAAP, do not concern individual insurance contracts but rather all contracts covering certain catastrophic risks. These are calculated based on a flat rate, in addition to the provision for premium fractions of individual contracts, using the pro-rata method, in order to strengthen the ability to cover risks of a catastrophic nature.
These additional provisions are therefore made not against claims already occurring (which gives rise to a contractual obligation of the insurer, to be recorded in the claims provision) but to hedge against the possibility that claims of this nature will occur in the future. According to IFRS 4, this possibility should be covered not with a liability, but with a greater amount of shareholders’ equity.

Life insurance contract liabilities

The insurance contract liability for direct life insurance is calculated analytically for each contract, on the basis of the total commitment, without detraction for acquisition expenses of the policies, and with reference to actuarial assumptions (technical interest rates, demographic assumptions of elimination for death or invalidity and administration expenses) adopted for the calculation of premiums relating to contracts in force. In any case, the actuarial provision is not lower than the redemption values. The premium quota relating to the annual premiums of the subsequent year is included in the insurance contract liabilities.

The actuarial provision also includes the additional provision on the revaluation service contracts, pursuant to ISVAP Regulation 21 and the additional provision for the base techniques to take into account the higher charges which the company must incur against the existing differences between the interest rate given to the policyholders and the trend in the expected yields of the separated managements over the next four years.

These provisions are for commitments relating to life insurance policies and those with discretionary participation.

Shadow Accounting

In order to provide better data disclosure and pursuant to paragraph 30 of IFRS 4, the value of the actuarial provision relating to discretionary participation contracts (including the separated management in the Life classes) was correlated with the value of the relative assets determined in accordance with IAS 39.
The securities included in the separated management of the Life classes are included in the “available-for-sale” category, or in the “fair value through profit or loss” category, and, as such, are measured at fair value, with equity or income for the period increased by the difference between the fair value and the carrying value calculated in accordance with Italian GAAP.
The return on the securities included in the separated management thus determines the returns of policyholders and therefore affects the amount of the actuarial provision.

The insurance contract liabilities for the contracts included in the separated management were adjusted for consistency with the valuation of the related assets, with the difference recorded in equity (or through profit or loss); in this manner the insurance contract liabilities of these contracts take into account the portion pertaining to policyholders of the latent capital gains or losses of the securities assigned to the separate managements. Based on contractual clauses and current regulations, these differences will be recognised to policyholders only when realised upon the sale of the relative assets.

We would point out that the recognition method is adopted in order to safeguard the minimum guaranteed return contractually recognised, within each separate management, for each minimum guaranteed line, in order not to infringe on the rights of the policyholders. Following the previously mentioned amendment to IAS 39, account was also taken of the reclassification of financial instruments for shadow accounting purposes.

The above-mentioned accounting treatment reduces, even if only partially, the valuation mismatch between assets and liabilities and in respect of the minimum levels emerging from the liability adequacy test.

In any case, the insurance contract liabilities of the Life classes belonging to the DPF segment and recognised in the consolidated financial statements are not lower than the minimum provisions calculated in accordance with the Liability Adequacy Test provided for by paragraph 15 *et seq.* of IFRS 4.

Liability Adequacy Test (LAT)

In accordance with IFRS 4, insurance companies must carry out an adequacy test on the insurance contract liabilities recorded in the financial statements. This must take place in accordance with certain minimum provisions based on the best current estimates of cash flows related to the contracts in portfolio at year-end (for example settlement expenses), and must take into account cash flows deriving from guarantees and implicit options.

Any deficiencies in the insurance contract liabilities recorded in the financial statements in relation to estimated future cash flows must be fully recognised in the income statement.

In relation to this it is noted that the Italian regulations do not explicitly provide for tests on the appropriateness of the insurance contract liabilities. However, special Italian provisions relating to insurance require certain adjustments which are consistent with IFRS 4, although they do not meet all the requirements.

In particular, for the Life segment the actuarial provisions are calculated using demographic and financial assumptions to determine the pure premium (first order technical bases), in turn supplemented by additional insurance contract liabilities based on current assumptions at the time of valuation (second order technical bases). These include:

- the provision on the expected returns as per Article 35 of ISVAP Regulation 21, which, however, does not extend examination to the duration of the contracts
- the additional provision for demographic risk, pursuant to Article 50, paragraph 2 of ISVAP Regulation 21
- the additional provisions to guarantee the result and/or repayment of the capital (pursuant to Article 41 of Legislative Decree 209/05).

The Group therefore developed a model to measure the adequacy of insurance liabilities in the Life segment, described in Part E, relating to the uncertainty of insurance cash flows.

With regard to the Non-Life segment, the component of the premium provision attributable to the provision for risks in progress, which is considered necessary whenever the expected claims in the class are higher than those used to create the tariff premium, is deemed to represent a reasonable approximation of the LAT. In relation to the claims provision, the Italian regulations establish that this must be calculated in accordance with the criteria of last cost, i.e. the total sum paid to the beneficiary at the time of compensation. Also in this case the calculation of the claims provision in accordance with Italian GAAP and based on the principle of last cost is deemed to be included in principal future cash flows without taking into account any discounting factors, which therefore may be considered greater than the amount resulting from application of LAT in accordance with IFRS 4.

4. FINANCIAL LIABILITIES

This item includes financial liabilities pursuant to IAS 39, other than trade payables as described in IAS 32 AG4 (a).

Financial liabilities recorded at fair value through profit or loss

This item includes financial liabilities recorded at fair value through profit or loss, defined and governed by IAS 39. Specifically, this item includes commitments to policyholders in respect of investment contracts not included within the scope of IFRS 4, as well as those deriving from the management of pension funds.
This category includes liabilities relating to unit and index-linked products with the characteristics indicated by Article 41, paragraphs 1 and 2 of Legislative Decree 209/05, as well as Class VI insurance contracts, whose limited underlying insurance risk resulted in reclassification from insurance contracts to financial contracts.
In this case, recording changes in fair value in the income statement allows for a correlation with the valuation of underlying assets in accordance both with European Commission statements in relation to correlated valuations between assets and liabilities in the Explanatory Memo of 19 November 2004 and with IAS 39, as well as with the instructions provided in ISVAP Regulation 7 of 13 July 2007.
The item also includes capital losses on derivative finance contracts at the end of the year.

Other financial liabilities

This item includes the financial liabilities defined and governed by IAS 39 not included in the previous category. This item includes the financial and operating payables of the Group, such as subordinated loans (only for the financial component), deposits received from reinsurers, miscellaneous borrowings and other financial payables.

The investment contracts not falling within the scope of IFRS 4, other than unit and index-linked contracts, such as, for example, contracts pursuant to Article 33, paragraph 4 of Legislative Decree 209/05, are also included.

These liabilities, which are recorded at fair value on initial recognition, are subsequently valued at amortised cost using the effective interest rate method.

5. PAYABLES

The account includes trade payables as described by IAS 32 AG4 (a) governed by IAS 39. In particular, the item includes payables deriving from direct and indirect insurance operations, as well as provisions for employee leaving indemnity.

Employee leaving indemnity and other employee benefits

Following the pension reforms, as from 1 January 2007, with the coming into force of Legislative Decree 252/2005, private sector employees may or must choose, depending on whether the company that employs them has fewer than or more than 50 employees, to allocate the portion of the employee leaving indemnity accruing after 1 January 2007 to the INPS Treasury Fund or to a supplementary pension fund. This choice must be made by 30 June 2007, i.e. within six months of the assumption date.

Following this reform, the portions accruing at 31 December 2006 continue to be considered as a “defined benefit plan”, but the liability was recalculated actuarially without taking into account the pro-rata service provided, as the benefit to be valued was already fully accrued, giving rise to the “curtailment” recorded in the income statement for 2007 in one single amount (see paragraph 111 of IAS 19).

The portions accruing after 31 December 2006 and allocated to the INPS Treasury Fund and/or supplementary pension funds are instead regarded as a defined contribution plans and are therefore no longer subject to actuarial valuation.

Service bonus pursuant to Article 32 of the CCNL collective agreement

The fund was created for all employees of insurance companies who had completed 25 and 35 years of active service at the company at year-end, based on the annual contributions accrued at the payment date. In accordance with Italian GAAP, a provision is made annually for each employee in service of the amount accrued at this date. The provision is used to cover the bonuses paid out. This provision also qualifies in accordance with IAS 19 as an “Other long-term employee benefit”.

6. OTHER LIABILITIES

Current and deferred tax liabilities

This item includes liabilities of a fiscal nature as defined and governed by IAS 12.
The valuation of the fiscal charge, current and deferred, relating to income tax is based on the current national tax rates in force at the reporting date.
In particular, recognition of deferred tax liabilities generally occurs for all timing differences, whether they relate to equity or income statement items, which will reverse in future years by applying, to these timing differences, the rates in force when they reverse. At year-end, current and deferred tax liabilities are recorded net of the corresponding tax assets in accordance with the compensation regulations of IAS 12.

INCOME STATEMENT

Insurance contracts

As from the date of the coming into force of IFRS 4, those contracts which, despite their insignificant insurance risk component, though legally insurance contracts, do not fall under the scope of IFRS 4 were reclassified. In particular all the contracts relating to the Life classes (except those with discretionary profit participation for which IFRS 4 provides adoption of the current accounting principles at the date of transition to IAS) which do not fall under the previous definition, must be recorded as financial contracts and therefore in accordance with the provisions of IAS 39 (“deposit accounting” method). The contracts which comply with the definition of IFRS 4 are recorded in accordance with the current rules of Italian GAAP and the relative reserves are subject to an adequacy test.

Therefore, based on IAS/IFRS principles, insurance policies are classified in the following categories:

- insurance contracts and financial instruments with discretionary participation to which IFRS 4 – *Insurance contracts* applies

- other financial instruments, which fall within the scope of application of IAS 39 – *Financial instruments*: *recognition and measurement* and IAS 18 - *Revenues* for any service component.

Based on the analysis of the policies in portfolio, all the contracts of the Non-Life sector are recorded in accordance with IFRS 4, as are all the contracts of the Life sector, with the exception of the unit-linked contracts of certain portfolio indices, valued in accordance with IAS 39 and IAS 18. This valuation resulted in the separation of the financial liabilities (measured at fair value through profit or loss) from the component of premiums attributable to the services on behalf of the policyholders, valued in accordance with IAS 18.

Premiums written

The gross premiums written include the amounts matured during the year for the insurance contracts, as defined by IFRS 4 - *Insurance contracts*. This item does not include revenues relating to policies which, although legally insurance contracts, have an insignificant insurance risk and therefore fall within the scope of IAS 39 and IAS 18. These contracts are in fact treated using the "deposit accounting" method which, *inter alia*, requires only explicit and implicit loading to be recorded in the income statement, under the "Commission income" item.

The contracts recorded in application of IFRS 4 are treated in accordance with the accounting principles of the statutory accounts. In particular, in accordance with Article 45 of Legislative Decree 173/1997 and the instructions contained in the ISVAP Regulation in relation to the financial statements of insurance companies, the premiums include:

- cancellations due to technical reversals of the individual securities issued in the year
- cancellation of premiums in the Life class from annuities expired in previous years
- changes of contracts with or without changes in premiums, made through replacement or supplemented.

Commission income and expenses

These items include commissions relating to investment contracts not included within the scope of IFRS 4. As already mentioned in the comment on the premiums item, they refer to:

- index-linked contracts within Class V "Securitisation"

- unit-linked contracts, which record, under commission income, the loading on the contracts and the management commission income and, under commission expenses, the commissions paid to the brokers.

This item also includes commission income for revenues on financial services which are recorded, based on existing contractual agreements, in the period in which the services are rendered.

Investment income

Net income from financial instruments recorded at fair value through profit or loss

This item includes profit and loss, including dividends and net trading results, and the positive and negative changes in value of financial assets and liabilities included in the "fair value through profit or loss" category. The change in value is calculated based on the difference between the fair value and the book value of the financial instruments recorded in this category.

Income and charges from equity investments in subsidiaries, associates and joint ventures

This includes income deriving from equity investments in associated companies recorded under the corresponding asset item. This relates in particular to the portion of the result for the period pertaining to these companies.

Income and charges from other financial instruments and investment property

Recorded under these items are:

- income and capital gains realised (and charges and capital losses realised) on the investments classified in the category "available-for-sale"
- income and charges on loans and receivables
- income and charges relating to investment property.

OTHER INCOME

This item comprises:

- revenue from the sale of goods, from services other than those of a financial nature and from the use, by third parties, of tangible and intangible assets and other activities of the entity
- other net technical income related to insurance contracts
- exchange differences recorded in the income statement as per IAS 21
- gains realised and any restatement in values relating to tangible and intangible assets.

Net charges relating to claims

This item comprises:

- amounts paid, net of recovery;
- changes in claims reserves and other insurance contract liabilities in the Non-Life insurance sector;

- changes in actuarial reserves and other insurance contract liabilities in the Life insurance sector;
- changes in insurance contract liabilities relating to the contracts for which the investment risk is on the policyholder relating to insurance contracts and financial instruments applied in accordance with IFRS 4.

The amounts recorded include the settlement expenses both paid and accrued, which include all the expenses relating to inspection, verification, valuation and settlement of the claims and are attributed to the individual sectors based on the amounts of the claims treated and the sums paid.

Investment expenses

Charges from equity investments in subsidiaries, associates and joint ventures

This includes charges arising from equity investments in associated companies, recorded under the corresponding asset item. This relates in particular to the portion of the result for the period pertaining to these companies.

Charges from other financial instruments and investment property

This item includes charges from investment property and financial instruments not measured at fair value through profit or loss and in particular:

- financial charges recognised using the effective interest method
- other charges and in particular costs relating to investment property, such as condominium expenses, and ordinary maintenance and repairs which do not increase the value of the investments
- losses realised following the sale of financial assets and investment property or the derecognition of financial liabilities
- losses on valuation, deriving principally from depreciation and impairment.

OPERATING EXPENSES

Commissions and other acquisition expenses

This item includes acquisition costs relating to insurance contracts and financial instruments as per IFRS 4.2, net of reinsurance.

Investment management expenses

Refers to general expenses and personnel costs relating to the management of financial instruments, investment property and investments, as well as custodial and administration costs.

Other administrative expenses

This item includes general and personnel costs not attributed to the relative claims charges, insurance contract acquisition expenses and investment management charges. This item relates in particular to the general expenses and personnel costs not otherwise allocated of the companies carrying out activities outwith the insurance sector, as well as general expenses and personnel costs incurred for the acquisition and administration of investment contracts not within the scope of IFRS 4.

OTHER COSTS

This item comprises:

- costs relating to the sale of goods other than those of a financial nature
- other net technical charges relating to insurance contracts (see the comments on the premiums item)
- provisions made in the year
- exchange differences recorded in the income statement as per IAS 21
- losses realised and any impairment and depreciation and amortisation on property, plant and equipment, when not allocated to specific items, and on intangible assets.

INCOME TAXES

The income taxes recorded in the income statement include all taxes, current and deferred, calculated on group income on the basis of the nominal tax rates in force at the date of the financial statements, except for those directly recorded in equity, in that the relative adjustments to assets and liabilities in the accounts are directly recorded in equity.
This item comprises:

- charges (or income) for current taxes in the year and any adjustments made in the year for current taxes relating to previous years
- charges (or income) for deferred taxes relating to the emergence and reversal, during the year, of timing differences as well as adjustments to deferred taxes recognised in previous years following, in particular, changes in tax rates
- the amount of the deferred tax charge or income based on the reversal, in future years, of the timing differences which were originally recorded
- the amount of tax charges (or income) relating to changes in accounting principles, valuation processes, estimates or errors compared with previous years.

STATEMENT OF COMPREHENSIVE INCOME

The statement shows the revenue and cost items (including adjustments from restatement) not recorded under profit (loss) for the year, since they are recorded directly in equity; therefore, the statement shows all the changes in equity and in profit (loss), which, in accordance with IAS/IFRS principles, must not be recognised directly in the income statement.

OTHER INFORMATION

Segment reporting

In accordance with IFRS 8, disclosure on the operating segments provides information allowing users of the financial statements to evaluate the nature and effects on the financial statements of the business activities which the company has undertaken and the economic context in which it operates.
The standard is applied in order to provide information on profit or loss in the segment including revenues and expenses and assets and liabilities, based on the principles adopted. For these purposes IFRS 8 establishes operating segments as "identifiable units which undertake business activities generating revenues and costs, whose operating results are periodically reviewed at the highest operational decision-making level in order to adopt decisions on the resources to be allocated to the sector and to evaluate results".
The operating segments described in this section were identified based on the provisions of ISVAP Regulation 7 and the reporting units used by the Group in taking strategic decisions.

The Group companies are organised and managed separately, based on the nature of their products and services, for each sector of activity, which represents a strategic business unit offering different products and services.

The Non-Life segment provides insurance cover pursuant to Article 2, paragraph 3 of Legislative Decree 209/05.
The Life segment offers insurance cover with payment of capital or an annuity against an event relating to human life, as well as securitisation contracts with or without significant insurance risk (Article 2, paragraph 1 of Legislative Decree 209/05).
The Real Estate segment rents those offices, buildings and residential homes which exceed the coverage requirements of the technical provisions of the Group and it actively operates in the management and enhancement of investment property.
The Other Activities segment, by its nature residual, offers products and services in asset management and the financial and agricultural sectors. The identification of the residual segment is based on a discretionary valuation to show the primary sources of risks and benefits for the Group.
Reciprocal receivables and payables, as well as inter-group costs and revenues, are directly eliminated within the segments of the companies if they operate within the same segment. When the inter-company transaction relates to companies operating in different sectors, the data recorded are shown in the section "Inter-segment eliminations".

Otherwise, the treatment is as follows:

- investments are derecognised within the segment in which the companies hold the assets
- dividends are derecognised in the companies that receive the payments
- the capital gains and losses to be realised are derecognised by the company that realised the relative results, even if the counterparties operate in different segments.

UNCERTAINTY REGARDING THE USE OF ESTIMATES

The application of certain accounting principles necessarily implies a significant element of judgement based on estimates and assumptions which are uncertain at the time of their formulation.

For the 2011 financial statements, the assumptions made are believed to be appropriate; consequently the financial statements are believed to be prepared with the intention of clarity and give a true and fair representation of the financial and operating situation in the year. Summarised information is provided below, pursuant to paragraph 116 of IAS 1. Adequate and exhaustive information is provided in the relative sections of the notes to the financial statements concerning the underlying reasons for the decisions taken, the valuations made and the valuation criteria adopted in application of international accounting standards.

In order to provide reliable estimates and assumptions, reference was made to past experience, as well as other factors considered appropriate in specific cases, based on all the information available.

It is possible, however, that variations in the estimates and assumptions adopted could have significant effects on the statement of financial position and income statement, as well as on the potential assets and liabilities reported for information purposes in the financial statements.

In particular, the use of more subjective valuations by management was necessary in the following cases:

- in the calculation of the impairment of goodwill from business combinations, of goodwill in investment holdings and the relative value of business acquired
- in the determination of the fair value of financial assets and liabilities where they were not directly obtained from active markets; the elements of subjectivity lie, in this case, in the choice of the valuation models or in the input parameters which may not be observable on the market
- in defining the parameters utilised in the analytical valuations of equities and bonds, in particular unlisted ones, in the available-for-sale category to verify the existence of any impairment; in particular, see the choice of valuation models and the principal assumptions and parameters used
- in the estimate of the recoverability of deferred tax assets
- in the quantification of provisions for risks and charges and the employee benefit provisions, for the uncertainty therein, the period of survival and the actuarial assumptions used.

The reporting of these cases aims to provide readers of the financial statements with a better understanding of the principal areas of uncertainty, but it is not intended in any way to imply that alternative assumptions could be appropriate or more valid.

In addition, the valuations in the accounts are made based on the going concern assumption, in that no risks were identified which could compromise the normal performance of company operations. The information on financial risks is contained in Part E – Information on risks and uncertainties.

In fact, despite the negative results for 2011, the Group has ample equity to support its solvency margin, the income outlook is positive, and Fondiaria-SAI is in compliance with the rules issued on insurance contract liabilities.

Section 5 – Consolidation area

At 31 December 2011, the Premafin Group was comprised of 116 Companies, including the Parent Company; of these, 17 operated in the insurance sector, 1 in the banking sector, 44 in the real estate and agricultural sector, and 23 in the financial services sector; with the remainder being miscellaneous service companies. The companies have 18 overseas offices.

The number of companies consolidated using the line by line method amounts to 84, while 16 companies are consolidated by the equity method, and the remainder are consolidated using the proportional method or maintained at book value where their size or nature of operations are not significant for the purposes of a true and accurate representation in these financial statements.

There are 92 subsidiaries, six of which are controlled directly by the Parent Company.

During 2011, the consolidation area of the Fondiaria-SAI Group saw the following changes:

- Exit from the consolidation area of the RHO PROPERTY FUND, no longer considered to be of significant influence, following changes to its governance structure, in particular the scaling down of the role of the Advisory Committee, which includes representatives of Fondiaria-SAI, to attenuate the risk of excessive intervention in the fund's ordinary management prerogatives. Consequently, this entity is no longer considered an associate and has been reclassified under investments available for sale.
- Exit from the consolidation area of CITYLIFE S.r.l. following the sale thereof.
- Acquisition by Fondiaria-SAI S.p.A. of additional shares of SAINTERNATIONAL S.A. and SIM ETOILE S.A.S., reaching 100% of the share capital.
- Deconsolidation of ATAHOTELS SUISSE S.A., following completion of the liquidation procedure.
- Deconsolidation of TRE TORRI CONTRACTOR S.C.R.L. following the disposal thereof.
- Transfer of the equity investments held by FONDIARIA-SAI and MILANO ASSICURAZIONI – each of 18% – in SAI NETWORK S.p.A. to BANCA SAI S.p.A., and subsequent merger by incorporation into the latter of SAI NETWORK S.p.A.
- Deconsolidation of Admiral Finance S.r.l. as a result of its being closed down due to the cessation of the activity provided for in its corporate purpose.

Lastly, in accordance with IAS 27 paragraph 40 d), the associate Fondiaria-SAI Servizi Tecnologici S.p.A. is valued at equity given that, even though Fondiaria-SAI holds the majority of the voting rights (51%), the operating control of this associate lies with the other partner, HP Enterprise Services Italia S.r.l., in accordance with governance agreements made.

Name - Registered office	Currency	Share capital	Percentage held			Group interest
			Direct	Indirect		
SUBSIDIARIES						
Companies consolidated line-by-line						
APB CAR SERVICE S.r.l. (EX MERIDIANO QUARTO) - Turin	Euro	10.000		Auto Presto & Bene S.p.A.	100,00%	26,396%
Atahotels Compagnia Italiana aziende turistiche alberghiere S.p.A. - Milan	Euro	15.000.000		Fondiaria-SAI S.p.A.	51,00%	
				Milano Assicurazioni S.p.A.	49,00%	21,660%
ATAVALUE S.r.l. - Turin	Euro	10.000		SAI Holding Italia S.p.A.	100,00%	26,396%
ATHENS R.E. FUND - SPECULATIVE FUND				Milano Assicurazioni S.p.A.	100,00%	16,732%
Auto Presto & Bene S.r.l. - Turin	Euro	5.000.000		Fondiaria-SAI S.p.A.	100,00%	26,396%
Banca SAI S.p.A. - Turin	Euro	116.677.161		Fondiaria-SAI S.p.A.	100,00%	26,396%
BIM VITA S.p.A. - Turin	Euro	11.500.000		Fondiaria-SAI S.p.A.	50,00%	13,198%
Bramante S.r.l. - Milan	Euro	10.000		Immobiliare Fondiaria-SAI S.r.l.	100,00%	26,396%
Campo Carlo Magno S.p.A. - Pinzolo (Tn)	Euro	9.311.200		Milano Assicurazioni S.p.A.	100,00%	16,732%
Carpaccio S.r.l. - Milan	Euro	10.000		Immobiliare Fondiaria-SAI S.r.l.	100,00%	26,396%
Casa di Cura Villa Donatello S.p.A. - Florence	Euro	361.200		Fondiaria-SAI S.p.A.	100,00%	26,396%
Cascine Trenno S.r.l. - Turin	Euro	10.000		Immobiliare Fondiaria-SAI S.r.l.	100,00%	26,396%
Centro Oncologico Fiorentino Casa di Cura Villanova S.r.l. (EX Casa Di Cura Villanova) - Sesto Fiorentino (Fi)	Euro	182.000		Fondiaria-SAI S.p.A.	100,00%	26,396%
Città della salute Scrl	Euro	100.000		Casa di Cura Villa Donatello	50,00%	
				Centro Oncologico Fiorentino Casa di Cura Villanova	45,00%	
				Donatello Day Surgery S.r.l.	2,50%	
				Florence Centro Chirurgia AMBULATORIALE	2,50%	26,396%
Colpetrone S.r.l. - Umbertide (PG)	Euro	10.000		Saiagricola S.p.A.	100,00%	25,738%
Consorzio Castello - Florence	Euro	401.000		Nuove Iniziative Toscane S.r.l.	99,57%	26,117%
DDOR Novi Sad Ado - Novi Sad (Serbia)	RSD	2.579.597.280		Fondiaria-SAI S.p.A.	99,99%	26,393%
DDOR Re Joint Stock Reinsurance Company - Novi Sad (Serbia)	Euro	5.130.604		The Lawrence Re Ireland Ltd	99,998%	
				DDOR Novi Sad ADO	0,002%	26,396%
Dialogo Assicurazioni S.p.A. - Milan	Euro	8.831.774,00		Milano Assicurazioni S.p.A.	99,85%	16,706%
Dominion Insurance Holding Ltd - London (GB)	GBP	35.438.267,65		Finsai International S.A.	100,00%	26,393%
Donatello Day Surgery S.r.l.- Florence	Euro	20.000		Centro Oncologico Fiorentino Casa di Cura Villanova	100,00%	26,396%
Europa Tutela Giudiziaria S.p.A. - Milan	Euro	5.160.000		Fondiaria-SAI S.p.A.	100,00%	26,396%
Eurosai Finanziaria di Partecipazioni S.r.l. - Turin	Euro	100.000		Fondiaria-SAI S.p.A.	100,00%	26,396%
Finadin - S.p.A. Finanziaria di Investimenti - Milan	Euro	100.000.000	60,00%	Saifin-Sainfinanziaria S.p.A.	40,00%	70,56%
Finitalia S.p.A. - Milan	Euro	15.376.285		BANCA SAI S.p.A.	100,00%	26,396%
Finsai International S.A. - Luxembourg	Euro	44.131.900		Fondiaria-SAI S.p.A.	19,92%	
				Sainternational S.A.	43,92%	
				Sailux SA	36,15%	26,393%
Florence Centro di Chirurgia Ambulatoriale S.r.l. - Florence	Euro	10.400		Centro Oncologico Fiorentino Casa di Cura Villanova	100,00%	26,396%
Fondiaria-SAI Nederland B.V. - Amsterdam (NL)	Euro	19.070		Fondiaria-SAI S.p.A.	100,00%	26,396%
Gruppo Fondiaria-SAI Servizi S.c.r.l.- Milan	Euro	5.200.000		Fondiaria-SAI S.p.A.	64,16%	
				Milano Assicurazioni S.p.A.	34,21%	
				Systema Compagnia S.p.A.	0,18%	
				Dialogo Assicurazioni S.p.A.	0,20%	
				Europa Tutela giudiziaria S.p.A.	0,02%	
				Finitalia S.p.A.	0,02%	
				Incontra Assicurazioni S.p.A.	0,02%	
				The Lawrence Re Ireland Ltd	0,02%	
				BANCA SAI S.p.A.	0,02%	
				Pronto Assistance S.p.A.	0,90%	
				Sai Mercati Mobiliari Sim S.p.A.	0,02%	
				Liguria Assicurazioni S.p.A.	0,02%	
				Liguria Vita S.p.A.	0,02%	
				Pronto Assistance Servizi Scarl.	0,02%	
				BIM VITA S.p.A.	0,02%	
				SIAT S.p.A.	0,11%	
				AUTO PRESTO & BENE S.r.l.	0,02%	
				IMMOBILIARE LOMBARDA S.p.A.	0,02%	23,041%
Fondiaria-SAI S.p.A. - Florence	Euro	167.043.712	28,09%	Finadin - S.p.A. Finanziaria di Investimenti	3,03%	26,396%
Immobiliare Fondiaria-SAI S.r.l - Milan	Euro	20.000		Fondiaria-SAI S.p.A.	100,00%	26,396%
Immobiliare Litorella S.r.l - Milan	Euro	10.329		Immobiliare Fondiaria-SAI S.r.l.	100,00%	26,396%
Immobiliare Lombarda S.p.A. - Milan	Euro	24.493.509,56		Fondiaria-SAI S.p.A.	64,17%	
				Milano Assicurazioni S.p.A.	35,83%	22,932%
Immobiliare Milano Assicurazioni S.r.l -Turin	Euro	20.000		Milano Assicurazioni S.p.A.	100,00%	16,732%

Name - Registered office | Currency | Share capital | Percentage held: Direct, Indirect | Group interest

Name - Registered office	Currency	Share capital	Percentage held Direct	Percentage held Indirect		Group interest
Incontra Assicurazioni S.p.A. - Milan	Euro	5.200.000		Fondiaria-SAI S.p.A.	51,00%	13,462%
Iniziative Valorizzazioni Edili - IN.V.ED. S.r.l. - Rome	Euro	10.329		Immobiliare Fondiaria-SAI S.r.l.	100,00%	26,396%
Insediamenti Avanzati Nel Territorio I.A.T. S.p.A. - Rome	Euro	2.580.000		Immobiliare Fondiaria-SAI S.r.l.	100,00%	26,396%
International Strategy S.r.l. - Milan	Euro	26.000	100,00%			100,00%
Italresidence S.r.l. - Pieve Emanuele (Mi)	Euro	100.000		Atahotels S.p.A.	100,00%	21,660%
Liguria Società di Assicurazioni S.p.A. - Segrate (Mi)	Euro	36.800.000		Milano Assicurazioni S.p.A.	99,97%	16,727%
Liguria Vita S.p.A. - Segrate (Mi)	Euro	6.000.000		Liguria Assicurazioni SpA	100,00%	16,727%
Marina di Loano S.p.A. - Milan	Euro	5.536.000		Immobiliare Fondiaria-SAI S.r.l.	100,00%	26,396%
Masaccio S.r.l. - Milan	Euro	10.000		Immobiliare Fondiaria-SAI S.r.l.	100,00%	26,396%
Meridiano Aurora S.r.l. - Milan	Euro	10.000		Fondiaria-SAI S.p.A.	100,00%	26,396%
Meridiano Bellarmino S.r.l. - Turin	Euro	10.000		Immobiliare Fondiaria-SAI S.r.l.	100,00%	26,396%
Meridiano Bruzzano S.r.l. - Turin	Euro	10.000		Immobiliare Fondiaria-SAI S.r.l.	100,00%	26,396%
Meridiano Primo S.r.l. - Turin	Euro	10.000		Immobiliare Fondiaria-SAI S.r.l.	100,00%	26,396%
Meridiano Secondo S.r.l. - Turin	Euro	10.000		Immobiliare Fondiaria-SAI S.r.l.	100,00%	26,396%
Milano Assicurazioni S.p.A. - Milan	Euro	373.682.600,42		Fondiaria-SAI S.p.A.	61,10%	
				Fondiaria Nederland BV	1,51%	
				Popolare Vita S.p.A.	0,02%	
				Pronto Assistance S.p.A.	0,06%	
				SAI Holding Italia S.p.A.	0,51%	
				SAI International S.A.	0,20%	16,732%
Mizar S.r.l. - Rome	Euro	10.329		Immobiliare Fondiaria-SAI S.r.l.	100,00%	26,396%
Nuova Impresa Edificatrice Moderna S.r.l. - Rome	Euro	10.329		Immobiliare Fondiaria-SAI S.r.l.	100,00%	26,396%
Nuove Iniziative Toscane S.r.l. - Florence	Euro	26.000.000		Fondiaria-SAI S.p.A.	96,88%	
				Milano Assicurazioni S.p.A.	3,12%	26,095%
Pontormo S.r.l. - Milan	Euro	50.000		Immobiliare Fondiaria-SAI S.r.l.	100,00%	26,396%
Popolare Vita S.p.A. - Verona	Euro	219.600.005		Fondiaria-SAI S.p.A.	24,39%	
				SAI Holding Italia S.p.A.	25,61%	13,198%
Progetto Bicocca La Piazza S.r.l. in liquidation - Milan	Euro	3.151.800		Immobiliare Fondiaria-SAI S.r.l.	74,00%	19,533%
Pronto Assistance S.p.A. - Turin	Euro	2.500.000		Fondiaria-SAI S.p.A.	100,00%	26,396%
Pronto Assistance Servizi Scarl. - Turin	Euro	516.000		Fondiaria-SAI S.p.A.	37,40%	
				Milano Assicurazioni S.p.A.	28,00%	
				Dialogo Assicurazioni S.p.A.	24,00%	
				Liguria Società di Assicurazioni S.p.A.	2,20%	
				Incontra Assicurazioni S.p.A.	0,15%	
				Systema Compagnia di Assicurazioni S.p.A	0,35%	
				Banca SAI S.p.A.	0,10%	
				Sistemi Sanitari S.c.r.l.	0,10%	
				Pronto Assistance S.p.A.	7,70%	21,095%
Ristrutturazioni Edili Moderne - R.EDIL.MO S.r.l. - Rome	Euro	10.329		Immobiliare Fondiaria-SAI S.r.l.	100,00%	26,396%
SAI Holding Italia S.p.A. - Turin	Euro	50.000.000		Fondiaria-SAI S.p.A.	100,00%	26,396%
SAI Investimenti S.G.R. S.p.A. - Turin	Euro	3.913.588	20,00%	Fondiaria-SAI S.p.A.	51,00%	
				Milano Assicurazioni S.p.A.	29,00%	38,313%
Sai MercatiI Mobiliari Sim S.p.A. - Milan	Euro	13.326.395		Fondiaria-SAI S.p.A.	100,00%	26,396%
Saigricola S.p.A. Società Agricola - Turin	Euro	66.000.000		Fondiaria-SAI S.p.A.	92,01%	
				Milano Assicurazioni S.p.A.	6,80%	
				Pronto Assistance S.p.A.	1,19%	25,738%
Saifin - Saifinanziaria S.p.A. - Turin	Euro	102.258.000		Fondiaria-SAI S.p.A.	100,00%	26,396%
SAILUX S.A. - Luxembourg	Euro	30.000.000		Saifin - Saifinanziaria S.p.A.	99,99%	
				Finsai International	0,01%	26,396%
Saint George Capital Management S.p.A. - Lugano (CH)	Sw.fr.	3.000.000		Saifin - Saifinanziaria S.p.A.	100,00%	26,396%
Sainternational S.A. - Luxembourg	Euro	154.000.000		Fondiaria-SAI S.p.A.	100,00%	26,396%
Santa Maria del Fico S.r.l. - Umbertide (PG)	Euro	78.000		Saiagricola S.p.A. Società agricola	100,00%	25,738%
Scontofin S.A. - Luxembourg	Euro	75.000		Finadin - S.p.A. Finanziaria di Investimenti	70,00%	
				Sailux S.A.	19,00%	51,285%
Service Gruppo Fondiaria-Sai S.r.l. - Florence	Euro	104.000		Fondiaria-SAI S.p.A.	70,00%	
				Milano Assicurazioni S.p.A.	30,00%	23,497%
Siat Società Italiana Assicurazioni e Riassicurazioni S.p.A. - Genoa	Euro	38.000.000		SAI Holding Italia S.p.A.	94,69%	24,994%
SIM Etoile S.A.S. - Paris	Euro	3.049.011,34		Fondiaria-SAI S.p.A.	100,00%	26,396%
Sintesi Seconda S.r.l. - Milan	Euro	10.400		Immobiliare Milano Assicurazioni S.r.l.	100,00%	16,732%
Sistemi Sanitari S.c.r.l. - Milan	Euro	1.000.000		Fondiaria-SAI S.p.A.	78,10%	
				Gruppo Fondiaria-SAI Servizi S.c.r.l.	21,90%	25,662%
Società Edilizia Immobiliare Sarda S.E.I.S. S.p.A. - Rome	Euro	3.877.500		Immobiliare Fondiaria-SAI S.r.l.	51,67%	13,639%

Name - Registered office	Currency	Share capital	Percentage held Direct	Indirect		Group interest

Name - Registered office	Currency	Share capital	Percentage held Direct	Indirect		Group interest
Sogeint S.r.l. - Milan	Euro	100.000		Milano Assicurazioni S.p.A.	100,00%	16,732%
SRP Asset Management S.A. - Lugano	Sw.fr.	1.000.000		SAI International S.A.	100,00%	26,393%
Stimma S.r.l. - Florence	Euro	10.000		Fondiaria-SAI S.p.A.	100,00%	26,396%
Systema Compagnia di Assicurazioni S.p.A. - Milan	Euro	5.164.600		Milano Assicurazioni S.p.A.	100,00%	16,732%
The Lawrence Life Assurance Co. Ltd - Dublin (IRL)	Euro	802.886		Popolare Vita S.p.A.	100,00%	13,198%
The Lawrence Re Ireland Ltd - Dublin (IRL)	Euro	635.000		Fondiaria Nederland B.V.	100,00%	26,396%
Tikal R.E. Fund				Fondiaria-SAI S.p.A.	59,65%	
				Milano Assicurazioni S.p.A.	35,36%	21,660%
Trenno Ovest S.r.l. - Turin	Euro	10.000		Immobiliare Fondiaria-SAI S.r.l.	100,00%	26,396%
Villa Ragionieri S.r.l. - Florence	Euro	78.000		Fondiaria-SAI S.p.A.	100,00%	26,396%

Companies valued at book value

Ata Benessere S.r.l. in liquidation - Milan	Euro	100.000		Atahotels S.p.A.	100,00%	21,660%
DDOR auto Doo - Novi Sad (Serbia)	Euro	9.260,97		DDOR Novi Sad ADO	100,00%	26,393%
Global Card Service S.r.l. - Segrate (MI)	Euro	98.800		Liguria Vita SpA	51,00%	
				Liguria Assicurazioni SpA	44,00%	15,890%
Hotel Terme di Saint Vincent Srl - Saint-Vincent (Ao)	Euro	15.300		Atahotels S.p.A.	100,00%	21,660%
Investimenti Mobiliari S.r.l. - Milan	Euro	90.000	100,00%			100,000%
Ital H & R S.r.l. - Pieve Emanuele (Mi)	Euro	50.000		Italresidence S.r.l.	100,00%	21,660%
Partecipazioni e Investimenti S.r.l. - Milan	Euro	90.000	100,00%			100,000%
Partecipazioni Mobiliari S.r.l. - Milan	Euro	90.000	100,00%			100,000%
Tour Executive S.p.A. - Milan	Euro	118.300		Atahotels S.p.A.	100,00%	22,716%

Name - Registered office	Currency	Share capital	Percentage held Direct	Indirect		Group interest

ASSOCIATES

Companies valued using the equity method

A 7 S.r.l. - Milan	Euro	200.000		Immobiliare Milano Assicurazioni S.r.l.	20,00%	3,347%
Borsetto S.r.l. - Turin	Euro	2.971.782		Immobiliare Milano Assicurazioni S.r.l.	44,93%	7,517%
Butterfly AM S.a.r.l. - Luxembourg	Euro	29.165		Immobiliare Fondiaria-SAI S.r.l.	28,57%	7,541%
Consulenza Aziendale per l'informatica SCAI S.p.A. - Turin	Euro	1.040.000		Fondiaria-SAI S.p.A.	30,07%	7,937%
Fin. Priv. S.r.l. - Milan	Euro	20.000		Fondiaria-SAI S.p.A.	28,57%	7,541%
Fondiaria-SAI Servizi Tecnologici S.r.l. - Florence	Euro	120.000		Fondiaria-SAI S.p.A.	51,00%	13,462%
Garibaldi S.C.A. - Luxembourg	Euro	31.000		Milano Assicurazioni S.p.A.	32,00%	5,353%
IGLI S.p.A. - Milan	Euro	24.120.000		Immobiliare Fondiaria-SAI S.r.l.	16,67%	
				Immobiliare Milano Assicurazioni S.r.l.	16,67%	7,188%
Isola S.c.a. (ex HEDF Isola)- Luxembourg	Euro	31.000		Milano Assicurazioni S.p.A.	29,56%	4,947%
Metropolis S.p.A. - Florence	Euro	1.120.000		Immobiliare Milano Assicurazioni S.r.l.	29,73%	4,976%
Penta Domus SpA - Turin	Euro	120.000		Immobiliare Milano Assicurazioni S.r.l.	20,00%	3,347%
Progetto Alfiere S.p.A. - Rome	Euro	120.000		Immobiliare Fondiaria-SAI S.r.l.	19,00%	5,015%
Servizi Immobiliari Martinelli S.p.A. - Cinisello Balsamo (MI)	Euro	100.000		Immobiliare Milano Assicurazioni S.r.l.	20,00%	3,347%
Società Funivie del Piccolo San Bernardo S.p.A. - La Thuile (AO)	Euro	9.213.417,50		Immobiliare Fondiaria-SAI S.r.l.	27,38%	7,227%
Sviluppo Centro Est S.r.l. - Rome	Euro	10.000		Immobiliare Milano Assicurazioni S.r.l.	40,00%	6,694%
Valore Immobiliare S.r.l - Milan	Euro	10.000		Milano Assicurazioni S.p.A.	50,00%	8,365%

Companies valued at book value

Cono Roma S.r.l. in liquidation - Rome	Euro	10.000		Finadin	50,00%	8,296%
DDOR Garant - Belgrade (Serbia)	RSD	3.309.619		DDOR RE	7,54%	
				DDOR Novi Sad ADO	32,46%	12,548%
MB Venture Capital Fund I Partecipating Company DI N.V. - Amsterdam	Euro	50.000		Fondiaria-SAI S.p.A.	30,00%	7,919%
Quintogest S.p.A. - Milan	Euro	3.000.000		Fondiaria-SAI S.p.A.	49,00%	12,934%
Società Finanz. Per Le Gest. Assicurative S.r.l. in liquid. - Rome	Euro	47.664.600		Fondiaria-SAI S.p.A.	14,91%	
				Milano Assicurazioni S.p.A.	7,50%	5,189%
Soaimpianti - Organismi di Attestazione S.p.A. in liquidation - Milan	Euro	84.601		Fondiaria-SAI S.p.A.	21,64%	5,711%
Ufficio Centrale Italiano S.c.a r.l. - Milan	Euro	510.000		Fondiaria-SAI S.p.A.	14,14%	
				SIAT S.p.A.	0,10%	
				Milano Assicurazioni S.p.A.	10,98%	
				Liguria Assicurazioni SpA	0,31%	
				Systema assicurazioni S.p.A	0,0002%	
				Dialogo Assicurazioni S.p.A.	0,0001%	
				Incontra Assicurazioni S.p.A.	0,0024%	5,643%

PART B

INFORMATION ON THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Details of and further notes to the consolidated financial statements are presented below. Further details are contained in the appendices provided pursuant to Regulation 7/07 of the Supervisory Authority at the foot of this document.

STATEMENT OF FINANCIAL POSITION – ASSETS

1. INTANGIBLE ASSETS

These comprise the following:

(in thousands of Euros)	**31.12.11**	**31.12.10**	**Change**
Goodwill	1,422,447	1,523,280	(100,833)
Other intangible assets	95,157	119,165	(24,008)
Total	**1,517,604**	**1,642,445**	**(124,841)**

Goodwill

The goodwill recognised in the consolidated financial statements at 31 December 2011 amounted to Euro 1,423 million, comprised as follows:

	Euro
Goodwill arising from Fondiaria-SAI Group	1,368
Goodwill arising from the direct and indirect equity investments held by the Company	55
Total	**1,423**

The arguments in support of maintaining goodwill, in continuity with previous years and in particular with the year ended on 31 December 2010, take into consideration the following:

- the outcome of the impairment test on the value of the investment made by the Company in Fondiaria-SAI
- the size of the excess of recoverable value over carrying value of the CGUs where this goodwill is allocated.

Taking account of the above, the Company concluded that:

- on the one hand, the valuation in the separate statutory financial statements of the equity investments concerned leaves enough room for the residual goodwill recognised to be maintained in the consolidated financial statements
- and, on the other hand, the recoverable value of the CGU where the goodwill is allocated is greater than its carrying value.

As required by IFRS 3.75, the reconciliation of the carrying value of goodwill at the beginning of the year and at the end of the year is shown below.

(in thousands of Euros)	**31.12.11**	**31.12.10**
Value at beginning of year	**1,630,403**	**1,656,682**
Permanent losses in value recorded in previous years (-)	(107,123)	(36,044)
Increases during the year	-	-
Reduction for sale or recording of available-for-sale assets	-	-
Losses in value recorded during the year	(100,707)	(71,079)
Exchange differences	(126)	(16,279)
Other movements	-	(10,000)
Value at year-end	**1,422,447**	**1,523,280**

The losses in value refer to the impairment recognised on the goodwill of Popolare Vita. We would point out that the reduction for exchange differences relates to the depreciation of the Serbian dinar against the Euro.
Goodwill is comprised as follows:

(in thousands of Euros)	**31.12.11**	**31.12.10**	**Change**
Goodwill deriving from the incorporation of La Fondiaria S.p.A.	504,763	504,763	-
Goodwill recorded in consolidated accounts of Milano Assicurazioni S.p.A.	167,379	167,379	-
Other goodwill	530	530	-
Consolidation differences	749,775	850,608	(100,833)
Value at year-end	**1,422,447**	**1,523,280**	**(100,833)**

The analysis of goodwill by origin is shown below:

(in € thousands)

Goodwill of Premafin Group	**31.12.11**	**31.12.10**
Fondiaria-SAI S.p.A.: incorporation of Fondiaria Assicurazioni in 2002	276,592	276,592
Fondiaria-SAI S.p.A.: company transferred in 1990	162,684	162,684
Fondiaria-SAI S.p.A.: incorporation of Fondiaria Assicurazioni in 1995	65,488	65,488
Milano Assicurazioni S.p.A.: acquisition of CARD premium portfolio in 1991	33,053	33,053
Milano Assicurazioni S.p.A.: incorporation of Lloyd Internazionale in 1991	17,002	17,002
Milano Assicurazioni S.p.A.: acquisition of Latina Assicurazioni business unit in 1992	34,522	34,522
Milano Assicurazioni S.p.A.: transferral of the Life portfolio of La Previdente Assicurazioni in 1992	16,463	16,463
Consolidation difference:		
on consolidation of Milano Assicurazioni S.p.A.	179,201	179,201
on Milano Assicurazioni S.p.A. for the former Previdente Vita	3,275	3,275
on Milano Assicurazioni S.p.A. for Dialogo Assicurazioni	49	49
Total goodwill of the Fondiaria-SAI Group deriving from the aggregation of the Fondiaria Group	**788,329**	**788,329**
Milano Ass.ni: acquisition of the portfolio of MAA Ass.ni by Nuova MAA	65,134	65,134
Milano Ass.ni: acquisition by SIS of the Ticino portfolio in 1995	152	152
Total	**853,615**	**853,615**
Other goodwill	**31.12.11**	**31.12.10**
Goodwill relating to the transfer in 2001 of the portfolio of Maa Vita, subsequently incorporated into Milano (*)	1,052	1,052
Goodwill on Sistemi Sanitari S.c.r.l. for the acquisition of business unit	530	530
Consolidation difference:		
On Liguria Assicurazioni Group	55,714	55,714
On Incontra Assicurazioni S.p.A.	13,432	13,432
On SASA Danni S.p.A. now incorporated into Milano (*)	8,424	8,424
On Immobiliare Fondiaria-SAI S.r.l. for Marina di Loano S.p.A.	0	0
On Florence Centro di Chirurgia Ambulatoriale S.r.l.	1,279	1,279
On Popolare Vita S.p.A.	360,601	461,308
On Fondiaria-SAI S.p.A.:	54,710	54,710
On DDOR Novi Sad ADO	73,090	73,216
Total other goodwill	**568,832**	**669,665**
Total Group goodwill	**1,422,447**	**1,523,280**

(*) Allocated to the Milano Life and Non-Life CGUs

Introduction

The notes below report the principal assumptions on which the impairment tests were carried out for the year 2011on the goodwill recorded in the financial statements.

The Group verifies the recovery of the goodwill allocated to the Cash Generating Units (CGUs) on an annual basis or more frequently where there are signs of impairment.

In accordance with IAS 36 - *Impairment in asset value*, given that goodwill has an indefinite useful life, it is not subject to amortisation, but rather to impairment testing in order to identify the existence of any permanent loss in value.

The goodwill subject to allocation during first-time adoption at the transition date to IFRS/IAS (1 January 2004) was equal to the total amount of the goodwill "inherited" at 31 December 2003, as no recalculation was made of the business combinations which took place before that date, as permitted by IFRS 1.

In accordance with paragraph 80 of IAS 36, goodwill was allocated, irrespective of its origin, to those CGUs expected to benefit from synergies deriving from business combinations.

Carrying value of the goodwill existing as of 1 January 2004

The goodwill existing at the date of transition to IAS/IFRS related almost entirely to the business combination between the Sai Group and the Fondiaria Group of 2002. Goodwill pre-existing at the time of the merger, deriving from the acquisition by Nuova Maa (subsequently incorporated into Milano) of the business Maa Assicurazioni, was added to this.

With regard to the above, six Cash Generating Units (CGUs) were identified as significant beneficiaries of the synergies of the combination, represented by the Life and Non-Life insurance sectors operating under the Fondiaria-SAI and Milano Assicurazioni brands.

This identification also complies with the Group management reporting system, in which the CGUs represent the minimum level at which goodwill is monitored for internal management control purposes, in line with the segment definition based on the primary representation system required by IFRS 8.

The carrying value of the CGUs was calculated in line with the calculation of the cash flows suitable to identify recoverable value: therefore, if the future cash flows of the CGU include the inflows and outflows related to determined assets and liabilities, these are included in the carrying value of the CGU.

Unlike in previous years, goodwill is no longer allocated separately to the CGUs identified with the Sai and Fondiaria brands, although the allocation originally attributed to the Non-Life insurance sector and the Life insurance sector of the legal entity is respected. In fact, the recoverable value of the CGUs was calculated by considering the cash flows of the Fondiaria-SAI Non-Life CGU and the Fondiaria-SAI Life CGU, without any distinction between brands.

Therefore, as of 31 December 2011 the goodwill allocated to the CGUs was as follows:

(in thousands of Euros)	Fondiaria-SAI		Milano Assicurazioni (*)		
CGU	**Fondiaria Non-Life**	**Fondiaria Life**	**Milano Non-Life**	**Milano Life**	**Total**
	1	**2**	**5**	**6**	
Accounting goodwill allocated	467,480	91,994	304,484	53,843	**917,801**

(*) Values at 100%

Other goodwill arising after 1 January 2004

This represents the goodwill deriving from the principal business combinations undertaken after 1 January 2004, as detailed below:

(in thousands of Euros)

Goodwill allocated	**2011**	**2010**
Gruppo Liguria Assicurazioni (100%)	55,714	55,714
Incontra Assicurazioni S.p.A. (51%)	13,432	13,432
Florence Centro di Chirurgia Ambulatoriale S.r.l. (100%)	1,279	1,279
Popolare Vita (50% + 1 share)	360,601	461,308
DDOR (99.99%)	73,090	73,216
Sistemi Sanitari	530	530

The Group considered it appropriate to identify the companies themselves as CGUs.

Recoverable value of the CGUs

The recoverable value of the CGUs is the higher of fair value less selling costs and value in use. The fair value of a CGU is the amount obtainable from its sale in an arm's-length transaction between knowledgeable and willing parties, less disposal costs.

As a result of the significant drop in share prices for Fondiaria-SAI and Milano, the test based on fair value, which pegs goodwill to the share price of benchmark entities, does not express the real value of the CGUs in question, considering that market capitalisation shows values below the proportional shareholders' equity. To calculate recoverable value and make the subsequent comparison with the carrying value of the CGUs the value in use was used, which allows for an impairment judgement based on the principles of economic rationality. Note that IAS 36, which sets out the method for calculating recoverable value, does not express any preference between value in use and realisable value.

The methods used to calculate value in use in the Non-Life insurance sector are based on the application of financial methods, such as DCF or DDM, which discount the cash flows forecast in the budget and/or in the business plans of the CGU subject to valuation, also taking into account their terminal value and/or capital excess/deficit in relation to the minimum capital requirements. The appraisal value method is used to calculate the value in use in the Life insurance sector.

The approach used is generally the equity side approach, which uses the cost of own capital (Ke) as a discount rate.

The main assumptions used in the impairment test are as follows:

CGU	Method	Flows considered	Ke%	Terminal value	Growth factor %
FONDIARIA-SAI					
Non-Life segment	DDM	2012-14 plan + forecasts	10.5	Yes	2
Life segment	Appraisal Value		10.5	-	-
MILANO ASS.NI					
Non-Life segment	DDM	2012-14 plan + forecasts	10.2	Yes	2
Life segment	Appraisal Value		10.5	-	-
INCONTRA ASSICURAZIONI	DCF	2012 budget + forecasts	10	Yes	2
GRUPPO LIGURIA ASS.NI	DDM+ANAV	2012-14 plan + forecasts	10.2	Yes	2
DDOR NOVI SAD	DDM	Plan 2012-14	15.2	Yes	3
POPOLARE VITA	Comparable transaction multiples	-	-	No	-
FLORENCE	DCF	Budget 2012	9.6	Yes	2

With regard to the flows used for the valuations, the above table shows that for Fondiaria-SAI and Milano Assicurazioni, these were taken from the 2012 budget and from the business plans for the two-year period 2013-2014. As regards the period 2015-2016, additional reports were made and approved at board meetings, for the sole purpose of supporting the impairment test.

The recoverable value of the CGUs relative to Fondiaria-SAI, Milano Assicurazioni and Liguria Assicurazioni was calculated using an analytical approach based on the DDM method for the Non-Life CGUs and the appraisal value method for the Life CGUs. Therefore, a separate valuation was made of the recoverable value of the Non-Life segment and of the Life segment, taking into account in the Non-Life segment the need to set up regulatory capital (DDM in the excess capital version).

Specifically:

1. The Non-Life segment was valued using the DDM (Dividend Discount Model) method, taking as a reference the expected dividend flows for 2012-2016 taken from the Fondiaria-SAI Group budget for 2012, the 2013-2014 business plan and from additional projections for 2015-2016. For the 2015-2016 projections, the main assumptions made are based on a premiums growth in line with growth in the last year of the business plan, a combined ratio, and a target return on investment in line with the levels expected for 2014.
2. The Life segment was valued using the appraisal value method, i.e. the sum of adjusted equity, value in force (VIF) and goodwill attributable to future new business.
   In particular, the VIF derives from an estimate of its value at 31 December 2011, net of the cost of capital and taxes.
   Goodwill is based on the calculation of new business value at 31 December 2011, to which a multiple of five was applied in line with market practice.

Incontra Assicurazioni does not have a long-term business plan approved by its management bodies, only the original plan underlying the acquisition, which was not considered sufficiently reliable to identify the cash flows produced by the CGU, given the actual results realised since the beginning of the initiative. Consequently:

- The partnership agreement signed with Capitalia was based on the achievement of set targets through its distribution network. Following the incorporation by the UniCredit Group there was a slowdown in the project.
- Over the years, the investee company has significantly changed its product mix.

Given that the subsidiary did not have a business plan which took account of new scenarios, the cash flows used were taken from the 2012 budget, which in turn was prepared using the actual results for the year 2011, excluding any changes arising from improvement and/or optimisation of business performance – optimisation which formed the basis for the variables underlying the price paid for the acquisition of Incontra Assicurazioni. The future cash flows were projected assuming a discount rate of 10%, in line with the rate used for the Fondiaria-SAI Group.

The valuation did not indicate the need for any further impairment of goodwill.

The impairment test for DDOR Novi Sad ADO was based on the results forecast in the 2012-2014 budgets. The projections were then extended to 2015, in order to determine the sustainable income level. The company was valued using the DDM method in the excess capital variant, which is based not only on the parameters shown in the table, but also on a minimum capital solvency ratio of 120% of the constituent elements calculated according to the rules currently in force in Serbia.

In accordance with paragraph 54 of IAS 36, the discount rate used a Ke in line with the foreign currency in which the future cash flows are estimated.

The valuation did not indicate the need for any further impairment of goodwill.

For Popolare Vita (and its subsidiary The Lawrence Life), the impairment test conducted for the purposes of preparing the 2011 financial statements was performed using the Sum-of-the-Parts method, which consisted of the sum of the following elements:

- discounting of future profit from the Life and Pensions businesses associated with shareholder agreements for 2010-2017
- the synergies resulting from the outsourcing contract between Fondiaria-SAI and the subsidiary
- valuation of the selling price by estimating the expected new business value at 31 December 2017 based on the plan’s determining factors
- the adjusted shareholders' equity and the VIF on that date.

The comparable transaction multiples method was used as a control method for the purposes of checking the results obtained.
During 2011, Popolare Vita experienced a significant downturn in business levels. Given the impossibility of utilising Life and Pension business flows, since they are no longer current, and given the lack of any economic and financial projections for the next 3-5 years, it was not possible to obtain a reliable estimate of the value in use based on the original plan data.

Therefore, for the purposes of the impairment test at 31 December 2011, it was deemed appropriate to determine the fair value of Popolare Vita, using two different valuation methods. First, the comparable transaction multiples method was used, specifically the goodwill/gross premiums and price/equity multiples relative to a sample of transactions occurring in the Italian market from 2008-2011. In particular, the multiples used were 22.2% for goodwill/gross premiums and 1.76% for price/equity.

On the basis of the above method, the recovery value of the equity investment in Popolare Vita was calculated as Euro 556.7 million and Euro 510.1 million, based on the goodwill/gross premiums and price/equity multiples, respectively. The average of the two values thus calculated led to a value of Euro 533.4 million, which was taken as the recoverable value of the equity investment and therefore the relative goodwill. This led to a goodwill write-down of Euro 101 million.

Secondly, and as further support, a valuation was also obtained from an independent external appraiser, aimed at determining the appraisal value of the subsidiary consistent with the possible exercise of the put option to the second shareholder of the Company as provided for in the shareholders' agreement entered into on 7 September 2007. This valuation was based on the calculation of:

- the embedded value at 31 December 2011.
- goodwill at 31 December 2011 equal to the sum of the value of future new business based on the products sold in 2011, the respective costs and volumes of new business expected for a future time period (6 years), and the Terminal Value as capitalisation in perpetuity, at a long-term growth rate, of the added value of new business for the last year. In this context, the valuation range identified includes the recoverable value of Euro 533 million found with the first method.

The appraisal value of the subsidiary on a time horizon consistent with the duration of the distribution agreement (and therefore until 2017) was used as a control method to further support the conclusions reached. This control valuation approach adopted the criteria of value in use and the following components were considered in applying the appraisal value:

1. adjusted net asset value at 31 December 2011
2. value of in force business at 31 December 2011
3. new business value (or goodwill) at maturity (2017).

The estimate of the new business value began with the new business figure for 2011 and assumed reasonably sustainable growth of premiums written during the next six years, leaving the profitability of new business unchanged at the 2011 level. The benefit deriving from the outsourcing agreement between the Parent Company and the subsidiary was added to the value obtained using the appraisal value approach. For this purpose, the 2012-2017 future cash flows estimated based on actual net income at 31 December 2011 were discounted.

Lastly, partly in view of the changed economic and financial scenario in question, activities were carried out, in collaboration with the banking partner, aimed at preparing a three-year business plan to give new impetus and renewed prospects to the initiative.

For Florence Centro Chirurgia Ambulatoriale S.r.l., the test was conducted based on expected cash flows under the 2012 budget. In this case also, no necessity for impairment emerged.

Excess in the recoverable value compared with the value of the CGUs

The following table shows the comparison between the recoverable value of the principal CGUs and their book values, noting that the values shown refer to the Group share:

(in millions of Euros)	**Recoverable value**	**Book value**	**Excess**
Fondiaria-SAI Non-Life	239	176	63
Fondiaria-SAI Life	93	72	21
Milano Assicurazioni Non-Life	199	98	101
Milano Assicurazioni Life	49	39	11
Incontra Assicurazioni	6	5	1
Gruppo Liguria Assicurazioni	15	12	2
DDOR NOVI SAD	40	32	8
POPOLARE VITA	141	141	-

All of the valuations made were subjected to sensitivity analyses.

In particular, the following sensitivity analyses were carried out in relation to Fondiaria-SAI Non-Life, Milano Assicurazioni Non-Life and the Liguria Assicurazioni Group CGU:

- variations in the combined ratio and target return on investments on the order of +/- 0.25%
- variations in the cost of own capital and the long-term growth rate of +/- 0.25%
- variations in the combined ratio on the order of +/- 0.25% and solvency margin within the 115%-125% range.

Summarised below are the minimum value and the maximum value resulting from the sensitivity analyses:

- Fondiaria-SAI Non-Life CGU:
  - range: Euro 852.0 – 960.5 million
- Milano Assicurazioni Non-Life CGU:
  - range: Euro 689.8 – 819.7 million
- Liguria Assicurazioni Group CGU:
  - range: Euro 50.2 – 60.3 million

In relation to the Fondiaria-SAI Life and Milano Assicurazioni Life CGUs, the following sensitivity analyses were performed :

- variations of the synthetic multiples in a range of 3x-7x to estimate goodwill attributable to new business
- variations of +/-0.5% in the discount rate used to estimate the VIF and the NBV
- solvency margins of 120% and 150%.

The ranges of values obtained from the sensitivity analyses are as follows:

- Fondiaria-SAI Life CGU:
  - range: Euro 288.6 – 372.6 million
- Milano Assicurazioni Life CGU:
  - range: Euro 170.0 – 190.8 million.

The results obtained in relation to the Fondiaria-SAI and Milano Assicurazioni Non-Life and Life CGUs confirm, in all scenarios, an excess of recoverable value over book value. Based on the analyses performed, we do not foresee any reasonable variation of key variables for those CGUs that would wipe out the difference between recoverable value and book value.

The recoverable value of the DDOR Novi Sad ADO CGU was calculated as being within a range of Euro 146 – 158 million. These limits arise from sensitivity analyses assuming a variation of +0.25% in the discount rate and of -0.25% in the long-term growth rate (rate g).

Other intangible assets

Other intangible assets amount to Euro 95,157 thousand (Euro 119,164 thousand at 31 December 2010) and are broken down by type as follows:

(in thousands of Euros)	Gross book value	Amortisation and impairment provision	Net value 20110	Net value 2010
Study and research expenses	237,866	(212,350)	25,516	27,798
Utilisation rights	20,767	(14,252)	6,515	6,801
Other intangible assets	271,316	(208,190)	63,126	84,565
Total	**529,949**	**(434,792)**	**95,157**	**119,164**

None of the above intangible assets were generated internally.

The above intangible assets have a definite useful life and are therefore amortised over their duration. Research costs relate to the capitalisation in 2011, and in previous years, of costs incurred to prepare IT technology and applications of a long-term nature. They are amortised over a period of three or five years based on the characteristics and useful life of the assets.

These charges are incurred primarily by the Fondiaria-SAI Servizi S.c.a.r.l. Group Consortium, which is responsible for the management of existing resources, assets and services and of new acquisitions relating to the functioning of the entire Group.

The utilisation rights refer mainly to the acquisition by the Group of licences for the use of software. Their amortisation period is three years.

Intangible assets mainly include the values relating to the customer portfolios acquired of the following companies:

(in thousands of Euros)	2011	2010	Change
Liguria Assicurazioni S.p.A.	10,054	17,150	(7,096)
DDOR Novi Sad ADO	8,115	15,624	(7,509)
TOTAL	**18,169**	**32,774**	**(14,605)**

The impact of foreign currency exchange rates on the Voba of DDOR Novi Sad is insignificant.

These amounts result from the recognition of the Voba (Value Of Business Acquired) at the time of the business combination transactions.

In particular, for Liguria Assicurazioni and DDOR, the Voba represents the cash flows that will be generated, within a defined period of time, by the insurance portfolio acquired.

The amortisation of these assets was based on the duration of the expected returns: in particular, for DDOR and Liguria, the average amortisation is five and seven years, respectively. The amortisation charged to the income statement relative to the said assets amounted to Euro 14,586 thousand in 2011 (Euro 39,348 thousand in 2010).

The reconciliation between the opening and closing book values of other intangible assets is shown below:

	Study and research expenses		Utilisation rights		Other intangible assets		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
(in thousands of Euros)								
Value at beginning of year	27,798	31,339	6,801	6,025	84,565	266,247	119,164	303,611
Increases, of which:								
- purchased and generated internally	13,413	12,997	2,512	3,512	4,381	6,769	20,306	23,278
- from business combinations	-	-	0	0	0	0	0	0
- from changes in consolidation method	-	-	0	-	-	-	0	-
Decreases for sales and reclassifications	-	-	(321)	(271)	(857)	(125,712)	(1,178)	(125,983)
Impairment recorded in the year	-	-	(20.0)	-	0	(7,286.0)	(20)	(7,286.0)
Restatement recorded in the year	-	-	-	-	-	-	0	-
Amortisation charge for the year	(15,695)	(16,538)	(2,455)	(2,381)	(24,943)	(49,280)	(43,093)	(68,199)
Exchange difference		-	(2)	(84.0)	(20)	(6,500)	(22)	(6,584)
Other changes	-	-		-	-	327.0	0	327.0
Value at year-end	**25,516**	**27,798**	**6,515**	**6,801**	**63,126**	**84,565**	**95,157**	**119,164**

2. PROPERTY AND EQUIPMENT

These amount to Euro 405,349 thousand (Euro 598,072 thousand at 31 December 2010), representing a decrease of Euro 192,723 thousand.

Property, plant and equipment are comprised of the following:

	Buildings		Land		Other		Total	
	31.12.11	31.12.10	31.12.11	31.12.10	31.12.11	31.12.10	31.12.11	31.12.10
(in thousands of Euros)								
Gross book value	337,786	513,422	25,832	28,192	213,697	215,069	577,315	756,683
Depreciation and impairment provision	(44,690)	(37,396)	-	-	(127,276)	(121,215)	(171,966)	(158,611)
Net value	**293,096**	**476,026**	**25,832**	**28,192**	**86,421**	**93,854**	**405,349**	**598,072**

The movements during the period are shown below:

(in thousands of Euros)	Buildings		Land		Other		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
Value at beginning of year	476,026	371,328	28,192	35,397	93,854	97,482	598,072	504,207
Increases	13,273	47,122	0	0	7,615	18,463	20,888	65,585
Disposals	(299)	(38,606)	(292)	(7,205)	(3,410)	(7,163)	(4,001)	(52,974)
Reclassifions or transfers to/from other categories	(170,471)	107,357	(1,700)	0	0	21	(172,171)	107,378
Assets from business combinations	0	0	0	0	0	0	0	0
Impairment recorded in the year	(21,405)	(3,575)	(368)	0	(682)	(4,142)	(22,455)	(7,717)
Restatement recorded in the year	0	0	0	0	0	0	0	0
Depreciation charge for the year	(4,143)	(3,513)	0	0	(10,954)	(10,590)	(15,097)	(14,103)
Exchange differences	115	(4,087)	0	0	(2)	(217)	113	(4,304)
Other changes	0	0	0	0	0	0	0	0
Value at year-end	**293,096**	**476,026**	**25,832**	**28,192**	**86,421**	**93,854**	**405,349**	**598,072**

The impairments refer to properties owned by Fondiaria-SAI and by certain subsidiaries, the carrying value of which was greater than the relative market value and which were therefore regarded as showing permanent losses in value.
With regard to the categories "Buildings" and "Land", the "Reclassifications or transfer to/from other categories" include:

- Euro 160,820 thousand relative to the reclassification to "Investment property" of the real estate project to carry out expansion work on the Port of Loano due to the completion thereof and the obtainment of administrative approvals on about 95% of the structure.
- Euro 7,647 thousand relative to the reclassification to "Investment property" of the property owned by the subsidiary Liguria Assicurazioni located in Segrate at Via Milano 2.
- Euro 3,704 thousand relative to the reclassification to "Investment property" of certain properties owned by the subsidiary DDOR.

The item relating to land represents the indefinite useful life component separated from wholly owned buildings in direct use. The separation is made based on specific independent expert appraisals at the transition date (1 January 2004), or at the acquisition date, if later.

The properties included under property, plant and equipment include those intended for business operations (i.e. direct use properties). These properties were recognised at cost and are depreciated on a straight-line basis over their useful lives, only for those components subject to a defined useful life. There are no restrictions on the ownership of the buildings of the Group, nor have significant amounts been recorded in the income statement for reductions in value, losses or disposals or damage.

The item also includes properties owned by Immobiliare Fondiaria-SAI (except for the subsidiary Società Edilizia Immobiliare Sarda S.E.I.S. and most of the properties of the subsidiary Marina di Loano), which are regarded as inventory and are therefore valued in accordance with IAS 2.
The Group carries out annual independent expert valuations to measure the fair value of its land and buildings. In particular, for the insurance companies of the Group, this

process is in response to specific provisions of the Supervisory Authority and to the requirements of IAS 40.
With the exception of the Garibaldi Repubblica area owned by the subsidiary Meridiano Secondo, which is mortgaged, the other Group properties within this item are not subject to any restrictions on ownership, nor have significant amounts been recorded in the income statement for reductions in value, losses or disposals or damage.
With regard to buildings intended for company use, we would point out that the carrying value at the year-end is Euro 192 million lower than the appraisal value based on market values (Euro 184 million at 31 December 2010).
Other property, plant and equipment mainly includes tangible fixed assets used by the Group in order to carry out its business, such as hardware, furnishings and plant and office equipment, as well as the closing inventory of companies operating in the agricultural sector, valued in accordance with IAS 2.

3. REINSURANCE ASSETS

These total Euro 701,880 thousand (Euro 823,184 thousand at 31 December 2010) representing a decrease of Euro 121,304 thousand with respect to the previous year. They are comprised as follows:

(in thousands of Euros)	**31.12.11**	**31.12.10**	**Change**
Non-Life insurance contract liabilities attributable to reinsurers	608,617	656,719	(48,102)
Life insurance contract liabilities attributable to reinsurers	93,263	166,465	(73,202)
Class D reserves attributed to reinsurers	-	-	-
Total	**701,880**	**823,184**	**(121,304)**

Of this sum, Euro 423 million refers to reinsurance expense, while Euro 279 million concerns retrocessionaire reserves.

4. INVESTMENTS

These comprise the following:

(in thousands of Euros)	**31.12.11**	**31.12.10**	**Change**
Investment property	2,776,452	2,912,189	(135,737)
Equity investments in subsidiaries, associates and joint ventures	116,795	353,014	(236,219)
Investments held to maturity	599,713	592,138	7,575
Loans and receivables	3,688,865	3,159,211	529,654
Financial assets available for sale	17,608,557	20,275,298	(2,666,741)
Financial assets at fair value through profit or loss	9,026,664	8,740,064	286,600
Total	**33,817,046**	**36,031,914**	**(2,214,868)**

4.1 Investment property

The item includes all the properties held by the Group for rental or for capital appreciation.
Investment property is recorded at purchase cost in accordance with IAS 16 (which IAS 40 refers to in the case of adoption of the cost model). Consequently, for accounting purposes the Group has separated the value of the land from the value of the buildings held, considering that the former, having an indefinite useful life, must not be depreciated.

The separation of the land component from the building component is based on updated appraisal values at the date of transition to the international accounting standards and, for acquisitions subsequent to 1 January 2004, on the appraisal prepared at the time of purchase.

That part of the property referring to buildings is depreciated on a straight-line basis over the residual useful life of the components therein. Of the significant components, those relating to the plant of the building are depreciated separately. The depreciation rate utilised for the "building" component was between 0.83% and 22.22% on average, while the depreciation rate relating to the "plant" component was between 3.88% and 35.81%.

Annually, the Group determines the fair value of investment property, determined on the basis of appraisals prepared by independent third-party experts, which offer specialist valuation services for this type of investment. The market value was calculated through the separate valuation of each asset, applying typical financial methods, including elements that take account of the returns on the buildings, in accordance with the provisions of the Supervisory Authority.

Overall, the book value of investment property at 31 December 2011 was more than Euro 924 million lower than the independent expert valuation (Euro 887 million at 31 December 2010).

The analysis of investment property and the variation during the year are shown below.

(in thousands of Euros)	**31.12.11**	**31.12.10**	**Change**
Gross book value	3,204,995	3,288,966	(83,971)
Depreciation and impairment provision	(428,543)	(376,777)	(51,766)
Net value	**2,776,452**	**2,912,189**	**(135,737)**

The movements in the carrying value of investment property are shown below:

(in thousands of Euros)	**31.12.11**	**31.12.10**
Value at beginning of year	**2,912,189**	**3,030,524**
Increases for purchases and incremental expenses	39,601	39,695
Property from business combinations	-	-
Disposals and reclassification	(34,043)	(60,565)
Depreciation for the year	(72,463)	(72,688)
Impairment/restatement recorded in the year	(244,444)	(29,684)
Exchange differences	(11)	(604)
Transfers from other categories (IAS 2 or IAS 16)	175,623	5,511
Other movements	-	-
Value at year-end	**2,776,452**	**2,912,189**

The item "Transfers to/from other categories" includes:

- Euro 160,820 thousand relating to the reclassification to "Property, plant and equipment" of the real estate project relating to the Port of Loano expansion following completion of the work and the receipt of administrative approval for about 95% of the structures
- Euro 7,647 thousand relating to the reclassification to "Property, plant and equipment" of the property owned by the subsidiary Liguria Assicurazioni located in Segrate at Via Milano 2
- Euro 3,704 thousand relating to the reclassification to "Property, plant and equipment" of certain properties owned by the subsidiary DDOR Novi Sad ADO"

- Euro 3,452 thousand relating to the reclassification of the property owned by the subsidiary Liguria Assicurazioni located in Segrate at Via delle Regioni 40 from “Discontinued assets”.

Disposals concern assets held by Fondiaria-SAI and by certain subsidiaries, including the property located at Castelgiubileo in Rome.

The impairments refer to properties owned by Fondiaria-SAI and by certain subsidiaries, for which the book value was greater than the market value and which were therefore regarded as showing permanent losses in value.

Shown below is the analysis of the main impairments recorded on the property assets of the Group (property, plant and equipment and investment property):

(in thousands of Euros)

Rome – Via Fiorentini	29,883
Pero – Via Keplero	27,637
Florence – Land (Nuove Iniziative Toscane)	27,287
Loano – Madonna di Loreto seafront	22,124
Varese – Via Albani	14,906
Milan – Garibaldi Repubblica area	14,128
Milan – Via De Castillia	12,593
S. Pacrazio Parmense – Via Emilia	11,689
Civitella Paganico – Terme di Petriolo	9,862
Pinzolo, loc. Madonna di Campiglio	7,860
Milan – Via Caldera 21	7,179
Villasimius – Località Campolongu	7,000
Pieve Emanuele – Località Viquarterio	7,000
Milan – Via Melzi d’Eril	6,409
San Donato Milanese – Via Maastricht 3	5,701
Other property	54,142

The lower value attributed to the properties compared to the valuation made in the previous year is a result both of the changed economic and financial scenario (higher interest rates and objective difficulty in achieving sustainable profitability), as well as the consequent need for a more prudent valuation approach, even if the methods applied remain constant, in order to obtain a fair market value of the assets held. Also in view of property operators’ difficulty in gaining access to credit and the significant slowdown in demand, the Group has adopted a more prudent approach for properties with unsatisfactory profitability and for development initiatives which, in terms of inventory, involve greater uncertainty.
The property portfolio has suffered due to the international financial crisis, which has meant a drop in market values for properties along with an increase in investors’ perception of risk and in the profitability expected on such investments. This had led the Group’s property appraisers to lower the expected income for vacant properties or for development areas, and to raise the discounting rates and the exit yields in the DCF used mainly for the valuation of income-producing assets, compared with those used in the previous year’s appraisals, with a consequent reduction in the market value of the properties and a write-down of the book values thereof. In particular, the Fondiaria-SAI Group’s property assets experienced a drop in market value of approximately 9.8% between the year-end 2009 and the year-end 2011 (-9.4% in 2011). A similar negative trend was also detected in recent years on the overall Italian property market.

In 2011, the Group also decided to entrust the task of valuing the property assets to different independent valuation experts than those used in the past, as part of a rotation approach in line with best market practice.

Specifically, the criteria for the selection of valuation experts were as follows:

- experts of primary standing who operate with the market's main players (they are also independent experts for some of the major Italian property funds)
- the experts chosen have limited or practically no previous collaboration with the Group (with the exception of Praxi S.p.A.)
- the experts chosen in 2011 were: DTZ Italia S.p.A., Avalon Real Estate S.p.A., Patrigest/Abaco and Praxi S.p.A.
- in 2010, the valuations were prepared by Scenari Immobiliari and Praxi S.p.A., respectively.

For certain properties, the change of experts has also meant a change in valuation methodology compared to the past, going in some cases from a comparative criterion (Euro per square metre) to a Discounted Cash Flow (DCF) method, especially for certain detached properties for non- residential use.

The main write-downs for the different asset classes are analysed below:

- Tourist facilities – accommodation (write-downs of Euro 101 million): the decrease in the market value of such buildings is due in particular to the crisis that has hit the hotel sector, which led to a more prudent estimate by the experts of the buildings, with an increase in the discounting rates and exit yields in the DCF used for the valuation of income-producing assets. Tourist accommodation facilities also includes the company Marina di Loano, for which the lower market value, compared to 2010, is due in particular to the current nautical market situation, which has depressed demand for boat moorings. This has led to a more prudent estimate of marketing forecasts compared with those prepared in previous years.
- Purchases of potential assets (write-downs of Euro 54 million): considering the state of advancement of the work on these income-producing assets, the problems concerning the completion of certain assets based on the intended use initially planned and for which a strategy for completion of the work is being defined (see San Pancrazio Parmense), as well as the expert valuations received at year-end, it was decided to write down the said property initiatives, considering the risks associated with turning them into income-producing properties.
- Land (write-downs of Euro 60 million): the uncertainty in the execution of property developments as well as the more prudent assumptions by the valuation experts, justified furthermore by the slowdown due to difficulty in obtaining credit, has meant a decrease in the appraisal values with consequent write-downs. Specifically, regarding the property development initiative in the Castello di Firenze area (Nuove Iniziative Toscane Property), the valuation prepared by Praxi at 31 December 2011, compared with the valuation made by Scenari Immobiliari at 31 December 2010, led to a decrease in the market value attributed to the Castello area, within the Executive Urbanisation Plan, of approximately Euro 100 million. This change is due to the greater prudence of Praxi compared with Scenari Immobiliari with regard to unit construction/execution costs, expected unit revenue from the sale of the properties, the discounting rate and the timing of property transactions, also in

view of the continued sequestration of the area. This was also reported to ISVAP. Another expert valuation was also requested from Patrigest, in the process of being formalised, which confirmed the results of the valuation by Praxi, especially in terms of a significant decrease in value compared to the Scenari Immobiliari valuation, notwithstanding the Discounted Cash Flow (DCF) method.

- Offices (write-downs of Euro 34 million): as already stated for the tourist accommodation facilities, the crisis in the property market has caused the valuation experts to use higher discounting rates in the DCF method and a lower estimate of the value of the offices compared with that used in 2010 (see building located in Milan – Melzi d'Eril). In addition to these factors, the decrease in market values was recognised for the partially or completely vacant properties (in particular in Milan – Torri di Val Formazza, the buildings located in Medici del Vascello, the Via Amidani building complexes, as well as those located at Via dei Missaglia).
- Others (write-downs of Euro 16 million).

During the year, rental income from investment property amounted to more than Euro 88 million (Euro 92 million at 31 December 2010).
There are no significant limits on the sale of the investment property due to legal or contractual restrictions or restrictions of any other nature, with the exception of eight buildings belonging to the Tikal fund, the Immobiliare Fondiaria-SAI Group and Immobiliare Milano, which are mortgaged to secure the loans received on them. Added to this is the court-ordered sequestration of the Castello Area in Florence owned by the subsidiary NIT. This is described below in the section on provisions for risks and charges.

4.1.1 Real estate initiatives

"Porta Nuova" project
The Group is involved in a joint venture with the U.S. group HINES for the execution of a property development in the area known as "Porta Nuova" in Milan, divided into the following independent projects: Porta Nuova Garibaldi, Porta Nuova Varesine and Porta Nuova Isola.
On 29 December 2011, Premafin signed the final contract for the sale of units in Ex-Var S.c.A. concerning the entirety of the participatory instruments (share units, profit participating bonds and special interest profit participating bonds) held by the company in the Porta Nuova Varesine property initiative for the overall price of Euro 25.7 million. The contract provided for payment to be collected in three tranches. The first tranche of the price, amounting to Euro 18.0 million, was collected at the time of signing of the contract. The second tranche of the price, amounting to Euro 6.9 million, was collected on 9 February 2012 and the third and final tranche, amounting to Euro 0.8 million will be collected by 30 June 2012, while the Company must pay Euro 0.8 million for substitute tax accruing on the investment in the real estate fund prior to the sale. This sale generated a capital gain of Euro 1.1 million.

Progetto Alfiere S.p.A.
Immobiliare Fondiaria-SAI S.r.l., through the company Progetto Alfiere S.p.A., in partnership with Lamaro Appalti S.p.A., Fondo Beta, Met Development S.p.A. (formerly Maire Engineering S.p.A.), Eurospazio S.r.l. and Astrim S.p.A., participated in the purchase of 50% of the share capital of Alfiere S.p.A., owner of the real estate complex "Torri dell'EUR" in Rome. The remainder of the share capital is held by

Fintecna Immobiliare (a wholly-owned subsidiary of Fintecna S.p.A., which in turn is wholly owned by the Italian Ministry of Economy and Finance).
Following an inquiry conducted by municipal offices on the project submitted by the company on 30 July 2009 to the 9th department of the municipality of Rome, on 29 March 2011, the Municipality of Rome sent the company notice regarding the issuance of planning permission, indicating the fees payable – including in instalments – for the associated withdrawal. The fees amount to a total of approximately Euro 33 million. The existing building will be demolished only after issuance of the authorisation for withdrawal and payment of the first instalment of the fees (approximately Euro 4 million). During the year, Immobiliare Fondiaria-SAI S.r.l. paid the amount of approximately Euro 0.3 million as a shareholder loan.
As a result of the worsening economic outlook for the underlying initiative, the receivable for the loan held against Progetto Alfiere S.p.A. was written down by Euro 3.7 million.

Sviluppo Centro Est S.r.l.
Immobiliare Milano Assicurazioni S.r.l. holds a 40% equity investment in the share capital of Sviluppo Centro Est S.r.l. The company was incorporated with partners Lamaro Appalti S.p.A. (40%) and Co.Ge.San S.p.A. (formerly I.TER S.r.l.) (20%) for the purchase of 50% of Quadrante S.p.A. and of the receivable from the shareholder loan held against Fintecna S.p.A.
The company Quadrante S.p.A. is refurbishing an area of over 60 hectares in the south-east of Rome, in the Cinecittà - Torre Spaccata locality. As a result of new terms of payment for the balance of the price agreed for the equity investment in December 2009, to date the partners still have to pay the remaining Euro 48.2 million by no later than 31 December 2012, the year in which the development is expected to be completed.
During the year, Immobiliare Milano Assicurazioni S.r.l. paid approximately Euro 2.2 million as a shareholder loan, while, in view of the initiative's deteriorated economic outlook, the equity investment was written down completely for Euro 2.8 million, as was the receivable for the loan held against the company for the amount of Euro 8 million.

Metropolis S.p.A.
On 27 January 2012, the Board of Directors of Metropolis decided to call an extraordinary shareholders' meeting regarding liquidation of the company for Friday, 24 February 2012, and on second notice for 2 March 2012. On that date, only Euro 720 of the increase resolved on 2 December had been paid, and the directors felt that non-payment by a large proportion of the shareholders indicated that they no longer intended to support the company financially, leading to an impasse.
During the year, Immobiliare Milano Assicurazioni S.r.l. paid approximately Euro 0.2 million as a shareholder loan, while, in view of the deteriorated economic outlook for the initiative, the equity investment was written down completely for Euro 0.5 million, as was the receivable held against the company in the amount of Euro 4 million.

Marina di Loano S.p.A.
The company completed the Port of Loano expansion work in December. Currently, 95% of the structures have obtained administrative approvals and have a certificate of compliance. The receipt of the remaining approvals is expected to take place by March 2012. As from that date, 102 of its 374 multi-year lease boat moorings and 244 of its 454 annual lease boat moorings can be leased under definite contracts. Such contracts are equivalent to approximately Euro 9.5 million for multi-year leases and approximately Euro 1.7 million annually for the annual leases. To date, the structures

that are fully operational are the Naval Shipyard, the bar-discotheque space, and the beach. The commercial spaces are still being marketed, and the management of the Yacht Club is being chosen. The current economic situation and the legal provisions in the process of being implemented have depressed demand for boat moorings, helping to create a climate of uncertainty and prompting the postponement of any investment decisions. This situation was taken into account in the valuation of the asset in the financial statements and, with the support of an independent expert, a write-down was made at the consolidated level of approximately Euro 22 million, leaving the new value at approximately Euro 150 million.
The completion of the work led to reclassification of the investment from inventory for work in progress to property, plant and equipment, which in 2012, for depreciation alone, will entail costs of approximately Euro 4 million. Given that that the 2011 write-down reduced the company's equity to zero, the Board of Directors of the company shall ask its intermediate parent company to convert the receivables for loans held by it at 31 December 2011, amounting to approximately Euro 108 million, including approximately Euro 10 million for interest on said loan, into a capital contribution in order to provide adequate equity for its operational requirements.

Sale of CityLife S.r.l.
The Boards of Directors of Milano Assicurazioni and Fondiaria-SAI, at meetings held on 22 March 2011 and 23 March 2011, respectively, pronounced themselves in favour of Immobiliare Milano Assicurazioni S.r.l. starting the procedure for exercising a put option in favour of Generali Properties S.p.A. on the entire equity investment held in CityLife S.r.l., equal to 27.20% of the share capital.
On 4 April, Immobiliare Milano Assicurazioni S.r.l. informed Generali Properties – and Allianz S.p.A.– of the exercise of the option under the terms of the agreement of 11 June 2010.
On 14 April 2011, Generali Properties acknowledged the letter from Immobiliare Milano Assicurazioni regarding exercise of the option, confirming its commitment to fulfil it.
After the completion of an inquiry followed by the issuance by ISVAP and by the antitrust authority of the necessary authorisations, the arbitrator Leonardo & Co. S.p.A., chosen by mutual agreement between Generali Properties and Immobiliare Milano Assicurazioni, prepared the final valuation document, which stated the following values:

- Euro 109.3 million, constituting the amount relative to all the sums paid into CityLife, from its incorporation to date, by Immobiliare Milano Assicurazioni, plus the sum paid by it proportionately to Fondazione Fiera as the price for the Transformation Area as provided for in the respective document, all of which sums are net of any income distributed and capitalised at the Euribor 3 (three) month rate, plus 1.5 (one point five) percentage points, from the date of payment until the date of transfer of the equity investment
- Euro 106.3 million amounting to the net asset value of the investment at 31 June 2011.

Therefore, based on the agreement, the price for the investment is the greater of the two results, and therefore Euro 109.3 million.
Generali Properties took over all of the commitments assumed by Immobiliare Milano Assicurazioni in the past, both in relation to the loan agreement as well as in relation to the contract for own funds with the lender banks (amounting to a maximum of Euro 270 million, including potential commitments), with the Municipality of Milan and the Fondazione Fiera (for a total of Euro 4.8 million) and with the partner banks for the junior line of credit for working capital (totalling Euro 8.2 million), relative to the equity investment in CityLife, also committing itself to completely absolve

Immobiliare Milano Assicurazioni from any obligations relative to such commitments, effective from the date of closing.
The Board of Directors of Fondiaria-SAI S.p.A., in their meeting held on 2 August, expressed a definitive opinion in favour of the sale of the equity investment, and the transaction was therefore concluded on 3 August, with collection at the same time of the entire sale price agreed. This sale generated a capital gain of Euro 30.9 million.

Sale of shares of IGLI S.p.A.
Argo Finanziaria S.p.A., Immobiliare Fondiaria-SAI S.r.l. and Immobiliare Milano Assicurazioni S.r.l. signed a contract on 27 December 2011 for the purchase by Argo Finanziaria S.p.A. of 8,040,000 ordinary shares of IGLI S.p.A. held overall by Immobiliare Fondiaria-SAI S.r.l. and Immobiliare Milano Assicurazioni S.r.l. and representing a stake of 33.33% in the share capital of IGLI S.p.A. As is known, IGLI S.p.A. is the owner in turn of 120,576,293 ordinary shares of Impregilo S.p.A., representing a stake of 29.96% of its voting capital.
The purchase price for each share of IGLI S.p.A. involved in the purchase and sale was agreed at Euro 10.89572, for a total of Euro 87.6 million, determined based on a provisional statement of financial position of IGLI S.p.A. at 31 December 2011, prepared attributing a value of Euro 3.65 to each share of Impregilo S.p.A. held by IGLI S.p.A. The transaction closed in early March 2012. This sale generated a capital gain of approximately Euro 2 million.

4.2 Equity investments in subsidiaries, associates and joint ventures

In accordance with IAS 27.20, Premafin fully consolidates all Group companies, including those which undertake dissimilar activities. The item includes the book value of certain subsidiary equity investments which, given their insignificance in relation to the size and nature of the activities undertaken, are not decisive for the purposes of the reliability of these financial statements.

Reference should be made to the appendix for details of investments in non-consolidated subsidiaries.

(in thousands of Euros)	**31.12.11**	**31.12.10**	**Change**
Subsidiaries	1,642	2,635	(993)
Associates	115,153	350,379	(235,226)
Total	**116,795**	**353,014**	**(236,219)**

The more significant investments in associates are shown below:

(in thousands of Euros)	**31.12.11**	**31.12.10**	**Change**
Garibaldi S.C.A.	56.1	45.9	10.2
Fin. Priv. S.r.l.	20.5	27.7	(7.2)
Isola S.C.A.	11.1	10.9	0.2
CityLife S.r.l.	-	78.1	(78.1)
Rho property fund	-	57.1	(57.1)
IGLI S.p.A.	-	56.7	(56.7)
Ex-Var S.c.s	-		(36.5)
		36.5	
Other	27.5	37.5	(10.0)
Total	**115.2**	**350.4**	**(245.2)**

The decrease in equity investments in associates is due to the following:

- the sale in December 2011 of the equity investment held in Ex-Var S.c.A by the Parent Company and the consequent classification of the stake held by the subsidiary Fondiaria-SAI under financial assets available-for-sale;
- sale of the equity investment in CityLife on 3 August 2011;
- reclassification under "Financial assets available-for-sale" of the Rho property fund, following changes in the structure's governance with loss of significant influence;
- reclassification under "Discontinued assets" of the equity investment in IGLI S.p.A., after the signing of the contract for its sale to Argo Finanziaria S.p.A. by the subsidiaries Immobiliare Fondiaria-SAI and Immobiliare Milano, as described in detail in the Directors' Report;
- exit from the consolidation area of the Rho fund and its transfer to financial assets available-for-sale;
- an increase of Euro 10 million in the equity investment in Garibaldi S.c.a. after the subscription of the profit participating bonds issued by it.

The value adjustments recognised in the income statement as a result of the valuation of equity investments in associates are negative for Euro 5.6 million.

4.3 Investments held-to-maturity

These total Euro 599,713 thousand (Euro 592,138 thousand at 31 December 2010) and consist of debt securities.
The financial instruments included in this category meet the requirements of paragraph 9 of IAS 39. Therefore, these involve exclusively fixed-maturity debt securities with fixed and determinable payments, which the Group has the objective intention and capacity to hold until maturity.
In addition, the category only includes financial instruments from the Life segment held exclusively for policies with specific assets as defined by the current segment regulations.
This category only included listed securities, the current value is Euro 643,368 thousand.

4.4 Loans and receivables

These totalled Euro 3,688,865 thousand (Euro 3,159,211 thousand at 31 December 2010) and are comprised of the following:

(in thousands of Euros)	**31.12.11**	**31.12.10**	**Change**
Receivables from banks for interbank deposits and from bank customers	665,462	764,173	(98,711)
Debt securities	2,465,849	1,825,970	639,879
Loans on life policies	44,140	53,597	(9,457)
Deposits held by reinsurers	24,895	27,417	(2,522)
Receivables from sub-agents for redress and indemnities paid to agents terminated	238,569	240,821	(2,252)
Other loans and receivables	249,950	247,233	2,717
Total	**3,688,865**	**3,159,211**	**529,653**

Receivables from banks include the receivables of the subsidiary BancaSai in respect of other credit institutions for deposits of Euro 29,147 thousand (Euro 78,590 thousand at 31 December 2010), as well as loans to bank customers of Euro 636,315 thousand (Euro 685,583 million at 31 December 2010).

Debt securities include:

- The book value of certain issues (in particular Ania special issues), for which a valuation at amortised cost, rather than at fair value, was deemed appropriate, given the lack of an active benchmark market. The item refers to financial assets for which it is believed that the relative fair value cannot be calculated in a precise manner.
- Certain private placements of Italian government bonds, for Euro 1,541 million, which serve the purpose both of ensuring stable returns to the Group, as well as eliminating the volatility in the valuation of such instruments when subscribed in traditional market contexts. The classification in this category is therefore due to the lack of an active benchmark market.
- Corporate bond issues: these mainly involve financial structures with subordination clauses transferred to this category in 2009. No impairments were recognised on any bond, and the amortised cost effect entailed the recognition of income in the income statement of Euro 11,881 thousand. The negative AFS reserve recognised on these securities at 1 January 2009 amounted to Euro 75,222 thousand, and is amortised according to IAS 39 rules. The residual negative AFS reserve amounts to Euro 52,981 thousand.

Further details regarding the above classification are provided in the section relating to accounting standards.

"Other loans and receivables" mainly includes Euro 221.5 million (Euro 207.3 million at 31 December 2010) relative to consumer loans held by subsidiary Finitalia in respect of customers.

The book value at 31 December 2011, calculated according to the amortised cost criteria, is higher by Euro 305 million (lower by Euro 61 million at the end of the previous year) than the fair value on the same date.

4.5 Financial assets available-for-sale

Financial assets available-for-sale include debt and equity securities, as well as quotas in collective investment undertakings, not otherwise classified. Although a residual category, they represent the largest category of financial instruments, in line with the characteristics and purposes of insurance activities.

They are comprised as follows:

(in thousands of Euros)	**31.12.11**	**31.12.10**	**Change**
Equity securities	1,167,836	1,481,428	(313,592)
Investment fund units	801,948	839,740	(37,792)
Debt securities	15,636,678	17,952,179	(2,315,501)
Other financial investments	2,095	1,951	144
Total	**17,608,557**	**20,275,298**	**(2,666,740)**

The equities include listed securities for Euro 915 million, while listed debt securities amount to Euro 15,593 million.

We would point out that the debt and equities securities included in this category are measured mainly at fair value.

The listed equities included in "Financial assets available-for-sale" include the following equity investments:

(in thousands of Euros)	**% of equity investment (1)**	**Financial statement value 2011**	**Financial statement value 2010**
Assicurazioni Generali S.p.A.	1.07	191,718	252,141
Unicredito S.p.A.	0.32	39,392	104,701
Gemina S.p.A.	4.19	36,162	32,578
Mediobanca S.p.A.	3.83	145,667	220,778
Monte dei Paschi S.p.A.	0.04	1,197	23,071
RCS S.p.A.	5.46	26,922	41,134
Pirelli & C. S.A. p.a.	4.48	137,827	129,701
Total		**578,885**	**804,104**
Other investments		335,638	471,201
Total		**914,523**	**1,275,305**

(1) Percentage calculated on the total voting capital

The book value is adjusted to the stock exchange price on the last day of the year.

With regard to the composition of the AFS reserve (portion attributable to the Group and gross of both fiscal effects and of amounts paid back to Life policyholders in accordance with the shadow accounting method), the gross amount, negative by Euro 336 million, includes a negative component of Euro 328 million with reference to debt securities and investment fund units, and a negative component of Euro 8 million (positive for Euro 104 million relative to Banca d'Italia) with reference to equity securities.

For the purposes of recording impairment, The Group has identified the following conditions as representative of a prolonged or significant reduction in fair value:

1. a reduction in the market value of more than 60% of the original cost at the reporting date of the financial statements, or, alternatively;
2. a market value continuously lower than the original book value, for a period of two years.

For those AFS financial instruments which do not satisfy the criteria stated above, in the presence of significant capital losses on equities further analytical evaluations were nevertheless carried out, in order to ascertain the existence of any impairment indicators.
Where such analyses indicate difficulty in recovering the book value, the entire negative reserve is recognised in the income statement, even when the above automatic thresholds are not breached. In this regard, the Group examined all positions in the portfolio for which the capital loss was greater than Euro 1 million or the negative AFS reserve ranged from 20% to 60% of the original book value.
Consequently, for investments showing a significant decrease in fair value (generally between 20% and 60% and therefore not included in automatic testing), impairment testing was carried out on the basis of a mixed valuation approach, differentiated by the quality and the size of the equity investments in question.
Therefore:
1. for the significant equity investments of the Group, such as:
   - Assicurazioni Generali
   - Banca Intermobiliare
   - Monte dei Paschi di Siena
   - RCS Mediagroup
   - UniCredit

The effect on the income statement of the impairment recognised during the period was approximately Euro 121 million.

2. For equity investments not falling under point 1) but which nevertheless show significant amounts both in terms of book value and capital losses, and for fund units, we checked whether or not any of the qualitative requirements under paragraph 59 of IAS 39 existed (and if so, the impairment was recognised immediately in the income statement) and if not, where possible, carried out analytical valuations.
3. For all other equity investments, given their fragmentation and the lower significance of the related capital losses (as already mentioned or because they were lower than the threshold of Euro 1 million in absolute value, or because the negative AFS reserve was within 20% of the cost), the impairment was made only if there was evidence of any of the qualitative factors mentioned in paragraph 59.
4. With regard to debt instruments, there is objective evidence of impairment if only one of the qualitative factors in paragraph 59 occurs. For debt securities showing a significant decrease in fair value on the date of preparation of the financial statements, any analytical valuations are nevertheless more simplified in that the fundamental criteria primarily concerns the likelihood of issuer default.

Overall impairments on AFS financial instruments totalled Euro 341.4 million (Euro 389.3 million at 31 December 2010), of which Euro 156 million is attributable to Greek government bonds.

They are summarised by type in the following table:

	2011	2010
SHARES	175.6	377.4
BONDS	156.3	-
INVESTMENT FUND UNITS	9.5	11.9
TOTAL	**341.4**	**389.3**

Greek government bonds

As is widely known, current economic conditions in Greece have recently prompted the launch of initiatives for the restructuring of Greek sovereign debt. Specifically, on 21 July 2011, a plan was prepared by the International Institute of Finance for the restructuring of Greek sovereign debt relative to bonds maturing by 2020. Essentially, the restructuring plan provided the option for investors to exchange Greek government bonds held for other financial instruments, for which the guarantee of repayment is stronger and which have longer maturities (15 to 30 years). Using a coupon flow discounting rate of 9%, each of the four types of securities offered was destined to produce a loss of approximately 21% off the redemption price.

On 27 October a new agreement was reached in Brussels between the Eurozone governments and the main financial institutions which, in order to render Greek debt sustainable and as part of additional initiatives to deal with the sovereign debt crises in other Eurozone countries, provided for a 50% cut on the value of the bonds issued by Greece, in an as yet not well-defined context which could undergo further changes.
In this context, in preparing the half-year report, the Greek government bonds falling under the intervention plan of 21 July, classified as assets available-for-sale, were subject to impairment, with prudent allocation of the entire negative reserve on these

bonds at cost and amounting to Euro 35.6 million, with a net economic impact of Euro 8.8 million, taking into account the portion attributable to policyholders and the tax impact.
The recognition of the value adjustment took into account the qualitative factors set out in paragraph 59 of IAS 39 for the purposes of identifying the existence of objective evidence of impairment, with particular reference to the concomitant presence of significant difficulties for the issuer in repaying the issues subject to the restructuring plan, elements which indicate a presumed decrease in future cash flows than those contractually provided, as well as the economic reasons leading creditors to grant conditions that they otherwise would not have considered.
Note that, on 24 February 2012, the Greek government bond exchange offer was approved, providing for every Euro 1,000 of nominal value of the bonds outstanding to be substituted with:

- 20 bonds issued by the Greek government with an overall nominal value of Euro 315 and maturing in 11 to 30 years
- two new bonds issued by the European Financial Stability Facility (EFSF), for a total nominal value of Euro 150
- GDP-linked bonds issued by Greece with a notional amount equal to that of the new bonds received in exchange (Euro 315) which will produce additional interest in the event that Greek GDP grows above a pre-established threshold
- short-term zero coupon bonds issued by the EFSF to hedge the unpaid interest accrued on old Greek government issues on the date of the agreement.

The plan, which set 8 March as the deadline for declarations of intent, had an acceptance rate among investors of about 95%. Group companies accepted for all the bonds held.
In preparing these financial statements, taking into account the above, it was deemed advisable to charge to the income statement the entire differential between the book value at 30 June and the market prices at 31 December of all Greek government bonds in the portfolio, amounting to Euro 120.7 million.
The value adjustment of the Greek government bonds therefore totals Euro 156.3 million. The impact on the income statement, net of the portion attributable to policyholders and the tax impact, amounts to Euro 55 million.
The table below summarises the Fondiaria-SAI Group's exposure to Greek government bonds.

	Nominal value at 31.12.11	**Fair value at 31.12.11**	**Impairment**	**AFS reserve gross**	**AFS reserve net of the portion attributable to life policyholders**
AFS financial assets maturing by 2020	85,970	21,818	68,503	-	-
AFS financial assets maturing after 2020	109,000	23,051	87,742	-	-
Total	**194,970**	**44,869**	**156,245**	**-**	**-**

Government bonds issued by Greece, Spain, Portugal, Ireland and Italy

The table below provides details on the Fondiaria-SAI Group's exposure to government bonds issued by other peripheral Eurozone countries, which are also recorded under assets available-for-sale:

Country	Expiry within 12 months	Expiry from 1 to 5 years	Expiry from 5 to 10 years	Expiry beyond 10 years	Total Fair value (level 1)	AFS reserve (gross)	AFS reserve (net shadow)
Spain	-	62,416	-	43,054	105,470	(13,829)	(8,193)
Portugal	-	2,768	-	-	2,768	(1,257)	(594)
Ireland	-	1,228	19,572	-	20,800	(4,707)	(1,936)
Italy	1,416,808	5,298,014	3,614,926	1,434,051	11,763,799	(1,511,869)	(740,413)
Greece	4,550	7,909	9,359	23,051	44,869		

Based on prices at 26 March 2012, the negative gross AFS reserve was reduced by approximately Euro -219,971 thousand.

4.6 Financial assets at fair value through profit or loss

These comprise the following:

(in thousands of Euros)	**31.12.11**	**31.12.10**	**Change**
Equity securities	30,599	32,502	(1,903)
Investment fund units	636,124	459,899	176,225
Debt securities	8,072,935	7,758,431	314,504
Other financial investments	287,006	489,231	(202,225)
Total	**9,026,664**	**8,740,063**	**286,601**

The component relative to financial assets at fair value through profit or loss amounts to Euro 8,973,030 thousand (Euro 8,659,412 thousand at 31 December 2010) and includes investments for which the risk is on Life policyholders and which derive from the management of pension funds of Euro 8,900 million (Euro 8,553 million at 31 December 2010).

We would point out that the fair value of financial instruments traded on regulated markets is determined with reference to the listed prices recorded at the end of the final trading day of the year; if the listed price is not available, the reference price used is the price available from brokers.

For all financial instruments for which no active benchmark market exists, the fair value is determined through valuation techniques based on:

- recent transaction prices between independent parties
- the current market value of a similar instrument
- the analysis of the discounted cash flows, in which the estimated future cash flows are based on the best estimates of management and the discount rate used is related to the market rate used for similar instruments
- valuation models of the options.

If the fair value cannot be measured reliably, the financial instruments are measured at cost, regarded as the fair value of the amount paid for the purchase of the investment. In this situation, all the transaction costs strictly attributable to the purchase are included in investment costs.

In measuring fair value, the Group uses market valuations directly obtained from independent sources, if available, as this is normally considered the best evidence of fair

value. In this case the fair value is the market price of the same financial instrument subject to valuation, taken from prices on an active market. A market is regarded as active when the prices reflect normal market operations, are regularly and readily available through stock exchanges, listing services and brokers, and represent regular and effective transactions through financial brokers.
The following are usually regarded as active markets:

- regulated securities and derivatives markets, with the exception of the Luxembourg financial market
- the secondary market of fund units, expressed by official NAVs (Net Asset Values) based on which the asset management company issuer must settle the units; this value may be adjusted to take account of the scarce liquidity of the fund, or of the time interval between the date of the repayment request and that of the actual repayment
- organised exchange systems
- over-the-counter electronic trading circuits (e.g. Bloomberg), in the presence of certain qualitative and quantitative parameters (presence of a certain number of contributors, spread between bid and ask prices contained between a set tolerance threshold).

When a mark to market valuation is not applicable, technical valuations based on observable market parameters must be used, using the following valuation approaches:

- Comparable approach: in this case the fair value of the instrument is taken from the prices observed on recent transactions on similar instruments in active markets
- Model valuation: in the absence of observable transaction prices, relating to the instrument to be valued or on similar instruments, it is necessary to adopt a valuation model based on market data:
    - debt securities are valued based on discounting expected cash flows, adjusted to take account of the issuer risk and the liquidity risk
    - derivative contracts are valued through multiple models, based on the input factors (risk rate, volatility, price risk, exchange risk, etc.) which affect the relative valuation
    - unlisted equities are valued with reference to direct transactions on the same security, or on similar securities observed in a defined period of time from the valuation date, using the market multiples of similar companies and, consequentially, through financial, profitability and asset valuation methods.

Shown below is the summary table with the breakdown by level of hierarchy of the financial instruments measured at fair value:

	Level 1	Level 2	Level 3	Total
Financial assets available-for-sale	16,508	754	214	17,476
Equity securities	915	-	120	1,035
Debt securities	15,593	44	-	15,637
Investment fund units	-	708	94	802
Other financial investments available for sale	-	2	-	2
Financial assets at fair value through the profit or loss account	43	8,983	-	9,026
Equity securities	-	-	-	-
Investment fund units	43	49	-	92
Debt securities	-	21	-	21
Derivatives	-	13	-	13
Financial assets where risk is on policyholders and deriving from pension fund management	-	8,900	-	8,900
Other financial instruments at fair value through profit or loss	-	-	-	-
Financial assets at fair value	**16,551**	**9,737**	**214**	**26,502**
Financial liabilities at fair value through profit or loss	-	1,350	-	1,350
Liabilities from financial contracts issued by insurance companies	-	1,240	-	1,240
Derivatives	-	62	-	62
Other financial liabilities	-	48	-	48
Financial liabilities at fair value	**-**	**1,350**	**-**	**1,350**

Financial assets available-for-sale do not include unlisted equity securities of Euro 133 million.

The value recorded in AFS level 3 represents the equity investment held in Banca d'Italia, previously recognised at cost; due to its particular nature, this value derives from the measurement of the equity investment, based on an estimate of discounted future cash flows from the investment, taking into account the dividend payment policies of the issuer. This valuation takes into account widespread market practice and has also been used in view of a future measurement of the equity instruments at fair value, as provided for in IFRS 9, issued in November 2009 and currently in the process of being endorsed by the European Community.

As already mentioned, the Rho property fund has been reclassified under AFS assets for an amount of Euro 94.4 million; the fair value of the fund was determined based on an financial income measurement technique, for which the parameters, in the absence of comparable transactions, are not anchored in market criteria. Consequently, this value was classified in level 3 of the fair value hierarchy. In this regard, no other transfers were made during the year.

FINANCIAL DERIVATIVE TRANSACTIONS

The Group makes limited use of financial derivatives. In fact, the characteristics and peculiarities of the insurance business mean that the use of financial derivatives is governed by special framework resolutions issued by the Supervisory Authority with Provision 297/1996. On 31 January 2011, ISVAP issued Regulation 36 concerning investment guidelines, including investments in derivatives and structured securities, and revoked Resolution 297/1996, *inter alia*.

Specifically, Regulation 36 confirms that financial derivative transactions for the purpose of efficient management are to be limited to within a tolerable level of the available solvency margin. The Group's financial derivative transactions are intended primarily to hedge equity risk through the use of options designated as fair value hedges and for hedging risks deriving from variations in interest rates on debt exposures with banks through the use of interest rate swaps (IRS) designated as cash flow hedges.

OPEN POSITIONS

Fair value hedges

Combined put-call options

At 31 December 2011, through Fondiaria-SAI S.p.A., the Group holds the following combined put-call options with the same contractual features (underlier, notional amount, expiry, and strike):

- 13,855,786 options (average strike of Euro 6.4349) hedging price risk for 13,855,786 Pirelli & C. ordinary shares from the Non-Life class, classified under equity instruments available-for-sale, amounting to 64.98% of the Group's total exposure (65.39% for Fondiaria-SAI)
- 1,325,789 options (average strike of Euro 8.0901) hedging price risk on 1,325,788 shares of UniCredit from the Non-Life class, classified under equity instruments available-for-sale, amounting to 21.59% of the Group's total exposure (100% for Fondiaria-SAI)
- 23,176,040 options (average strike of Euro 0.2648) hedging price risk on 23,176,040 shares of Banca Popolare di Milano from the Life class, classified as equity instruments available-for-sale, amounting to 43.10% of the Group's total exposure (71.53% for Fondiaria-SAI)
- 6,250,107 options (average strike of Euro 11.3343) hedging price risk on 6,250,107 shares of Generali from the Non-Life class, classified as equity instruments available-for-sale, amounting to 37.57% of the Group's total exposure (87.31% for Fondiaria-SAI)
- 195,252 options (average strike of Euro 12.2734) hedging price risk on 195,252 shares of Generali from the Life class, classified under equity instruments available-for-sale, amounting to 1.17% of the Group's total exposure (2.73% for Fondiaria-SAI).

Through Milano Assicurazioni, it holds the following combined put-call options with the same contractual features (underlier, notional amount, expiry, and strike):

- 4,796,661 options (average strike of Euro 7.9743) hedging price risk on 4,796,660 shares of UniCredit from the Non-Life class, classified as equity instruments available-for-sale, amounting to 78.11% of the Group's total exposure (99.92% for Milano Assicurazioni)
- 5,091,014 options (average strike of Euro 11.2801) hedging price risk on 5,091,014 shares of Generali from the Non-Life class, classified as equity instruments available-for-sale, amounting to 30.61% of the Group's total exposure (54.10% for Milano Assicurazioni)
- 1,726,376 options (average strike of Euro 12.9706) hedging price risk on 1,726,376 shares of Generali from the Life class, classified as equity instruments available-for-sale, amounting to 10.38% of the Group's total exposure (18.34% for Milano Assicurazioni)
- 9,376,040 options (average strike of Euro 0.2623) hedging price risk on 9,376,040 shares of Banca Popolare di Milano from the Life class, classified as equity instruments available-for-sale, amounting to 17.44% of the Group's total exposure (43.88% for Milano Assicurazioni)

- 3,882 options (average strike of Euro 7.9605) hedging price risk on 3,882 shares of UniCredit from the Life class, classified as equity instruments available-for-sale, amounting to 0.06% of the Group's total exposure (0.08% for Milano Assicurazioni).

Derivative put purchases – call sales to hedge shares	Number of options	Number of options	Company	Assets for hedging contracts		Liabilities for hedging contracts		Adjustment in book value of AFS shares hedged	
	31.12.11	31.12.10		31.12.11	31.12.10	31.12.11	31.12.10	31.12.11	31.12.10
Pirelli & Co ord (Non-Life)	13,855,786	9,263,266	Fondiaria-SAI	-	-	401	787	401	787
Unicredit (Non-Life)	1,325,789	-	Fondiaria-SAI	2,221	-	-	-	(2,221)	-
Banca Popolare di Milano (Life)	23,176,040	-	Fondiaria-SAI	-	-	898	-	898	-
Generali (Non-Life)	6,250,107	-	Fondiaria-SAI	-	-	1,195	-	1,195	-
Generali (Life)	195,252	-	Fondiaria-SAI	146	-	-	-	(146)	-
Unicredit (Non-Life)	4,796,661	-	Milano Ass.ni	7,480	-	-	-	(7,480)	-
Generali (Non-Life)	5,091,014	-	Milano Ass.ni	-	-	1,249	-	1,249	-
Generali (Life)	1,726,376	-	Milano Ass.ni	2,495	-	-	-	(2,495)	-
Banca Popolare di Milano (Life)	9,376,040	-	Milano Ass.ni	-	-	386	-	386	-
Unicredit (Life)	3,882	-	Milano Ass.ni	6	-		-	(6)	-
Total				**12,348**	**-**	**4,129**	**787**	**(8,219)**	**787**

The fair value of the options at 31 December 2011 corresponds to an asset of Euro 8,219 thousand (liabilities of Euro 787 thousand at 31 December 2010). Since the hedge inception date, the positive and negative changes in the period deriving from the measurement of the options at fair value are recognised in the income statement under "Income and charges from financial assets at fair value through profit or loss". At the same time, the book value of the hedged assets is adjusted as a result of changes during the period in the fair value of the hedged shares, with the resulting recognition of changes for the period in the income statement under "Income and charges from financial instruments at fair value through profit or loss". During 2011 the options underwent a positive change of Euro 9,006 thousand as a result of the fair value on the options still in existence at 31 December 2011, which was fully offset by the negative change during the period in the fair value of the hedged shares. The fair value hedges through options were assessed as effective and, at 31 December 2011, there were no ineffective hedged items requiring recognition in the income statement.

Interest Rate Swaps

At 31 December 2011, the Group holds IRS contracts through the wholly owned subsidiary BancaSai S.p.A. for an overall notional amount of Euro 25 million hedging rate risk deriving from fixed-rate commitments to customers. The valuation at 31 December 2011 of the IRS hedges corresponds to a negative fair value of approximately Euro 891 thousand (Euro 820 thousand negative fair value at 31 December 2010).

The main contractual conditions of these IRSs are described in detail below:

(in thousands of Euros)

Company	Notional capital	Expiry	Fixed rate %	Variable rate	Fair value 31.12.11	Fair value 31.12.10
BancaSai	25,000	2.2.14	3.050	Euribor 6 m Act/360	(891)	(820)
Total	**25,000**				**(891)**	**(820)**

Cash flow hedging instruments

Interest Rate Swaps

In view of the type of hedge involved, at 31 December 2011 the Group held Interest Rate Swaps (IRSs) to manage the risks deriving from changes in interest rates on debt exposures with banks, converting a part of these loans from variable-rate loans to fixed-rate loans.

The notional amount of these instruments amounted to Euro 1,125 million (Euro 875 million at 31 December 2010).
The fair value of the IRSs designated as cash flow hedges at 31 December 2011 amounted to a liability of Euro 51 million (Euro 34 million at 31 December 2010). The equity reserve, which includes the negative fair value of the hedging instruments at 31 December 2011, stated net of the portion attributed to non-controlling interests and net of the tax effect, amounted to a negative reserve of Euro 35 million (negative reserve of Euro 24 million at 31 December 2010).

The main contractual conditions of these IRSs are described in detail below:

(in thousands of Euros)

Company	Notional capital	Expiry	Fixed rate %	Variable rate	Fair value at 31.12.11	Fair value at 31.12.10
Fondiaria-SAI S.p.A.	200,000	23.7.13	3.970	Euribor 6 m Act/360	(7,993)	(11,025)
Fondiaria-SAI S.p.A.	100,000	23.7.13	3.930	Euribor 6 m Act/361	(3,935)	(5,497)
Fondiaria-SAI S.p.A.	100,000	23.7.13	3.990	Euribor 6 m Act/360	(4,027)	(5,562)
Fondiaria-SAI S.p.A.	150,000	14.7.16	3.180	Euribor 6 m Act/360	(9,915)	(4,308)
Fondiaria-SAI S.p.A.	100,000	30.12.15	3.080	Euribor 6 m Act/360	(5,900)	(2,612)
Fondiaria-SAI S.p.A.	100,000	14.7.16	3.309	Euribor 6 m Act/360	(7,963)	(2,006)
Fondiaria-SAI S.p.A.	150,000	14.7.18	2.145	Euribor 6 m Act/360	(1,407)	0
MilanoAssicurazioni	50,000	14.7.16	3.180	Euribor 6 m Act/360	(3,306)	(1,506)
Milano Assicurazioni	100,000	14.7.18	2.350	Euribor 6 m Act/360	(2,085)	0
Tikal R.E.	25,000	30.12.16	3.185	Euribor 6 m Act/360	(1,788)	(453)
Tikal R.E.	30,000	30.12.16	3.140	Euribor 6 m Act/360	(2,080)	(470)
Marina di Loano	20,000	31.12.14	2.550	Euribor 3 m 30/360	(666)	(517)
Total	**1,125,000**				**(51,065)**	**(33,956)**

Derivatives not designated as hedging instruments

The Group does not undertake derivative contracts on currencies to hedge transactions and future cash flows, since the currency risk exposure overall is immaterial and is covered through the mechanism of natural hedges between assets and liabilities in foreign currencies.

Credit Default Swaps

At 31 December 2011, the Group had credit default swaps in existence, through Fondiaria-SAI S.p.A., to protect itself from the risk of insolvency by counterparties issuing financial instruments acquired by the Group.
The costs of such hedges, amounting to Euro 751 thousand, were recognised in the income statement for the year under interest expenses.
At 31 December 2011, the following credit default swap contracts were open:

(values in € thousands)

Company	Notional capital	Expiry	Counterpart	Issuer hedged	Cost	Market value at 31.12.11
Fondiaria-SAI S.p.A.	25,000	20.2.13	Morgan Stanley	Republic of Serbia	295.2 bps per year	28
Total	**25,000**					**28**

Equity Swaps

The Parent Company entered into an equity swap on shares of Fondiaria-SAI S.p.A., the expiry of which was extended to 29 March 2013, as last amended on 10 May 2011.

Earn out

In the event that the conditions contained in the UniCredit Agreement are met, on 31 December 2016 Premafin will have to pay UniCredit a premium as explained in that agreement. On the basis of generally accepted valuation models, Premafin has estimated an allowance of Euro 240.0 thousand against this premium at 31 December 2011.

Interest Rate Swaps

At 31 December 2011, among non-hedging operations, the following Interest Rate Swaps remain open:

			Rate		Fair value	
(in thousands of Euros)	Notional capital	Expiry	fixed %	variable %	30.12.11	31.12.10
Premafin HP S.p.A.	22,500	31.12.13	3.654	Euribor 3 m 30/360	(623)	(1,419)
Premafin HP S.p.A.	22,500	31.12.13	2.805	Euribor 3 m 30/360	(527)	(848)
Premafin HP S.p.A.	18,000	31.12.14	3.050	Euribor 6 m 30/360	(651)	(828)
Immobiliare Milano	7,143	31.12.12	3.770	Euribor 6 m 30/360	(103)	(417)
Immobiliare Milano	7,143	31.12.12	3.695	Euribor 6 m 30/360	(99)	(403)
Total by company	**77,286**				**(2,003)**	**(3,915)**

			Variable rate		Fair value	
(in thousands of Euro)	Notional capital	Expiry	Paid	Collected	31.12.11	31.12.10
Banca SAI	97,562	31-ott-47	Euribor 6 m 30/360 +7bps	Euribor 6 m 30/360	(531)	
Banca SAI	11,950	31-ott-47	Euribor 6 m 30/360+7bps	Euribor 6 m 30/360	(65)	
Total by company	**109,512**				**(596)**	-

With regard to the IRS of BancaSai, after the closing of the "Admiral" transaction, two back-to-back derivative contracts remained in existence, created in order to freeze the commissions allocated to the arrangement, structured with the same duration as the securitisation.

CLOSED POSITIONS

Fair value hedges

During 2011, put/call options intended as partial hedges on investments were entered into and closed prior to expiry by Fondiaria-SAI on Prelios shares, generating a capital gain of Euro 108 thousand, on Monte dei Paschi di Siena shares, generating a capital gain of Euro 678 thousand, on Mediobanca shares, generating a capital gain of Euro 9,042 thousand, and on Pirelli & C. ordinary shares, on which no capital gain or loss was made from sale of the options, since the underlying security was not sold; with regard to the other underlying shares, at the same time as the derivatives were sold, 4,000,000 shares of Prelios were sold, generating a net gain of Euro 367 thousand, 5,097,160 shares of Monte dei Paschi di Siena were sold, generating a net loss of Euro 419 thousand, and 7,165,329 Mediobanca shares were sold, generating a net gain of Euro 2,140 thousand.
The negative differentials between the premiums paid and the premiums collected on the Pirelli & C. ordinary options, amounting to Euro 2,454 thousand, were recorded under unrealised losses, while the positive differentials, amounting to Euro 127 thousand, were recorded under realised gains; the positive differentials relative to premiums for the options on Mediobanca amounted to Euro 70 thousand, while those on Prelios amounted to Euro 1 thousand; both were recorded under realised gains.

Range accrual swaps

At 31 December 2010, the Group had range accrual swap contracts indexed to the trend in the constant maturity swap (CMS) 30-10-year rate and not designated as cash flow, fair value or net investment hedges. The transaction was carried out to benefit from a widening of the long-term interest rate curve. During 2011, these contracts were closed early. Their main characteristics are shown in the table below, together with the operating result obtained:

(in thousands of Euros)

Company	Notional capital	Expiry date	Counter-part	Rate receivable by the counterpart	Rate payable by the counterpart (*)	Result obtained in 2011 following early closure
Fondiaria-SAI S.p.A.	2,500	7-May-20	Banca IMI	3% per annum	6.50% annual	31
Fondiaria-SAI S.p.A.	5,000	1-Apr-20	BNP Paribas	3% per annum	5.25% annual	367
Fondiaria-SAI S.p.A.	3,750	28-Oct-20	Banca IMI	3% per annum	6.525% annual	18
Milano Assicurazioni S.p.A.	2,500	7-May-20	Banca IMI	3% per annum	6.50% annual	42
Milano Assicurazioni S.p.A.	5,000	1-Apr-20	BNP Paribas	3% per annum	5.25% annual	364
Milano Assicurazioni S.p.A.	3,750	28-Oct-20	Banca IMI	3% per annum	6,525% annual	39
Total	**22,500**					**861**

(*) taking into account the days on which the spread between the 30-year CMS rate and the 10-year CMS rate is positive.

During 2011, the above-mentioned derivatives produced positive differentials of Euro 201 thousand, recorded under interest income (of which Euro 85 thousand for Milano Assicurazioni).

BTP spread swaps

During 2011, the Group entered into BTP spread swap contracts, in order to take advantage of an increase in the credit spread on 10-year Italian government bonds (BTP August 2021 3.75%). Due to early closure, Fondiaria-SAI recognised a negative impact on the income statement of Euro 1,050 thousand; Milano Assicurazioni recognised a negative impact on the income statement of Euro 390 thousand.

Interest rate swaps

With regard to the Banca Sai IRS of Euro 3,548 thousand, during the first half of 2011, the bank interrupted the hedge on employee loans after the contractual terms for a significant portion of the loans were converted from fixed rate to variable rate, a condition which made the test performed ineffective. The consequence was the reclassification of the IRS under non-hedging derivatives.
During 2011, the interest rate swap in question was closed.

(in thousands of Euros)

Company	Notional capital	Expiry	Fixed rate %	Variable rate	Result obtained in 2011 following early closure
BancaSai	3,548	1.02.30	3.725	Euribor 6 m	(43)

		Act/360	
Total	**3,548**		**(43)**

Credit default swaps

During 2011, the contracts detailed in the table below were closed.
The costs of these hedges, with reference to the first half of 2011, amounted to Euro 59 thousand for Fondiaria-SAI, and Euro 46 thousand for Milano Assicurazioni and were recognised in the income statement for the year as interest expenses.

(in thousands of Euros)

Company	Notional capital	Expiry	Counter-part	Issuer hedged	Cost	Result obtained in 2011 following early closure
Fondiaria-SAI S.p.A.	15,000	20.6.11	BNP Paribas	Banco Popolare sub.	100 bps per annum	(255)
Milano Assicurazioni S.p.A.	4,411	20.3.14	BNP Paribas	Merrill Lynch	123 bps per annum	(127)
Milano Assicurazioni S.p.A.	9,350	20.3.13	BNP Paribas	Morgan Stanley	100 bps per annum	(162)
Total	**28,761**					**(544)**

5. OTHER RECEIVABLES

These comprise the following:

(in thousands of Euros)	**31.12.11**	**31.12.10**	**Change**
Receivables from direct insurance operations	1,698,430	1,747,611	(49,181)
Receivables from reinsurance operations	78,637	101,773	(23,136)
Other receivables	572,119	465,269	106,850
Total	**2,349,186**	**2,314,653**	**34,533**

The Group believes that the carrying value of trade and other receivables approximates their fair value. Trade receivables are non-interest bearing and are generally payable within 90 days.
The net balance of VAT is generally non-interest-bearing and settled with the relevant tax authorities on a monthly basis.

The breakdown of receivables deriving from direct insurance operations is as follows:

(in thousands of Euros)	**31.12.11**	**31.12.10**	**Change**
Receivables from policyholders for premiums for the year	746,052	815,440	(69,388)
Receivables from policyholders for premiums for previous years	32,656	37,596	(4,940)
Receivables from insurance brokers	639,447	692,812	(53,365)
Receivables from insurance companies	132,193	91,489	40,704
Amounts to be recovered from policyholders and third parties	148,082	110,274	37,808
Total	**1,698,430**	**1,747,611**	**(49,181)**

With regard to receivables from policyholders for premiums, agents and other brokers, as well as insurance and reinsurance companies, the Group does not have significant

concentrations of credit risks, as the credit exposure is divided among a large number of counterparts and clients.
Receivables from reinsurance operations include Euro 76,714 thousand (Euro 99,320 thousand in 2010) for receivables from insurance and reinsurance companies for reinsurance transactions and Euro 1,923 thousand (Euro 2,453 thousand in 2010) in respect of reinsurance brokers. During the year no significant write-downs were made on reinsurance assets.
Other receivables include trade receivables of Euro 64,894 thousand, consisting mainly of receivables from customers (Euro 82,523 thousand at 31 December 2010), as well as receivables from the financial authorities of Euro 346,394 thousand (Euro 228,086 thousand at 31 December 2010) for refunds requested, VAT credits and payments on account for insurance tax (Decree Law 282/04).
These also include Euro 27,050 thousand for payments to counterparts as collateral to guarantee market losses on all open derivatives (Credit Support Annex), comprised of: Royal Bank of Scotland for Euro 15,640 thousand, UniCredit for Euro 9,010 thousand, Morgan Stanley for Euro 1,330 thousand, and UBS for Euro 1,070 thousand.
Also included are receivables from the sale of the property located at Castel Giubileo in Rome, for Euro 37,626 thousand.

6. OTHER ASSETS

These total Euro 1,803,838 thousand (Euro 996,578 thousand in 2010), representing an increase of Euro 807,260 thousand on the previous year.

(in thousands of Euros)	**31.12.11**	**31.12.10**	**Change**
Non-current assets or disposal group classified as held for sale	87,151	3,452	83,699
Deferred acquisition costs	30,301	87,603	(57,302)
Deferred tax assets	1,155,062	361,199	793,863
Tax receivable assets	316,587	388,015	(71,428)
Other assets	214,737	156,309	58,428
Total	**1,803,838**	**996,578**	**807,260**

6.1 Non-current assets or disposal group classified as held for sale

Of the amount recorded of Euro 87.2 million, Euro 85.3 million refers to the equity investment in IGLI S.p.A. owned by the subsidiaries Immobiliare Fondiaria-SAI and Immobiliare Milano and Euro 1.9 million to the equity investment in Penta Domus S.p.A, owned by Immobiliare Milano.
In particular, on 27 December 2011, Immobiliare Milano, Immobiliare Fondiaria-SAI and Argo Finanziaria signed a contract regarding the purchase by the latter of the 33.33% equity investment in IGLI S.p.A., which in turn owns 29.96% of Impregilo S.p.A. The operation was subject to the authorisation of the antitrust authorities and to the pre-emption procedure established in the articles of association of IGLI S.p.A.. The operation was finalised in March 2012.

6.2 Deferred acquisition costs

The deferred acquisition costs of Euro 30,301 thousand (Euro 87,602 thousand at 31 December 2010), refer mainly to acquisition commissions to be amortised on the long-term contracts of the Life insurance sector. These amounts are deferred and amortised over a period of approximately seven years for the Non-Life insurance sector and six years for the Life insurance sector, in accordance with the analysis of the average duration of the contracts in portfolio. This is in accordance with the accruals principle.

These show a decrease of Euro 57,301 thousand with respect to the year 2010. WE woulf point out that Fondiaria-SIA and Milano Assicurazioni no longer record upfront commissions in the Non-Life sector, given that the remuneration policy for agency networks has changed substantially following the abolition of long-term contracts in accordance with the Bersani decrees. During the year, the amortisation of commissions on long-term contracts in the Non-Life sector was completed.

The following table shows the movements in these costs during the year:

	31.12.11			31.12.10
(in thousands of Euros)	Non-Life	Life	Total	Total
Balance at start of year	52,248	35,355	87,603	142,111
Increases during the year	0	9,245	9,245	20,964
Amortisation for the year (-)	(51,312)	(14,290)	(65,602)	(64,913)
Impairment recorded during the year (-)	(930)		(930)	(9,865)
Other movements	(6)	(9)	(15)	(695)
Balance at end of year	**0**	**30,301**	**30,301**	**87,602**

The impairment loss recorded during the year refers to the lower future utilisation of the amounts capitalised against the insurance contracts reversed and/or modified. There are no deferred acquisition costs recorded against reinsurance contracts.

6.3 Deferred tax assets

The deferred tax assets derive mainly from the consolidation of the Fondiaria-SAI Group and amount to Euro 1,155.1 million (Euro 361.2 million in 2010). These are calculated on the total amount of the temporary differences between the carrying value of the assets and liabilities in the financial statements and the respective fiscal value according to the "balance sheet liability method" as per IAS 12, in relation to the probability of their recovery based on the capacity to generate sufficient future taxable income.

The amount at the year-end takes into account the offsetting, by each of the Group companies, against the corresponding deferred tax liabilities, in accordance with IAS 12.

The increase during the year is mainly due to the recognition of deferred tax assets on the estimated tax loss for 2011.

In this regard, it should be noted that Legislative Decree 98/2011 has reworded Article 84 of the TUIR, establishing the possibility to carry forward tax losses indefinitely. This change, together with the reasonable possibility of reabsorbing those losses, as resulting from recent internal budget forecasts made by management, allows for the recognition of such assets.

Fondiaria-SAI also recorded Euro 218.4 million due to the exercise of options provided for in Article 23 of Legislative Decree 98/2011 consisting of the possibility of exempting the goodwill recognised in the consolidated financial statements.

Also included are the deferred tax assets arising during the year due to the impairment of AFS securities recorded under the respective equity reserve; these have an impact on equity only.

In addition to the disclosures required by IAS 12 – *Income tax*, the table below shows the net movement in deferred taxation.

(in thousands of Euros)	*Fondiaria-SAI*	*Milano Ass.ni*	*Popolare Vita*	*Other*	*Total*
Net deferred taxation					
Opening balance	**88,641**	**177,032**	**(48,829)**	**12,291**	**229,135**
Movements with an impact on equity					
IAS 38 – *Goodwill and other intangible assets*	8,269	-	-	-	8,269
IAS 39 – *Financial instruments*	183,184	93,872	105,586	-	382,642
IFRS 4 – *Insurance contracts*	(85,358)	-	(10,624)	-	(95,982)
Other timing differences	5,801	(2,639)	-	-	3,162
Other companies				10,883	10,883
Total movements	**111,896**	**91,233**	**94,962**	**10,883**	**308,974**
Movements with an impact on the income statement					
Tax loss	137,335	69,383	-	-	206,718
Goodwill exemption	235,745	-	-	-	235,745
IAS 38 – *Goodwill and other intangible assets*	(14,449)	(5,601)	-	-	(20,050)
Write-down on receivables from policyholders for premiums	5,593	7,444	-	-	13,037
Movement in Non-Life claims provision	67,545	42,324	-	-	109,869
Write-down of other receivables	3,896	-	-	-	3,896
IAS 16-40 – *Buildings and investment property*	20,564	21,315	-	-	41,879
IAS 39 – *Financial Instruments*	(27,801)	(26,468)	(45,192)	-	(99,461)
IFRS 4 – *Insurance contracts*	(5,784)	2,296	2,538	-	(950)
Accrual to provisions for risks and charges	17,736	5,693	0	-	23,429
Other timing differences	17,219	(11,852)	(3,418)	-	1,949
Other companies	-	-	-	14,901	14,901
Total movements with an impact on the income statement	**457,599**	**104,534**	**(46,072)**	**14,901**	**530,962**
Movements with an impact on equity only	(13,840)	(26,900)	-	(6,723)	(47,463)
Total movements	**443,759**	**77,634**	**(46,072)**	**8,178**	**483,499**
Closing balance	**644,296**	**345,899**	**61**	**31,352**	**1,021,608**
of which:					
Total deferred tax assets	-	-	-	-	1,155,060
Total deferred tax liabilities	-	-	-	-	(133,452)

6.4 Tax receivable assets

These amount to Euro 316,587 thousand (Euro 388,015 thousand at 31 December 2010) and refer to receivables from fiscal authorities for payments on account for tax, for withholding tax and income tax credits.

The item also includes the amounts paid on account pursuant to Article 1, paragraph 2 of Legislative Decree 209/02, converted by Article 1 of Law 265/2002, as subsequently amended. This is in compliance with ISVAP Regulation 7/07, since it involves assets that do not fall within the scope of IAS 12.

The balance at the end of the year takes into account the offsets made with current tax liabilities due to a direct legal right for these items to be set off by the individual companies of the Group and by Fondiaria-SAI on behalf of all of the companies which, in participating in its tax consolidation scheme, settle IRES income taxes jointly.

The item also does not include the amount reclassified to the heading "Other receivables", for various tax credits for which refunds have been requested.

6.5 Other assets

These amount to Euro 214,737 thousand (Euro 156,309 thousand at 31 December 2010) and comprise the following:

(in thousands of Euros)	**31.12.11**	**31.12.10**	**Change**
Transitory reinsurance accounts	5,049	3,477	1,572
Deferred commission expense for Life policyholder investment management services	1,168	7,664	(6,496)
Actuarial reserve tax on account as per Leg. Decree 209/03	52,676	60,373	(7,697)
Indemnities paid and not applied	24,653	15,889	8,764
Other assets	131,191	68,906	62,285
Total	**214,737**	**156,309**	**58,428**

7. CASH AND CASH EQUIVALENTS

These total Euro 1,004,105 thousand (Euro 628,404 thousand at 31 December 2010).

These comprise the liquid assets held by the Group and deposits and bank current accounts with maturity of less than 15 days. They include highly liquid assets in the strictest sense (cash and deposits on demand) and cash equivalents, i.e. short-term financial investments, readily convertible into known cash amounts and therefore subject to a very small risk of changes in value.

The carrying value of these assets closely approximates their fair value. The deposits and bank current accounts are remunerated at fixed or variable interest rates which accrue and/or are credited on a quarterly basis or in relation to the duration of the deposits, if less than three months.

STATEMENT OF FINANCIAL POSITION - SHAREHOLDERS' EQUITY AND LIABILITIES

1. SHAREHOLDERS' EQUITY

The consolidated shareholders' equity of Euro 1,274,415 thousand, which includes the results for the year and non-controlling interests, has decreased by Euro 995,701 thousand with respect to the previous year.

The movements during the year are shown below:

(in thousands of Euros)	**31.12.11**	**31.12.10**	**Change**
SHAREHOLDERS' EQUITY	**1,274,415**	**2,270,116**	**(995,701)**
Attributable to the Group	**(32,065)**	**350,230**	**(382,295)**
Share capital	410,340	410,340	-
Other equity instruments	-	-	-
Capital reserves	21	21	-
Earnings and other capital reserves	664	263,360	(262,696)
(Treasury shares)	(43,183)	(43,183)	-
Translation reserve	(14,985)	(18,713)	3,728
Profit or loss on available-for-sale financial assets	(127,658)	338	(127,996)
Other gains or losses recorded directly in equity	6,332	9,608	(3,276)
Profit (loss) for the year attributable to the Group	(263,596)	(271,541)	7,945
Attributable to non-controlling interests	**1,306,480**	**1,919,886**	**(613,406)**
Non-controlling interest capital and reserves	2,680,192	2,627,767	52,425
Profit and loss recorded directly in equity	(600,207)	(31,256)	(568,951)
Profit (loss) for the year attributable to non-controlling interests	(773,505)	(676,625)	(96,880)

Share capital

The share capital subscribed and paid in consists of 410,340,220 ordinary shares without par value. Each ordinary share carries the right to vote at ordinary and extraordinary shareholders' meetings.

At the time of distribution of earnings or in the event of the winding up of the company, the ordinary shares do not carry any privileges.

	Ordinary
Shares in existence at 1 January 2011	410,340,220
Shares in circulation at 1 January 2011	410,340,220
Increases:	
Exercise of warrants and capital increase	-
Shares in existence at 31 December 2011	**410,340,220**

Nature and purpose of the other reserves

Retained earnings and other capital reserves include the other equity reserves in the separate financial statements of the Parent Company, modified by the allocation of the result for 2010 (see the notes to the separate financial statements of the Parent Company for the changes therein) in addition to the consolidation reserves.

1.1.5 Treasury shares

These amounted to Euro 43 million (Euro 43 million at 31 December 2010). The item includes the carrying value of the shares of the Parent Company Premafin HP S.p.A. held by other Group companies; specifically, by Fondiaria-SAI S.p.A. (for Euro 30.8 million) and by Milano Assicurazioni S.p.A. (for Euro 12.2 million).

In accordance with IAS 32, these treasury shares show a negative balance in shareholders' equity.

1.1.6 Reserve for currency translation differences

This item, for Euro 14,985 thousand (Euro 18,713 thousand at 31 December 2010), includes the differences arising from the translation into Euros of the financial statements of certain foreign subsidiaries situated in countries outside the Eurozone.

1.1.7 Profit and loss on financial assets available-for-sale

This item, which shows a net loss of Euro 127,658 thousand, includes profit and loss from the valuation of financial assets available-for-sale. This is shown net of both the related deferred tax liability, and of the portion attributable to policyholders and allocated to insurance liabilities. In particular, the item includes a loss of Euro 335.8 million for AFS financial instruments in the portfolio and a gain of Euro 525.8 million due to the application of the shadow accounting technique. Added to this is a gain of Euro 69.3 million, due to the tax impacts of the above two phenomena.

1.1.8 Other profit and loss in the year recorded directly in equity

This item, amounting to Euro 6 million, includes Euro -34.9 million relative to profit or loss on cash flow hedging instruments, plus Euro 53.6 million in reserves, including the reversal of capital gains realised on the partial sale of shares or units of subsidiaries.

In fact, as described in the accounting principles, transactions on shares of subsidiaries that do not result in the loss or acquisition of control do not impact profit in the consolidated financial statements as they are regarded as simple changes in the ownership structure of the Group. The separated managements of the Life classes are an exception to this.

The residual amount refers principally to actuarial losses due to application of IAS 19.

1.2 Shareholders' equity pertaining to minorities

Shareholders' equity, including the result for the year, attributable to non-controlling interests shows a decrease of Euro 613.4 million, attributable in part to minority shares of the Fondiaria-SAI Group.

Changes in consolidated equity are shown in the relevant table.

Statement of reconciliation between the financial statements of the Parent Company and the consolidated financial statements

The table below shows the reconciliation between the net profit/loss and shareholders' equity of the Parent Company at year-end with that of the Group, as per Consob Communication DEM 6064293.

	Net profit/(loss) for the year	
(in thousands of Euro)	**31.12.11**	**31.12.10**
Result of Premafin HP S.p.A. as per Italian accounting standards	(440,280)	(102,762)
IAS 38 - Intangible assets	0	0
- Goodwill		
- Other intangible assets		
IAS 19 Employee benefits	51	(7)
IAS 37 - Provisions, contingent liabilities and assets	(123)	(1,030)
- Risk provisions	(123)	(1,030)
IAS 39 Financial instruments	293	6,260
- Financial assets		
- Financial liabilities	293	6,260
Stock options		
Tax effect on IAS/IFRS adjustments		
Result of Premafin HP S.p.A. as per IAS/IFRS accounting standards	**(440,059)**	**(97,539)**
Consolidation adjustments:		
Results of consolidated companies:		
- line-by-line	(502,429)	(670,923)
- with the equity method	(8,717)	(38,414)
Application of group accounting principles, translation adjustment and other	(9,405)	(39,679)
Voba amortisation	(108,197)	(86,472)
Elimination of effects of intragroup transactions:		
- Intragroup dividends	(14,945)	(29,742)
- Other intragroup transactions	38,043	(3,804)
- Tax effects of consolidation adjustments	**8,608**	**18,407**
Consolidated result as per IAS/IFRS standards	**(1,037,101)**	**(948,166)**
Non-controlling interests	**(773,505)**	**(676,625)**
Group result as per IAS/IFRS standards	**(263,596)**	**(271,541)**

(in thousands of Euro)	Shareholders’ equity including result 31.12.11	31.12.10
Shareholders' equity of Premafin HP S.p.A. according to Italian accounting standards	**141,441**	**581,721**
IAS 38 - Intangible assets	0	0
IAS 19 Employee leaving indemnity	(50)	(11)
IAS 37 - Provisions, contingent liabilities and assets	416	1,570
IAS 39 Financial instruments	4,830	15,973
Financial assets	-	-
Financial liabilities	4,830	15,973
IFRS 2 - Share-based payment	-	0
Tax effect on IAS/IFRS adjustments		
Shareholders' equity of Premafin HP S.p.A. according to IAS/IFRS standards	**146,637**	**599,253**
Result for the year and differences between the book value and the shareholders' equity of the companies consolidated:		
- line-by-line	1,310,861	1,822,241
- with the equity method	(33,321)	(612)
Elimination of effects of intra-group transactions:		
- Intra-group dividends	4,945	44,705
- Other intra-group transactions	(193,391)	(191,138)
- Application of group accounting standards	70,695	92,292
- Effect of currency translation of financial statements	(174)	(52,741)
- Tax effects of consolidation adjustments	11,346	(701)
- Elimination of own shares	(43,183)	(43,183)
Consolidated Shareholders’ equity as per IAS/IFRS	**1,274,415**	**2,270,116**
Non-controlling interests	**1,306,480**	**1,919,886**
Group shareholders' equity according to IAS/IFRS standards	**(32,065)**	**350,230**

2. PROVISIONS

These amount to Euro 337,122 thousand (Euro 359,982 thousand at 31 December 2010) and are comprised as follows:

(in thousands of Euros)	31.12.11	31.12.10	Change
Provisions of a fiscal nature	160	2,182	(2,022)
Other provisions	336,962	357,800	(20,838)
Value at year-end	**337,122**	**359,982**	**(22,860)**

Other provisions include amounts for which uncertainty exists regarding the date of payment or the amount of future expenses required to comply with the obligation.

The following movements took place during the year :

(in thousands of Euros)	Urbanisation charges	Non-fiscal disputes	Personnel charges	Non-recoverable amounts from brokers	Other charges	Total
Value at beginning of year	**4,514**	**159,334**	**38,144**	**31,120**	**124,688**	**357,800**
Increases during the year	0	17,295	10,641	9,893	58,755	96,584
Utilisation during the year for charges incurred	0	(15,897)	(4,440)	0	(97,799)	(118,136)
Change for financial charges accrued or for changes in interest rates	0	714	0	0	0	714
Value at end of year	**4,514**	**161,446**	**44,345**	**41,013**	**85,644**	**336,962**

Claims other than taxes

The provision includes the best possible estimates made by the Group of the risk deriving from disputes with brokers, policyholders, personnel and third parties.
Total provision is considered adequate with respect to the estimated charges resulting from all the legal disputes in which the Group is involved. The estimate of the provisions was made with reference to past experience and technical assessments by the Group's legal advisors.

With regard to the litigation in progress, the expected time of payment is not considered long enough to warrant discounting. The net effect recognised on the income statement for the period of the discounts made is negative for Euro 0.8 million and results from the recalculation of the estimated time period for potential payments.

The provision also includes amounts accrued in relation to the "OPA" litigation. Considering the importance of the litigation, even though its progress currently appears favourable to the Group in light of the sentence of the Milan Appeals Court, it is considered appropriate, pursuant to IAS 37.92, not to provide details on the amount accrued.

Personnel charges

The provision includes probable liabilities which may arise from past employment services. In particular, the provision includes charges for vacation days not taken and leaving incentive charges already formally underwritten by the employee and by management.

In this case, given the limited time period for the payment of these charges, discounting was not considered appropriate.

Non-recoverable amounts from agents

The provision includes the best estimate made for valuing the current charge accrued in connection with possible liabilities related to the compensation of leaving agents that should be paid by the new agents entering into the agency mandates expired as per the agents' national contract.The estimate of the charge was made following the discounting process of the indemnities accrued by the agents of the Group at the reporting date. On this amount, the historical experience of the Group determined the possible loss which was in turn discounted using a risk-free interest rate curve as a financial assumption.

Urbanisation charges

This item represents a certain but estimated liability for urbanisation work to be completed, as well as the charges to be paid. These charges refer to the subsidiary Immobiliare Lombarda S.p.A., operating in the real estate segment. There were no changes in the period.

Other charges

This item refers to provisions relating to various minor amounts, including the maintenance cost contractually provided for the companies operating in the real estate segment, or those estimated costs, already planned by the companies of the Group owning properties, for restoration and modifications of the properties.

Additionally the leaving indemnities for different categories of employees are included.

Lastly the provision includes estimated losses in relation to the probable renegotiation of the rental contracts on properties leased to the subsidiaries Atahotels and Villa Ragionieri, notwithstanding the situation of uncertainty regarding the amount and timing of the possible revision.

The provisions for risks and charges in the financial statements are sufficient **in any case, to meet expenses resulting from any worst-case outcome** in litigation in progress.

With reference to the provisions of IAS 37, we would point out that the Group is not aware of any potential assets or liabilities of a significant size for which it is necessary to provide specific information, except for the following.

Castello Area

Criminal proceedings are pending before the Court of Florence, instigated by the Florence Public Prosecutor's Office, in connection with property development in an area of the Municipality of Florence, the Piana di Castello, owned by NIT S.r.l., a company in the Fondiaria-SAI Group.

The criminal charge on which the proceeding is based is corruption.

On 25 March 2011, the Preliminary Hearing Judge of the Court of Florence ordered the defendants, including Fondiaria-SAI S.p.A., to stand trial for the administrative offence pursuant to Articles 5 and 25 of Legislative Decree 231/2001, in relation to the offence pursuant to Articles 319 and 321 of the Penal Code. Currently, the proceeding is in the trial phase. If convicted, Fondiaria-SAI could be ordered to pay a fine. The Court has not deemed all requests to intervene as civil parties against the Company admissible.

It is recalled that, at the request of the Florence Public Prosecutor's Office, on 26 November 2008 a sequestration order was implemented for the entire Castello Area, on which Judicial Police seals were affixed. This order was also served on NIT, although neither the company nor its directors are under investigation. Currently, to the best of the company's knowledge, there appears to be no risk for the company or its directors and, from the documentation in our possession, neither the legality of the 2005 Planning Agreement nor the legality of future construction in the area are in doubt.

The consolidated value of the inventory relating to the Castello Area on 31 December 2011 amounts to Euro 174.7 million, as per the appraisal values stated by the independent expert.

3. INSURANCE CONTRACT LIABILITIES

These total Euro 35,107,505 thousand and show an overall change of Euro 279,533 thousand compared with 2010.

They are comprised as follows:

(in thousands of Euros)	31.12.11	31.12.10	Change
NON-LIFE SECTOR			
Premium provision	2,741,846	2,777,937	(36,091)
Claims provision	9,858,123	9,097,595	760,528
Other provision	10,353	12,317	(1,964)
Total Non-Life	**12,610,322**	**11,887,849**	**722,473**
LIFE SEGMENT			
Actuarial provision	15,163,237	16,073,412	(910,175)
Provision for sums to be paid	360,689	277,797	82,892
Other provision	(693,089)	(362,064)	(331,025)
Life Insurance contract liabilities	14,830,838	15,989,145	(1,158,307)
Insurance contract liabilities where risk is on policyholders	7,666,345	6,950,978	715,367
Total Life	**22,497,183**	**22,940,123**	**(442,940)**
TOTAL INSURANCE CONTRACT LIABILITIES	**35,107,505**	**34,827,972**	**279,533**

With regard to the Non-Life segment, the premium provision includes a provision for premium fractions of Euro 2,695,891 thousand and a provision for risks in progress of Euro 45,955 thousand.
The other technical provisions of the Non-Life classes refer entirely to the ageing provision pursuant to Article 37 of Legislative Decree 209/05.
The claims provision includes an IBNR claims provision (IFRS 4 IG22C) of Euro 852,664 thousand.

With regard to the Life segment, the actuarial provisions include an additional provision for financial risk of Euro 148,135 thousand (Euro 58,364 thousand at 31 December 2010), as indicated in ISVAP Regulation 21 of 28 March 2008, and regulated by Article 25, paragraph 12 of Legislative Decree 174/95.
The “Other technical provisions” in the Life segment include deferred liabilities to policyholders against contracts with a discretionary profit participation component (IFRS 4.1G22f) for Euro -772,473 thousand (Euro -454,658 thousand at 31 December 2010). The residual amount relates principally to provisions for future expenses.

In particular, the Group regarded the revaluable contracts in the Life segment, related to the returns of the separated managements, as contracts containing a discretional profit participation element. In this case, the insurer may intervene at its discretion both in determining the rate of retrocession and influencing the return. At the same time, the shadow accounting method has been applied to the said contracts: the provision for deferred liabilities with policyholders therefore represents the portion of capital losses on investments under separated management in the Life classes attributable to policyholders. For the purposes of determining that amount:

- The a horizon of 2 to 7 years was assumed for the realisation of the net capital losses
- the rates of retrocession on capital losses are determined based on the changes in the return on the separate managements following realisation of the said capital losses, taking into account the minimums withheld from the yield and the different levels of financial guarantees.

Financial liabilities relating to contracts with discretionary profit participation components, as defined by IFRS 4.2 b), are classified within the insurance contract liabilities; their carrying value amounted to Euro 8,530,573 thousand (Euro 9,180,195 thousand at 31 December 2010).

With regard to these types of contracts, in the absence of new regulations and a best practice on the method for measuring the fair value of the insurance provisions, it is obviously difficult to provide precise quantifications since specific decisions need to be taken on this matter at a regulatory level.

The movements in the provisions during the year are shown below:

(in thousands of Euros)	*Non-Life*	*Life*	*Total*
Balance at the beginning of the year	*11,887,849*	*22,940,123*	*34,827,972*
Increases during the year	***2,870,438***	***4,492,565***	***7,363,003***
Payments (-)	***(3,298,215)***	***(5,167,501)***	***(8,465,716)***
Profit or loss recorded in the income statement	***1,149,473***	***232,024***	***1,381,497***
Reserves acquired or transferred to other insurers	***-***	***(20)***	***(20)***
Exchange difference	***777***	***(8)***	***769***
Balance at the end of the year	*12,610,322*	*22,497,183*	*35,107,505*

The negative reversal is due mainly to:

- the revaluation of the claims provision for the Motor TPL class, made on completion of the procedures for refining the actuarial statistical models developed with reference to the historical series of claims parameters, also taking into account regulatory and jurisprudential changes occurring during the year
- the negative trend in the claims settlement for previous years in the General TPL Class, which prompted the use of more prudent criteria in allocations to the claims provision.

In order to understand the reasons that led to the significant revaluations of the managed Motor TPL claims provisions (i.e. No CARD and Handler provisions) during 2011 of Euro 784 million for Fondiaria-SAI and Milano Assicurazioni and of Euro 26 million for smaller companies in the Group, it is necessary to ewe would like to precede the description with an appropriate introduction on methodology.

Introduction

- The claims provisions are made up of the Prior-year provision (for claims arising in previous years, i.e. prior to 2011) and the Current-year provision (for claims reported and occurring in the year 2011). For Prior-year provisions, ISVAP Regulation 16 specifically requires a separate measurement for each claim not yet completely settled (inventory method), equal to the final cost, therefore taking into account all foreseeable future expenses, without making deductions, discounts or adjustments.
  In order to determine the final cost, reference must be made to reliable historical and projected data and to specific aspects of the corporate claims management cycle.
  For classes such as Motor TPL, which are characterised by slow settlement procedures or in which the analytical measurement (at inventory) does not allow for all foreseeable future expenses to be taken into account, measurement by the inventory method is supplemented by actuarial statistical methods, intended to foresee cost trends.

As an exception thereto, and limited to current management, given the smaller quantity
of information that the companies have, the claims provision may be determined using the average cost criteria, provided that this is applied to homogeneous claims groups.

- With regard to actuarial statistical methods in relation to the measurement of the provisions of previous years, actuarial professional practice has prepared a high number of models which, although all valid in theory, have different possibilities for application depending on the historical trend and the technical indicators for the portfolio being measured. From the start, therefore, each actuarial analysis requires the selection of the models to be used compared to those that are unsuitable given the specific situation. Next, the analysis requires, based again in this case on the characteristics and especially the stability of the underlying flows, a prescient choice of the weightings to be applied to the different actuarial models implemented. The change, from one year to another, in benchmark models or in their weighting in the overall measurement is not to be understood as a modification of the measurement rationales, nor even of the accounting standard, but can be justified by the trend in the characteristics of the portfolio or the context of reference.

- Lastly, even with continual observance of the last cost criterion, the phenomenon of revaluation of the residual charge to previous-year provisions must be deemed inventory-related and recurring (with a yearly frequency), insofar as it also relates to changes in case law and both general and sector inflation, and consequently with a recurring annual impact on the amount of expected average costs for claims settlement.

Fondiaria-SAI Group – Previous generation (Ex) Motor TPL provision

With regard to the specifics of the Fondiaria-SAI Group, during 2011, the strengthening of the residual charge for Motor TPL provisions for Previous Generation Claims Managed (totalling Euro 810 million) was particularly significant.

In order to understand the rationale leading to these results, it is necessary to consider the elements, interconnected at least in part, which characterised the year just ended, making reference in particular to:

- Revisiting the claims provision construction process, in particular evaluating the role of the Settlement Network, called upon during the final period of the year to carefully review the residual technical provisions for each claim assumed. Taking inventory was completed in November 2011, showing a strong request from liquidators for strengthening residual provisions for claims generated in previous years (i.e. 2010 and before), amounting for Fondiaria-SAI to Euro 341 million and for Milano to Euro 94 million in terms of impact on the balance sheet provision. This requirement was due to:
    - elements of an organisational nature, associated with greater oversight and attention to settlers' operations and, in particular, strengthening of central control at the Claims Department with specific responsibility over claims with significant longstanding disputes or significant amounts due to fatality or with several counterparties

- regulatory and jurisprudential changes, with the progressive extension of the use of tables for the settlement of non-property-related damages, including after the June 2011 Court of Cassation judgment adopting the Court of Milan tables as the benchmark for valuing compensation fairly.

- Adjustment of the benchmark actuarial statistical models. As required by the multi-step provision process, once inventory taking has been completed by the settlers, the revaluation of the claims provisions is completed with the appropriate corporate departments applying actuarial statistical models to ensure the valuation of the provision in last cost terms (i.e. taking into account the probability that the claim will not be settled in full in the next year, but a provision may need to be made for it also for one or more of the next years). The year 2011 was characterised by:
  - a more carefully weighed selection of the actuarial statistical models used, stabilising the same approach both for Fondiaria-SAI and for Milano; in particular, in this context, the Fisher Lange model (weighted at 35%) and the Chain Ladder Paid model (weighted at 65%) were applied
  - a specific focus on a careful and prudent choice of the parameters applied within the models, taken from historical series, if deemed reliable and repeatable
  - the updating and validation of the models themselves, in line with the operational approach since 2007 distinguishing CARD and No CARD claims management;
  - the use of a methodological approach based on comprehensive historical series of late claims, allowing for estimating a provision amount including the IBNR allowance, which in previous years was measured separately.

- Claims task force coordinated by the Risk Management Department. The purpose of the intervention in this case was to oversee some activities, both operational and non-operational, aimed at strengthening controls and at embedding claims management and settlement procedures, thus ensuring the consolidation of the claims data bank in question.

The above-mentioned interventions were implemented also in light of what was stated in the ISVAP Notices of Irregularity received by the Group on 29 September 2011 for Fondiaria-SAI (as a result of an audit conducted in 2011 on the Motor TPL claims cycle) and on 17 November 2011 for Milano, respectively, which noted the following with respect to the situation at 31 December 2010:

- "irregularities and dysfunctions deriving from a lack of formalised procedures and adequate control systems", with reference to operating methods both for claims management and settlement, as well as for inventory taking
- observations on the calculations of the actuarial models, showing irregularities in the statistical projections.

After this phase of the proceeding, the balance sheet revaluation of the Motor TPL Provision for claims managed in previous years (i.e. 2010 and before) was as follows:

- Euro 476 million for Fondiaria-SAI (including Euro 135 million for observance of the last cost criterion, in view of the revaluation proposed by the settlers)
- Euro 308 million for Milano Assicurazioni (including Euro 214 million for observance of the last cost criterion, in view of the revaluation by the settlers)
- Euro 26 million for smaller companies in the Group

- for a total of Euro 810 million, in line with what was disclosed to the market on 30 January 2012.

Finally, the first estimate made (and disclosed to the market on 23 December 2011), which showed a revaluation assumption amounting to Euro 660 million overall, represented a provisional valuation based on existing data at the time and therefore prior to the actual availability of the technical drivers relative to the 2011 accounting close.

Fondiaria-SAI Group – Current Motor TPL Provision

The 2011 current generation estimate was based on an average cost method, modified compared with the past due to a new calculation driver which, based on greater calibration and weighting of the statistical average cost per homogeneous claims category, attributes a value to the current claims provision during the year, as well as to the above-mentioned actuarial statistical valuation models. This led in 2011 to an average cost as a result of current claims (i.e. the average cost of the claims already settled during the year itself and those for which a provision has been made for settlement in the coming years), amounting, for 2011, to Euro 4,190 for Fondiaria-SAI and Euro 4,220 for Milano (compared with Euro 3,900 for Fondiaria-SAI and Euro 3,919 for Milano in the 2010 financial statements).

In this case also, the change in the methodological process adopted by the Group reflects an observation from ISVAP, which had noted an average cost for 2010 obtained in line with the 2009 market data, but lower than that observed on the market in 2010 (which data were provided by ISVAP in its Notice and not available at the time of the valuation).

Fondiaria-SAI Group – Overall situation

Overall, the process followed for the valuation of the 2011 Motor TPL provisions, including other phenomena that come into play in its calculation, such as claims reopened, late claims and IBNR, as well as the balance of the flat provision (concerning Handler and Debtor flat-rate management), brings these items to the following amounts:

- Euro 2,933 million for Fondiaria-SAI
- Euro 2,480 million for Milano Assicurazioni.

In its report, the Actuary Responsible deemed this amount “sufficient overall to make good on commitments deriving from insurance contracts in accordance with current legal and regulatory provisions and other provisions issued on the subject”.
Furthermore, the Actuary Responsible noted, on request, that on this point the companies can be deemed in line with market averages.

4. FINANCIAL LIABILITIES

(in thousands of Euros)	**31.12.11**	**31.12.10**	**Change**
Financial liabilities at fair value through profit or loss	1,349,506	1,677,807	(328,301)
Other financial liabilities	2,178,165	2,509,560	(331,395)
Total	**3,527,671**	**4,187,367**	**(659,696)**

4.1 Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss comprise:

Financial liabilities held-for-trading

These total Euro 53,474 thousand (Euro 33,714 thousand at 31 December 2010).

Of this amount, Euro 43,376 thousand refers to the equity swap entered into by the Parent Company on shares of Fondiaria-SAI S.p.A., the expiry of which was postponed until 29 March 2013, as last amended on 10 May 2011; Euro 240.0 thousand refers to an allowance estimated based on the most widespread valuation models, for a premium that the Parent Company must pay on 31 December 2016 if the conditions contained in the Premafin-UniCredit Agreement occur.

Financial liabilities designated at fair value through profit or loss

These total Euro 1,296,032 thousand (Euro 1,644,093 thousand at 31 December 2010).
In accordance with IAS 39, the item includes investment contracts outside the scope of IFRS 4 as they do not present a significant insurance risk and are, therefore, booked using the deposit accounting method.
The overall amount recognised is Euro 1,239,609 thousand (Euro 1,608,513 thousand at 31 December 2010).
There are no financial liabilities in the "fair value through profit or loss" segment for which changes in fair value are not due to changes in market prices.

4.2 Other financial liabilities

These total Euro 2,178,165 thousand (Euro 2,509,560 thousand at 31 December 2010).
This item includes the financial liabilities defined and governed by IAS 39 not included in the category "Financial liabilities at fair value through profit or loss".
These include security deposits to guarantee risks ceded to reinsurers of Euro 171,542 thousand (Euro 248,006 thousand at 31 December 2010) and subordinate liabilities of Euro 1,049,467 thousand (Euro 1,041,446 thousand at 31 December 2010). Of the latter, Euro 152,468 thousand refer to the Milano Assicurazioni Group.
Pursuant to Consob Resolution DEM/6064293 of 28 July 2006, we would point out that the subordinated and/or hybrid debts include covenants safeguarding lenders' rights and interests.
With regard to the subordinated loan agreement of Euro 300 million of 22 June 2006 (half subscribed by Fondiaria-SAI S.p.A. and half by Milano Assicurazioni S.p.A.), Article 6.2.1 letter (e) stipulates, as a general obligation for Fondiaria-SAI, permanent control (pursuant to Article 2359, paragraph 1, no. 1, of the Italian Civil Code) and that the activity of managing and coordinating Milano Assicurazioni S.p.A. should be under Fondiaria-SAI S.p.A.

With reference to the Parent Company, the loan agreement stipulates:

- a ratio of net debt to statutory net worth that is no higher than 1.10
- early repayment if the consolidated solvency margin goes below 100% for two consecutive years starting in 2011, unless it is rectified as a result of operations begun by the end of the year in which the margin falls below 100% but completed six months after year-end
- that parties to the shareholders' agreement must maintain an equity investment of no less than 30% of the voting capital of Premafin, and that Premafin must maintain an equity investment of no less than 30% of the voting capital of Fondiaria-SAI.

This loan is subject to a reorganisation plan, as part of the agreement between Premafin and UGF, which is based, *inter alia*, on redefining the terms and conditions of the Parent Company's financial debt through the restructuring agreement between the banks and Premafin, formalised through various letters issued on 20 and 21 March 2012 by the operating departments of the individual banks participating in the Pool.

In addition, the contractual agreements provide for further restrictions, including the possibility of distributing dividends, of assuming further debt outside of cases expressly provided for, and of carrying out new investments.
For further details, see the section “Significant events after year-end” (Strengthening the capital of Premafin – Reorganisation Plan).
With reference to the hybrid loan agreement of Euro 350 million dated 14 July 2008, the option provided for conversion into shares of Fondiaria-SAI (or of Milano Assicurazioni for the portion issued by it totalling Euro 100 million) is subject not only to resolutions by the extraordinary shareholders’ meeting of Fondiaria-SAI for a capital increase to service the conversion under the contractual terms indicated, but also to the simultaneous occurrence (and for a consecutive three-year period) of the following conditions:

- the downgrading of the rating by Standard & Poor’s (or another agency to which Fondiaria-SAI has voluntarily subjected itself, being no longer subject to a rating by Standard & Poor’s) of the beneficiary companies to “BBB-” or lower
- the reduction of the solvency margin of the beneficiary companies, as defined by Article 44 of the Insurance Code, to a level less than or equal to 120% of the required solvency margin as defined by Article 1, paragraph hh), of the Insurance Code, provided that (a) the situation caused by the occurrence of the aforesaid events is not remedied, in the case of both events, during the two financial years immediately thereafter, and (b) the solvency margin is not increased during the two financial years immediately thereafter to at least 130% of the required solvency margin, with the possibility therefore for Fondiaria-SAI and Milano Assicurazioni, within another two years, to implement measures aimed at again being within the required parameters.

Moreover, there are no clauses in the Group loan agreements (other than those indicated above) that entail restrictions on the use of significant financial resources for the activities of Group companies.
This information is provided even though there is little chance that the events provided for contractually to safeguard investors will occur.
Finally, the characteristic element of the subordinated and/or hybrid loans in question is, generally speaking, not only that they are to be repaid before the payment of any other debts owed by the borrower company on the settlement date, but also due to the need, as per the regulations in force, to obtain prior authorisation for repayment from ISVAP.

With regard to other payables to banks and other lenders, amounting to Euro 957,155 thousand (Euro 1,220,108 thousand in 2010), the most significant amounts are shown below:

- Euro 315.9 million relative to loans granted to the Parent Company Premafin HP S.p.A. renegotiated at 22 December 2010 with the rescheduling of the amortisation schedule. This debt is subject to a reorganisation plan, as part of the agreement between Premafin and UGF, which is based, *inter alia*, on redefining the terms and conditions of the Parent Company’s financial debt through the Restructuring Agreement between the Banks and Premafin, formalised through various letters issued on 20 and 21 March 2012 by the operating departments of the individual banks participating in the Pool;

- Euro 116.5 million refers to the loan entered into by the closed-end Tikal property fund, with Mediobanca as agent bank. The loan of Euro 119 million was granted for the purchase of properties and for improvement works, and during 2011 approximately Euro 2 million was repaid. The loan cost amounts to Euribor plus a variable credit spread from 60 to 110 bps. Since 2008, the Fund has used interest rate derivatives, applying a policy of hedging the potential risk of an increase in interest rates on the loan granted.

- Euro 99.0 million refers to the bonds issued in 2009 and 2010 by BancaSai in part at a variable interest rate and in part at a fixed interest rate, with variable expiry from 2011 to 2014;
- Euro 71.7 million refers entirely to the debt of the subsidiary Immobiliare Fondiaria-SAI. This refers principally to the bank loan contracted by Marina di Loano with Intesa SanPaolo as agent bank, falling due on 17 March 2014, with an interest rate of 3-month Euribor plus 300 bps. The company used an interest rate derivative, applying a policy of hedging the potential risk of an increase in interest rates on the loan granted. Also to be noted is a mortgage loan for the subsidiary Meridiano Secondo falling due on 25 September 2012 at a 3-month Euribor interest rate plus 90 bps
- Euro 12.7 million refers entirely to the debt of the subsidiary Immobiliare Milano Assicurazioni. This refers to a bank loan with Efibanca falling due on 23 February 2012 with an interest rate of 6-month Euribor plus 83 bps. The decrease compared to 31 December 2010 in the subsidiary's debt of approximately Euro 57 million is due to the repayment on 31 May 2011 of the bank loan with BPM and to the repayment in February 2011 of part of the loan with Efibanca.
- Euro 26.6 million refers to loans taken out by Finadin, of which Euro 13.9 million was for the acquisition of 40% of the units of the property fund "Fondo Sei Portafoglio" and Euro 12.7 million for the acquisition of shares of Fondiaria-SAI.

The item also includes deposits made by customers at the subsidiary BancaSai of Euro 228,416 thousand.

5. PAYABLES

These total Euro 795,951 thousand and are broken down as follows:

(in thousands of Euros)	**31.12.11**	**31.12.10**	**Change**
Payables from direct insurance operations	78,999	91,887	(12,888)
Payables from reinsurance operations	84,912	106,862	(21,950)
Other payables	632,040	640,688	(8,648)
Total	**795,951**	**839,437**	**(43,486)**

Payables deriving from direct insurance operations comprise:

(in thousands of Euros	**31.12.11**	**31.12.10**	**Change**
Payables to insurance brokers	60,252	70,446	(10,194)
Payables to insurance companies	10,590	20,344	(9,754)
Payables for policyholder deposits	118	94	24
Payables for guarantee provisions for policyholders	8,039	1,003	7,036
Total	**78,999**	**91,887**	**(12,888)**

Payables from reinsurance operations refer to reinsurance companies for Euro 62,733 thousand (Euro 78,713 thousand in 2010) and Euro 22,179 thousand with reinsurance brokers (Euro 28,149 thousand in 2010).

The breakdown of the "Other payables" item is shown below:

(in thousands of Euros)	31.12.11	31.12.10	Change
Trade payables	280,435	346,540	(66,105)
Employee leaving indemnity	65,580	78,130	(12,550)
Payables for taxes on policyholders	97,271	94,714	2,557
Payables for other taxes	133,470	73,290	60,180
Payables to social security and welfare institutions	23,417	22,470	947
Other payables	31,867	25,544	6,323
Total	**632,040**	**640,688**	**(8,648)**

Payables for miscellaneous tax charges include Euro 52,676 thousand for the instalment owed for tax on Life actuarial provisions as provided for by Article 1, paragraphs 2 and 2-*bis* of Legislative Decree No. 209/2002 (enacted as Law 265/2002).

Employee leaving indemnity

Due to the 2007 Finance Act (Law 296/2006), the Complementary Pension Reform was brought forward to 1 January 2007. As a result of this reform, employees of private sector companies with 50 or more employees had the option by 30 June 2007 to allocate the employee leaving indemnity accrued from 1 January 2007 to complementary pension funds or to maintain the amount within the company, which must then transfer these amounts to a Treasury Fund managed by INPS.

For the employees of companies with less than 50 employees this choice was optional. Where no choice was made by employees, the leaving indemnity accrued remained within the companies.

For the purposes of the actuarial valuation of the liability related to the provision of the employee leaving indemnity in accordance with IAS 19, and applying the instructions of the technical organisations (Abi, Assirevi, the Order of Actuaries and OIC), the different cases were distinguished as follows:

- For those employees choosing to maintain the employee leaving indemnity at the company to which they belong: the actuarial criteria provided by IAS 19 for defined-benefit plans were used.
- For those employees choosing to allocate the employee leaving indemnity to supplementary pensions: the portions of the employee leaving indemnity accruing after 1 January 2007, as a defined-contribution plan, do not fall within the scope of IAS 19.

The movements during the year are shown below:

(in thousands of Euros)	31.12.11	31.12.10	Change
Balance at start of year	**78,130**	**88,704**	**(10,574)**
Provision to income statement for Interest Cost	1,493	1,609	(116)
Provision to income statement for Service Cost	93	132	(39)
Actuarial gains/losses	(1,386)	2,087	(3,473)
Utilisation	(13,716)	(13,425)	(291)
Changes in the consolidation area	966	(977)	1,943
Balance at year-end	**65,580**	**78,130**	**(12,550)**

The principal statistical-actuarial and financial assumptions used to calculate the employee leaving indemnity in accordance with IAS 19 are shown below.

(values in %)	Employee leaving indemnity provision 1	2	3	4
ATAHOTELS	4.90	1.50	1.50	0.99
BANCASAI	4.97	1.50	1.50	0.99
CASA DI CURA VILLA DONATELLO	4.84	1.50	1.50	0.99
CENTRO ONCOLOGICO FIORENTINO	5.05	1.50	1.50	0.99
DIALOGO	5.19	1.50	1.50	1.41
EUROPA	4.98	1.50	1.50	1.41
FINITALIA	4.97	1.50	1.50	1.41
FONDIARIA-SAI	5.06	1.50	1.50	0.99
GRUPPO FONDIARIA-SAI SERVIZI	5.05	1.50	1.50	0.99
IMMOBILIARE LOMBARDA	4.84	1.50	1.50	0.99
LIGURIA NON-LIFE	5.13	1.50	1.50	0.99
LIGURIA LIFE	4.89	1.50	1.50	0.99
MARINA DI LOANO	4.9	1.50	1.50	0.99
MILANO ASSICURAZIONI (*)	4.98	1.50	1.50	1.41
PREMAFIN	6.12	1.50	1.50	9.57
PRONTO ASSISTANCE	5.19	1.50	1.50	0.99
SIAT	5.06	1.50	1.50	0.99
SISTEMI SANITARI	4.9	1.50	1.50	0.99
SYSTEMA	5.12	1.50	1.50	1.41

(*) includes SASA Assicurazioni

1 = Discount rate

2= Expected rate of salary increments

3 = Expected inflation rate

4 = Turnover

The average data in the year represent indicative parameters, ase they are calculated applying reasonable levels of aggregation and approximation. For this reason, the methodological choices made for the analytical definition of the principal actuarial assumptions are shown below:

- Discount rate: utilisation of the interest rate curve at the valuation date, representative of market yields on first rate corporate bonds (Bloomberg).
- Expected rate of salary increases: updating of the historical series (2010-2011 period) of salaries and inflation adjustment. Salary increase assumptions were differentiated by contract category and by employee service period.
- Turnover: updating of the historical series (2010-2011 period) relative to personnel leaving the company. The turnover assumptions were differentiated for contract, age and gender.
- Inflation rate: the inflation scenario indicated in the "Public Finance Decision-making Document" current on the valuation date was used.

Health insurance post service

The Group implemented certain health insurance programmes for directors in pension plans and their families. This benefit is payable to surviving spouses and dependent children. The accounting method and the actuarial assumptions are similar to those used for a defined-benefit pension plan.

The tables below show the analytical information relative to changes in the liabilities relating to executive pension health coverage, as well as the principal demographic and financial assumptions adopted for the calculation of the fund in accordance with the projected unit credit method.

(in thousands of Euros)

Company	Provision at 31.12.11	Service Cost 2011	Provision at 31.12.10	Service Cost 2010
Fondiaria-SAI	23,131	262	14,453	205
Milano	9,253	35	7,312	63
Siat	552	4	252	9
Total	**32,936**	**301**	**22,017**	**277**

	Executive Assistance			
(values in %)	1	2	3	4
Fondiaria-SAI	4.08	n.a.	1.50	5.33
Milano	4.08	n.a.	1.50	7.26
Siat	4.08	n.a.	1.50	5.33

1 = Discount rate
2= Expected rate of salary increases
3 = Expected rate of nflation
4 = Turnover

6. OTHER LIABILITIES

These comprise the following:

(in thousands of Euros)	31.12.11	31.12.10	Change
Current tax liabilities	18,147	54,931	(36,784)
Deferred tax liabilities	133,452	132,060	1,392
Other liabilities	404,745	363,385	41,360
Total	**556,344**	**550,376**	**5,968**

6.2 Deferred tax liabilities

Deferred tax liabilities, amounting to Euro 133,452 thousand (Euro 132,060 thousand at 31 December 2010), include all the temporary tax differences, relating to statement of financial position and income statement items, which will be reversed in future years.

The balance takes into account the offset, where permitted, against the corresponding deferred tax asset in accordance with IAS 12.

The net impact of deferred tax liabilities recognised in the income statement for the year was negative for Euro 155,941 thousand (Euro 105,061 thousand in 2010).

6.3 Current tax liabilities

This item amounted to Euro 18,147 thousand (Euro 54,931 thousand at 31 December 2010) and refers to the total income tax provision made by the Group at the year-end, calculated by applying the nominal tax rates in force at the balance sheet date to the respective taxable income, as determined on the basis of prudent estimates.

As already reported the amount recorded at the end of the year is net of compensations with the corresponding tax receivable, made by each individual company and by subsidiaries within the Group which participates in the tax consolidation of Fondiaria-SAI.

6.4 Other Liabilities

Other liabilities amounted to Euro 404,745 thousand (Euro 363,385 thousand at 31 December 2010) and comprise the following:

(values in thousands of Euros)	**31.12.11**	**31.12.10**	**Change**
Commission on collection of premiums	109,753	113,839	(4,086)
Deferred commission income out of scope of IFRS 4	1,604	10,326	(8,722)
Cheques issued against claims and amounts paid to life policyholders after the year-end	40,390	32,917	7,473
Transitory reinsurance accounts	3,850	3,652	198
Other liabilities	249,148	202,651	46,497
Total	**404,745**	**363,385**	**41,360**

Risks and commitments not recorded in the statement of financial position

In accordance with the international accounting standards (IAS/IFRS), the financial statements must contain not only accounting data, but also information regarding the risks and uncertainties facing the company, as well as the resources and commitments not present in the statement of financial position.

The classification proposed by these accounting standards requires that the memorandum accounts shown “under the line” of the statement of financial position are separated into risks and commitments assumed by the company and assets of third parties held.

Secured guarantees granted by the Group in favour of third parties

These amounted to Euro 743,066 thousand, compared with Euro 1,145,628 thousand for the previous year, and include: Euro 458,465 thousand for own securities serving Parent Company financial transactions; Euro 144,700 thousand for mortgages on Group buildings in favour of lender banks; Euro 64,305 thousand for own securities serving financial transactions of the subsidiary Finadin; Euro 44,943 thousand for secured guarantees relative to bank deposits on which there is a pledge, in relation to claims disputes; and Euro 4,254 thousand relating to assets put on deposit to secure inward reinsurance transactions.

Other guarantees granted by the Group in favour of third parties

These amounted to Euro 24,261 thousand, compared with Euro 47,743 thousand for the previous year, and included a fidejussion of Euro 20,300 thousand issued as security against the deferred payment of the acquisition of 50% of the shares of the company Quadrante S.p.A.

Guarantees granted by third parties on behalf of the Group

These amounted to Euro 122,379 thousand at the year-end (Euro 115,425 thousand in 2010) and are comprised mainly of fidejussions issued in favour of the Consorzio Indennizzo Diretto and in favour of CONSAP as security against the commitments deriving from the CARD agreement.

Guarantees received

The balance at year-end amounted to Euro 198,399 thousand (Euro 167,672 thousand in 2010) and was made up primarily of bank fidejussions provided on behalf of third parties to guarantee policies issued in the Non-life Collateral class for Euro 100,000 thousand.

Commitments

These amounted to Euro 329,801 thousand and included various types of commitments, ranging from the real estate sector to the stock market.
Commitments relating to real estate transactions included Euro 37,996 thousand yet to be paid for the completion of the transactions involving real estate in Milano-Isola and in Via Fiorentini, Rome. These transactions, carried out in previous years, resulted in the sale by the subsidiary Milano Assicurazioni to third parties of the above-mentioned building plots and the subsequent purchase of the buildings to be built upon this land.
Milano Assicurazioni also undersigned commitments, such as loans disbursable in the form of profit participating bonds, to Garibaldi S.C.A. for Euro 38,800 thousand and to Isola S.C.A. for Euro 9,000 thousand.
Nuove Iniziative Toscane S.r.l. assumed commitments for urbanisation works with the Municipality of Florence for Euro 127,362 thousand.

Also included is Euro 30,000 thousand recognised against the commitment to subscribe to bonds issued by Société Générale.

PART C

INFORMATION ON THE CONSOLIDATED INCOME STATEMENT

1.1 NET PREMIUMS

Consolidated net premiums amounted to Euro 10,527,344 thousand (Euro 12,585,297 thousand in 2010).

The Group's gross premiums amounted to Euro 10,813,497 thousand, down 16.52% compared with 2010, and were comprised of the following:

(in thousands of Euros)	31.12.11	31.12.10	Change
Gross Life premiums written	***3,753,573***	***5,749,276***	***(1,995,703)***
Gross Non-Life premiums written	***7,059,924***	***7,204,029***	***(144,105)***
Change in gross premium reserve	***(36,761)***	***41,802***	***(78,563)***
Total Non-Life sector	*7,096,685*	*7,162,227*	*(65,542)*
GROSS PREMIUMS WRITTEN	*10,850,258*	*12,911,503*	*(2,061,245)*

The item "Gross premiums written" does not include the cancellation of securities issued in previous years, which were recorded under the heading "Other costs". The above amounts are shown net of inter-group reinsurance. For the subdivision of gross premiums written among the different sectors of the financial statements and the division between direct and indirect business, reference should be made to the tables in the Directors' Report.

Premiums ceded amounted to a total of Euro 330,114 thousand and accounted for 3.1% of total premiums issued (2.6% in 2010).

(in thousands of Euros)	31.12.11	31.12.10	Change
Life sector	***18,285***	***18,784***	***(499)***
Non-Life sector	***311,829***	***319,148***	***(7,319)***
Change in reinsurers reserves	***(7,200)***	***(11,726)***	***4,526***
Total Non-Life sector	*304,629*	*307,422*	*(2,793)*
PREMIUMS CEDED TO REINSURERS	*322,914*	*326,206*	*(3,292)*

The Group's reinsurance policy had a positive impact on the consolidated financial statements of Euro 74,987 thousand (Euro 76,783 thousand in the Non-Life sector).

In accordance with IFRS 4.37, b), ii), we would point out that the Group does not defer and amortise gains or losses deriving from reinsurance.

Further analysis of item 1.1 of the income statement, subdivided into Non-Life and Life sector, is provided in the appendix at the end of these financial statements.

1.2 FEE AND COMMISSION INCOME

Commission income for 2011 amounted to Euro 24,433 thousand, compared to Euro 57,317 thousand in 2010.

This includes both the explicit and implicit fees relative to investment contracts issued by Group companies and, as such, outwith the scope of IFRS 4, as well as commission for the management of internal funds. Of this, approximately Euro 9 million refers to the subsidiary Popolare Vita. It also includes approximately Euro 14 million of commission income accrued by the companies operating in fund management and consumer credit sectors.

1.3 NET INCOME FROM FINANCIAL INSTRUMENTS RECORDED AT FAIR VALUE THROUGH PROFIT OR LOSS

This income amounted to Euro 304,043 thousand, representing a decrease with respect to the income of Euro 378,291 thousand in 2010.

(in thousands of Euros)	**Net interest**	**Other net income**	**Gains realised**	**Losses realised**	**Valuation gains and recovery in values**	**Valuation losses and restated values**	**Total 31.12.11**	**Total 31.12.10**	**Change**
Result of investments from:									
- Financial assets held for trading	5,159	(26)	3,495	(1,091)	2,407	(6,841)	3,103	(7,379)	10,482
- Financial assets designated at fair value through profit or loss	179,227	142,087	60,564	(29,294)	142,177	(173,480)	321,281	402,854	(81,573)
- Financial liabilities held for trading	0	0	0	0	999	(21,340)	(20,341)	(17,184)	(3,157)
Total	**184,386**	**142,061**	**64,059**	**(30,385)**	**145,583**	**(201,661)**	**304,043**	**378,291**	**(74,248)**

The investment result on financial assets designated at fair value through profit or loss includes Euro 328,097 thousand relative to Class D investments, offset by a similar negative change in commitments to policyholders.

1.4.-1.5-2.3-2.4 FINANCIAL INCOME AND CHARGES FROM EQUITY INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES, FROM OTHER FINANCIAL INSTRUMENTS AND FROM INVESTMENT PROPERTY

(in thousands of Euros)	*Net interest*	*Other net income*	*Gains realised*	*Losses realised*	*Valuation gains and recovery in values*	*Valuation losses and restated values*	*Total 31.12.11*	*Total 31.12.10*	*Change*
Result from:									
- Investment property	-	***29,549***	***34,625***	***(82)***	-	***(316,134)***	***(252,042)***	***(18,058)***	***(233,984)***
- Equity investments in subsidiaries, associates and ***joint ventures***	-	***(5,243)***	-	-	-	-	***(5,243)***	***(38,839)***	***33,596***
- Investments held to maturity	-	***94***	***704***	***(28)***	-	-	***770***	***(83)***	***853***
- Loans and receivables	***165,499***	***2***	***774***	***(6,712)***	***306***	***(17,835)***	***142,034***	***106,012***	***36,022***
- Available-for-sale financial assets	***636,502***	***52,795***	***176,281***	***(135,472)***	***0***	***(341,385)***	***388,721***	***427,663***	***(38,942)***
- Sundry receivables	***13,806***	***(2)***	-	-	-	-	***13,804***	***10,436***	***3,368***
- Cash and cash equivalents	***12,757***	***(431)***	-	-	-	-	***12,326***	***7,520***	***4,806***
- Other financial liabilities and sundry payables	***(90,584)***	***(600)***	***174***	-	-	-	***(91,010)***	***(88,946)***	***(2,064)***
Total	*737,980*	*76,164*	*212,558*	*(142,294)*	*306*	*(675,354)*	*209,360*	*405,705*	*(196,345)*

With regard to investment property, we would point out that valuation losses include Euro 72 million relative to the depreciation for the period.

The remainder is due to the abovementioned write-downs on property after the Group obtained updated valuations by independent experts of all of its properties.

The gains and losses realised columns show the economic effects deriving from the sale of various financial instruments.

The valuation losses on investment property include the depreciation charges for the year, as well impairment losses of Euro 243 million.

The valuation losses on available-for-sale financial instruments, amounting to Euro 341.4 million, include the impairment registered in accordance with the valuation policy already described in the notes to the relative assets.

The interest expense on other financial liabilities includes the Group debt charges.

No interest income was accrued during the year on financial assets written down for impairment in previous years (IAS 32.94h).

Appendix 11 is shown at the foot of the financial statements.

1.6 OTHER INCOME

Other income amounted to Euro 666,721 thousand (Euro 551,762 thousand in 2010) and is summarised in the following table:

(in thousands of Euros)	**31.12.11**	**31.12.10**	**Change**
Gains related to non-current assets	16,523	297	16,226
Other technical income	54,291	74,405	(20,114)
Utilisation of provisions	164,768	39,852	124,916
Exchange differences	4,731	22,431	(17,700)
Non-recurring income	38,293	28,639	9,654
Gains realised on Property, plant and equipment	271	385	(114)
Other revenues	376,479	314,837	61,642
Change in buildings inventory (revenues)	9,459	60,493	(51,034)
Revenues from rental property recorded under intangible assets	1,883	10,423	(8,540)
Reversal of write-downs of Property, plant and equipment	23	0	23
Total	**666,721**	**551,762**	**114,959**

The item "Gains related to non-current assets" includes the valuation gain on the equity investments in IGLI S.p.A. held by the subsidiaries Immobiliare Fondiaria-SAI and Immobiliare Milano, reclassified to the "Non current assets" heading.
Utilisations of provisions refer for Euro 77 million to utilisations made by Fondiaria-SAI and by the subsidiary Milano Assicurazioni for charges deriving from tax investigations relative to the 2005 and 2006 to 2008 fiscal years. This utilisation follows the settlement reached in the dispute with the Italian fiscal authorities.

The item "Other revenues" includes the following income:

- Euro 128 million relating to operating revenues of the subsidiary Atahotels.
- Euro 69 million relating to revenues of the subsidiary Auto Presto & Bene.
- Euro 61 million in revenues from the subsidiaries Immobiliare Lombarda, Immobiliare Fondiaria-SAI and Immobiliare Milano. Given that the properties of the latter are considered as inventory, they are classified under property, plant and equipment: the respective change in inventory amounts to Euro 9 million.
- Euro 46 million in revenues from the Retirement home subsidiaries of the Group.
- Euro 10 million in revenues from the agricultural sector.
- Euro 10 million relating to the health services activities of the subsidiary Sistemi Sanitari S.c.r.l.

2.1 NET INSURANCE BENEFIT AND CLAIMS

The claims paid, including the sums of the Life sector and the relative expenses, amounted to Euro 9,881,689 thousand, gross of the share ceded to reinsurers, representing an increase of 8.98% with respect to the previous year.

Claim costs, amounts paid and change in insurance contract liabilities

(values in € thousands)	**31.12.11**	**31.12.10**	**Change**
Amounts paid	5,488,355	5,931,946	(443,591)
Change in recoveries	(167,944)	(143,211)	(24,733)
Change in other insurance contract liabilities	(269)	584	(853)
Change in claims reserve	751,863	166,632	585,231
Total Non-Life	**6,072,005**	**5,955,951**	**116,054**
Amounts paid	4,393,334	3,135,301	1,258,033
Change in actuarial and other insurance	(918,433)	2,513,322	(3,431,754)
Change in insurance contract liabilities where investment risk is on policyholders and derives from pension funds management	721,290	677,000	44,290
Change in Life sums to be paid reserve	138,661	60,338	78,323
Total Life	**4,334,852**	**6,385,961**	**(2,051,108)**
Total Non-Life + Life	**10,406,857**	**12,341,912**	**(1,935,054)**
Amounts paid	9,713,745	8,924,036	789,709
Change in reserves	693,112	3,417,876	(2,724,764)

Claims costs, reinsurers' portion

(in thousands of Euros)	**31.12.11**	**31.12.10**	**Change**
Amounts paid	166,130	200,859	(34,729)
Change in recoveries	4,970	(27,722)	32,692
Change in other insurance contract liabilities	-	-	-
Change in claims reserve	(23,912)	(3,648)	(20,264)
Total Non-Life	**147,188**	**169,489**	**(22,301)**
Amounts paid	24,226	32,095	(7,869)
Change in actuarial and other insurance contract liabilities	(6,319)	(13,870)	7,551
Change in Life sums to be paid reserve	992	1,257	(265)
Total Life	**18,899**	**19,482**	**(583)**
Total Non-Life + Life	**166,087**	**188,971**	**(22,884)**
Amounts paid net of recoveries	195,326	205,232	(9,906)
Change in reserves	(29,239)	(16,261)	(12,978)

The change in the net insurance contract liabilities of the Non-Life sector amounted to Euro 775,506 thousand, down by Euro 604,642 thousand on 2010.

The net insurance contract liabilities of the Life sector, including the reserve for sums payable, decreased by Euro 53,155 thousand (Euro 3,263,273 thousand in 2010).

For further details on the Non-Life and Life segments of item 2.1 of the income statement, reference should be made to Appendix 10 at the foot of these financial statements.

2.2 COMMISSION EXPENSES

The commission expenses for 2011 amounted to Euro 15,855 thousand, representing a decrease of Euro 12,566 thousand with respect to 2010.

2.5 OPERATING EXPENSES

(in thousands of Euros)	31.12.11	31.12.10	Change
Acquisition commission and changes in deferred acquisition costs	***1,108,433***	***1,112,617***	***(4,183)***
Other acquisition expenses	***213,502***	***213,943***	***(441)***
Collection commission	***36,140***	***39,108***	***(2,968)***
Commission and participation in reinsurers' profits	***(80,658)***	***(80,131)***	***(527)***
Total Non-Life	*1,277,417*	*1,285,537*	*(8,119)*
Acquisition commission and changes in deferred acquisition costs	***97,982***	***111,125***	***(13,143)***
Other acquisition expenses	***24,485***	***22,846***	***1,639***
Collection commission	***7,921***	***8,873***	***(952)***
Commission and participation in reinsurers' profits	***(1,182)***	***(1,394)***	***212***
Total Life	*129,206*	*141,450*	*(12,244)*
Investment management expenses	***16,437***	***14,645***	***1,792***
Other administrative expenses	***463,982***	***487,272***	***(23,290)***
Total	*1,887,042*	*1,928,904*	*(41,861)*

The acquisition expenses matured during the year amounted to Euro 1,444,402 thousand, as shown in the table below:

(in thousands of Euros)	**31.12.11**	**31.12.10**	**Change**
Sustained and expensed during year	1,383,077	1,395,880	(12,803)
Amortisation of costs capitalised in previous years	61,325	64,651	(3,326)
Value at year-end	**1,444,402**	**1,460,531**	**(16,129)**

2.6 OTHER EXPENSES

Other expenses amounted to Euro 1,047,250 thousand (Euro 981,028 thousand in 2010), and are summarised in the table below:

(values in thousands of Euros)	**31.12.11**	**31.12.10**	**Change**
Other technical insurance charges	247,015	281,458	(34,443)
Provisions	136,605	122,375	14,230
Losses on receivables	35,832	30,423	5,409
Prior year charges	38,639	31,754	6,885
Depreciation of property, plant and equipment	15,096	14,100	996
Amortisation of intangible assets	43,094	68,202	(25,108)
Exchange differences	2,867	6,693	(3,826)
Other costs	528,102	426,023	102,079
Total	**1,047,250**	**981,028**	**66,222**

In particular, the "Other costs" include the following expenses:

- Euro 79 million relating to operating costs of the subsidiary Atahotels
- Euro 71 million relating to operating costs of the subsidiaries Immobiliare Fondiaria-SAI, Immobiliare Lombarda and Immobiliare Milano
- Euro 68 million relating to the cost of labour and vehicle spare parts of the subsidiary Auto Presto & Bene
- Euro 38 million relating to the costs incurred by Retirement home subsidiaries of the Group for operating and personnel costs
- Euro 6 million relating to the operating costs of the subsidiary Saiagricola.

3. INCOME TAXES

(in thousands of Euros)	31.12.11	31.12.10	Change
Costs (revenues) for current taxation	**139,773**	**16,361**	**123,412**
Adjustments for prior years' current taxation	**122**	**2,208**	**(2,086)**
Deferred tax liabilities arising in the year	**182,894**	**146,265**	**36,629**
(-) Deferred tax liabilities utilised in the year	**(26,953)**	**(41,204)**	**14,251**
(-) Deferred tax assets arising in the year	**(753,582)**	**(279,667)**	**(473,915)**
Deferred tax assets utilised in the year	**55,301**	**78,092**	**(22,791)**
Deferred tax costs (revenues) from changes in tax rates or the introduction of new taxes	**11,364**	**-**	**11,364**
Income for deferred tax assets arising in previous years and not previously recorded used to reduce current taxes	**-**	**-**	**-**
Income for deferred tax assets arising in previous years and not previously recorded used to reduce deferred taxes	**14**	**828**	**(814)**
Costs (revenues) relating to write-downs (restated values) of deferred tax assets recorded in the previous year	**-**	**-**	**-**
Changes due to changes in estimates in accordance with IAS 8	**-**	**-**	**-**
Total	(391,067)	(77,117)	(313,950)

Income tax for the year amounted to a net income of Euro 391,067 thousand (an income of Euro 77,117 thousand in 2010) representing the combined effect of a current tax charge of Euro 139,896 thousand and a deferred tax income of Euro 530,962 thousand.

Current income taxes include adjustments relating to prior years' taxation for a total of Euro 122 thousand.
This amount is determined by increased taxes of Euro 305 thousand. Of this, Euro 250 thousand refers to the higher IRES income and IRAP regional taxes paid by Fondiaria-SAI. On the other hand, lower current taxes resulting from tax refunds or adjustments to previous provisions amounted to Euro 182 thousand relative to the subsidiary Fondiaria Nederland.

Current income taxes are determined using the nominal rates in force at the reporting date in the individual countries. Italian income taxes (IRES income tax and IRAP regional tax) are determined by applying the respective rates in force of 27.5% for IRES and 4.82% for IRAP. In the calculation of the IRAP regional tax for the year, account was also taken, through prudent valuations, of any increases or reductions in rates made by certain regions with reference to particular categories.
Current income taxes also include substitute income tax for the year. Of this, Euro 101,831 thousand refers to substitute tax paid by Fondiaria-SAI following application of the option for the deduction of goodwill provided by Article 23 of Legislative Decree No. 98/2011 (subsequently amended and converted into Law 111/2011) and to the accrual by the subsidiary Finadin of substitute tax on income deriving from the equity investment in the "Sei – Fondo Portafoglio" property fund of Euro 1,080.1 thousand, introduced by Legislative Decree No. 78/2010.

In relation to deferred taxes this resulted in a reduction of Euro 530,962 thousand in the fiscal charge.
Of this, Euro 11,364 thousand refers to charges for net adjustments to deferred tax assets and liabilities previously recorded as a result of the change in the nominal IRAP regional tax rate, made, *inter alia*, by Fondiaria-SAI for Euro 6,394 thousand and by the subsidiary Milano Assicurazioni for Euro 5,572 thousand.

The reconciliation between the fiscal charge recorded in the financial statements and the theoretical fiscal charge, calculated using the nominal IRES rate of 27.5% in force for the years 2011-2012, is as follows:

(in thousands of Euros)	**31.12.11**	**31.12.10**	**Change**
Profit (loss) before taxes	(1,459,018)	(1,027,046)	(431,972)
Taxes on theoretical income (excluding IRAP)	(401,230)	(282,438)	(118,792)
Tax effect from changes in permanent differences	91,441	146,418	(54,977)
Tax effect of use of previous tax losses without provisions of deferred tax assets	(1,843)	(2,653)	810
Tax effect from share of results of associates	4,443	11,535	(7,092)
Tax effect from foreign tax rates	(5,434)	(4,323)	(1,111)
Tax effect from changes in the nominal rate	-	-	-
Other differences	(83,146)	35,526	(118,672)
Income tax (excluding IRAP regional tax)	**(395,769)**	**(95,934)**	**(299,835)**
IRAP	4,702	18,817	(14,115)
Total income taxes recognised for the year	**(391,067)**	**(77,117)**	**(313,950)**

For a clearer understanding of the reconciliation between the effective fiscal charge in the financial statements and the theoretical fiscal charge, no account was taken of the IRAP regional tax effect, as the basis for the calculation of this tax is substantially dissimilar and therefore not comparable with respect to the pre-tax result.

The tax effect related to permanent fiscal differences resulted in an increase in the tax charge of Euro 91,441 thousand.

The decrease compared with the previous year is due primarily to the lower impact of the non-deductible write-downs made to equity securities in accordance with Article 86 of Presidential Decree 917/1986 (so-called PEX) recorded in the income statement for the year given that they are considered to represent losses of a permanent nature. The effect, in terms of higher taxes due, amounted to Euro 56,980 thousand, compared with Euro 103,745 thousand for the previous year.

In 2011, on the other hand, increases of a permanent nature included substantial effects from the impairment on the goodwill of Popolare Vita and the write-downs made on investment property owned by certain subsidiaries which prudently did not recognise the related deferred tax assets. The remaining increases refer to provisions that are irrelevant for tax purposes and to non-deductible costs and include, *inter alia*, the charges incurred by Fondiaria-SAI and by the subsidiary Milano Assicurazioni as a result of the settlement of disputes with the fiscal authorities relating to tax inspections conducted on the 2005 to 2008 fiscal years.

The increases also include Euro 7,762 thousand for the effect, in terms of higher taxes, of the non-deductibility of the loss recorded by the tax-exempt subsidiary Tikal RE fund.

The theoretical fiscal charge is reduced by Euro 1,843 thousand following the utilisation of losses carried forward against which no correlated deferred tax asset was recorded by the foreign subsidiaries, including Finsai International for Euro 953 thousand and DDOR Novi Sad for Euro 755 thousand.
Again with reference to the foreign subsidiaries, the neutralisation of the impact on the theoretical fiscal charge of the results reported by these subsidiaries compared with the charge determined in accordance with the tax rates in force in the respective countries led to a total tax saving of Euro 5,434 thousand.

This saving is due primarily to the lower corporate income tax rate for the Irish companies Lawrence Life, for Euro 2,783 thousand, and Lawrence R.E., for Euro 1,807 thousand, and to lower taxation of the Serbian subsidiary DDOR Novi Sad, for Euro 731 thousand.

The other differences, which have an impact in terms of lower overall charges of Euro 84,606 thousand, are due to the combined effect of, amongst others:

- lower taxes as a result of adjustments of deferred tax assets recorded in previous years by Fondiaria-SAI, for Euro 8,705 thousand, and by Popolare Vita, for Euro 3,205 thousand
- lower taxes of Euro 77,833 following the recognition by Fondiaria-SAI of deferred tax assets on goodwill recorded, net of the substitute tax due
- higher taxes of Euro 559 thousand relating to the estimated tax losses of certain subsidiaries, against which it was not considered prudent to record the deferred tax asset.

In relation to the movements in deferred tax liabilities, the provision of Euro 182,894 thousand relates, *inter alia*, for Euro 125,846 thousand to adjustments made in accordance with IAS 39 on net charges on investments in securities recorded, in particular, in the Life sector due to lower quoted share prices at the year-end, and Euro 13,966 thousand to adjustments to the value of goodwill and other intangible assets, made in accordance with IAS 38.
On the other hand, reversals of deferred tax liabilities amounted to Euro 26,953 thousand, due, amongst other things, for Euro 16,099 thousand to the amortisation of deferred commissions recognised at the time of consolidation.
The deferred tax assets arising in the year, net of those reversed, reduced the fiscal charge by Euro 698,281 thousand.
The taxes arising, which amounted to Euro 753,582 thousand, include Euro 115,432 thousand relating to the deduction of part of the change in the claims provisions of the Non-Life sector, Euro 47,485 thousand relating to share price alignments, Euro 22,136 thousand relating to write-downs on receivables from policyholders, and Euro 15,875 thousand for taxes arising on lower depreciation recorded on property for IAS purposes. Added to these amounts are the taxes accrued, for Euro 206,718 thousand, on tax losses recognised during the year, deemed fair due to the income expected in a reasonable time period and Euro 235,754 thousand relating to Fondiaria-SAI tax provisions for goodwill deductions.

Meanwhile, the reversals of prepaid taxes of Euro 55,301 thousand include Euro 21,442 thousand relating to the reversal of the deduction of greater fiscal losses on shares after sale, Euro 9,873 thousand relating to the deduction of write-downs on receivables from policyholders in previous years and Euro 5,556 thousand relating to the reversal of the deduction of portions of the change in the claims provision of the Non-Life classes.
As regards the recoverability of the timing differences underlying the provision for deferred tax assets recognised at year-end, we would point out the following:

- The recoverability of the deferred tax assets relating to tax losses carried forward to future years is considered reasonable, given the amendments to the time limits introduced by Article 84 of Presidential Decree 917/1986, based on the forecast taxable earnings according to the budgets for the years 2012-2014 and the forecast s for subsequent years as approved by the directors. In determining this tax basis, as provided for by tax regulations, account was taken of the reversal of the income components carried forward as a deduction, which gave rise to the recognition of deferred tax assets at the end of 2011.

- Relative to the recoverability of deferred tax assets relating to goodwill and write-downs of receivables from policyholders, the valuations made also take into account the provisions of Article 2, paragraphs 55 *et seq.* of Legislative Decree No. 225/2010, which enables deferred asset provisions to be changed into tax credits that can be immediately offset in 2012, and from which the Group intends to benefit. This option would therefore allow for immediate "recovery" of a significant amount of the deferred provisions on intangible assets and write-downs of receivables from policyholders. In future years, the rules in question also increase the likelihood of recovery of any remaining prepaid tax.

- The recoverability of the deferred tax assets relating to the change in the claims provision of the Non-Life sector and other lower-impact items is based on an evaluation of the reasonable certainty, also in view of the certainty of the timing, of the reversals of the items that generated the respective temporary differences.

At the reporting date, the aggregate amount of the temporary differences relating to the undistributed profits of subsidiaries did not lead to the recognition of deferred tax liabilities. This is because the Group is able to control the timing of the elimination of these temporary differences. The temporary differences deriving from associates are of no significant importance.

4. PROFIT (LOSS) FROM DISCONTINUED OPERATIONS

The profit from discontinued operations regards the capital gain of Euro 30.9 million realised on the sale of CityLife in August 2011.

FURTHER INFORMATION

With reference to the nature of costs for the year (IAS 1.93), in addition to that already disclosed under "Other costs" in the financial statements, we would point out that total Group personnel costs increased by 3% with respect to the previous year.

Earnings per share

Earnings (loss) per share is calculated by dividing the Group net result attributable to the ordinary shareholders of the Parent Company by the average weighted number of ordinary shares in existence during the year. The weighted average number of shares in existence is reduced by the weighted average number of own shares held by the Premafin Group.

The diluted earnings (loss) per share is the same as the basic earnings per share, as no account was taken of potential savings shares for the stock option plans which expired in April, in the absence of any diluting effects.

In accordance with IAS 33, information is shown below for the calculation of the basic and diluted earnings (loss) per share:

(values in € thousands)	**2011**	**2010**
Net profit attributable to the shareholders of the Parent Company	(263,596)	(271,541)
Weighted average number of ordinary shares to calculate the basic earnings per share	382,775,895	382,775,895
Basic earnings per share	(0.689)	(0.709)
Dilution effect	0	
Weighted average number of ordinary shares to calculate diluted earnings per share	382,775,895	382,775,895
Diluted earnings per share	**(0.689)**	**(0.709)**

It should be noted that:

- the net result of operations attributable to ordinary shareholders of the Parent Company is obtained by deducting the portion attributable to savings shareholders from the profit/(loss) from Group operations
- the weighted average number of shares in existence is calculated net of the weighted average number of treasury shares held, and is calculated on a pro-rata temporis basis on the shares in existence prior to the share capital increase, the shares issued at the end of the offer period and the shares issued following the sale on the stock market of unexercised option rights
- the profit from discontinued operations is not significant.

Dividends paid and proposed

No dividends have been distributed by the Parent Company during the last two years.

Group solvency margin

At 31 December 2011, the correct solvency margin calculated at the level of the Parent Company Premafin stood at approximately 57% (83% at 31 December 2010). When considering this figure, it must also be borne in mind that Premafin – which controls Fondiaria-SAI but does not exercise management and coordination activity – does not qualify as the parent company of an insurance group; only Fondiaria-SAI qualifies as such, and therefore the insurance sector regulatory provisions only fully apply to Fondiaria-SAI.

Regulation 37 of 15 March 2011 was applied in making the calculation. In view of the exceptional turbulence in the financial markets, the Regulation has allowed for account to be taken of the difference between the value recognised in the individual financial statements of the consolidated companies and that recognised in the consolidated financial statements of the debt securities intended to be held in equity in the long-term, net of the portion attributable to policyholders and recorded as insurance liabilities. This difference amounts to approximately Euro 376 million.

This amount represents approximately 30% of the constituting elements of the correct solvency margin.

PART D – SEGMENT INFORMATION

In accordance with IFRS 8, segment information provides the users of financial statements with an additional tool for a better understanding of the Group's operating and financial performance.

The underlying logic in the application of this standard is to provide information regarding the manner in which the Group's results are created and consequently on its overall operations, and in particular on those in areas in which profit and risk are concentrated.

The primary reporting of the Group is by sector of activity. The Group companies are organised and managed separately, based on the nature of their products and services, for each sector of activity, which represents a strategic business unit offering different products and services.

In order to identify the primary segments, the Group analysed the risk-return profile of the segments and examined the internal reporting structure. The Non-Life segment provides insurance cover pursuant to Article 2, paragraph 3 of Legislative Decree 209/2005. The Life segment offers insurance cover with payment of capital or an annuity against an event relating to human life.

The Real Estate segment rents offices, buildings and residential homes which exceed the coverage requirements of the technicalprovisions of the Group and actively operates in the management and enhancement of investment property.

The Other Activities segment, residual by nature, offers, *inter alia*, products and services in fund management, asset management and the agricultural and hotels sectors. The identification of the residual segment is based on a discretionary valuation to show the primary sources of risks and benefits for the Group.

Inter-segment transactions are generally carried out under arm's-length conditions.

Lastly, we would point out that the ISVAP Regulation 7/07 deemed it appropriate to stipulate the Non-Life and Life segments as the minimum disclosure required for segment reporting.

We would also point out that the majority of the Group's operations during 2011 took place within the European Union.

The following pages show the statement of financial position and income statement by segment.

PREMAFIN FINANZIARIA - S.P.A.
Holding di Partecipazioni
CONSOLIDATED FINANCIAL STATEMENTS
AS OF 31.12.11
(in thousands of Euros)

STATEMENT OF FINANCIAL POSITION
BY BUSINESS SEGMENT

		NON-LIFE INSURANCE SECTOR		LIFE INSURANCE SECTOR		REAL ESTATE SECTOR		OTHER		INTER-SEGMENT ELIMINATIONS		TOTAL	
		at 31.12.11	at 31.12.10	at 31.12.11	at 31.12.10	at 31.12.11	at 31.12.10	at 31.12.11	at 31.12.10	at 31.12.11	at 31.12.10	at 31.12.11	at 31.12.10
1	**INTANGIBLE ASSETS**	**858,507**	**874,238**	**587,761**	**688,496**	**1,204**	**591**	**70,132**	**79,119**	**-**	**-**	**1,517,604**	**1,642,444**
2	**PROPERTY, PLANT AND EQUIPMENT**	**94,634**	**108,871**	**7,030**	**6,800**	**200,991**	**376,926**	**102,720**	**105,501**	**(26)**	**(26)**	**405,349**	**598,072**
3	**INSURANCE CONTRACT LIABILITIES – REINSURANCE AMOUNT**	**608,617**	**656,719**	**93,263**	**166,465**	**-**	**-**	**-**	**-**	**-**	**-**	**701,880**	**823,184**
4	**INVESTMENTS**	**7,971,804**	**8,472,736**	**23,524,748**	**24,924,892**	**1,380,328**	**1,532,880**	**1,321,224**	**1,498,742**	**(381,058)**	**(397,334)**	**33,817,046**	**36,031,916**
4.1	Investment property	1,463,159	1,567,370	4,434	26,949	1,267,203	1,276,207	41,656	41,663	-	-	2,776,452	2,912,189
4.2	Equity investments in subsidiaries, associates and joint ventures	79,447	144,957	21,135	23,562	13,383	140,999	2,829	43,496	-	-	116,794	353,014
4.3	Investments held to maturity	-	-	601,755	594,107	-	-	-	-	(2,042)	(1,969)	599,713	592,138
4.4	Loans and receivables	716,892	612,608	2,118,511	1,606,049	41,286	38,717	1,128,491	1,227,682	(316,315)	(325,845)	3,688,865	3,159,211
4.5	Available-for-sale financial assets	5,686,886	6,114,948	11,793,373	13,984,954	55,581	74,082	129,268	164,396	(56,551)	(63,081)	17,608,557	20,275,299
4.6	Financial assets at fair value through profit or loss	25,420	32,853	8,985,540	8,689,271	2,875	2,875	18,980	21,505	(6,150)	(6,439)	9,026,665	8,740,065
5	**OTHER RECEIVABLES**	**2,307,377**	**2,245,576**	**282,888**	**234,974**	**59,587**	**80,707**	**319,130**	**317,880**	**(619,796)**	**(564,486)**	**2,349,186**	**2,314,651**
6.	**OTHER ASSETS**	**1,091,567**	**1,021,563**	**559,961**	**371,120**	**136,381**	**38,520**	**78,878**	**43,328**	**(62,949)**	**(477,952)**	**1,803,838**	**996,579**
6.1	Deferred acquisition costs	-	52,248	30,301	35,354	-	-	-	-	-	-	30,301	87,602
6.2	Other assets	1,091,567	969,315	529,660	335,766	136,381	38,520	78,878	43,328	(62,949)	(477,952)	1,773,537	908,977
7	**CASH AND CASH EQUIVALENTS**	**965,478**	**547,610**	**279,784**	**340,800**	**42,437**	**64,529**	**103,415**	**69,355**	**(387,009)**	**(393,890)**	**1,004,105**	**628,404**
	TOTAL ASSETS	**13,897,984**	**13,927,313**	**25,335,435**	**26,733,547**	**1,820,928**	**2,094,153**	**1,995,499**	**2,113,925**	**(1,450,838)**	**(1,833,688)**	**41,599,008**	**43,035,250**
1	**SHAREHOLDERS' EQUITY**											**1,274,415**	**2,270,116**
2	**PROVISIONS**	**252,103**	**284,981**	**30,417**	**31,371**	**16,809**	**18,905**	**37,793**	**24,725**	**-**	**-**	**337,122**	**359,982**
3	**INSURANCE CONTRACT LIABILITIES**	**12,610,322**	**11,887,849**	**22,497,183**	**22,940,123**	**-**	**-**	**-**	**-**	**-**	**-**	**35,107,505**	**34,827,972**
4	**FINANCIAL LIABILITIES**	**1,090,311**	**1,133,249**	**1,684,858**	**2,133,561**	**211,039**	**292,424**	**1,299,144**	**1,404,127**	**(757,681)**	**(775,994)**	**3,527,671**	**4,187,367**
4.1	Financial liabilities at fair value through profit or loss	39,726	23,502	1,257,930	1,620,308	4,743	2,259	47,107	31,738	-	-	1,349,506	1,677,807
4.2	Other financial liabilities	1,050,585	1,109,747	426,928	513,253	206,296	290,165	1,252,037	1,372,389	(757,681)	(775,994)	2,178,165	2,509,560
5	**PAYABLES**	**833,971**	**841,164**	**132,350**	**101,147**	**38,290**	**72,677**	**419,058**	**399,087**	**(627,718)**	**(574,638)**	**795,951**	**839,437**
6	**OTHER LIABILITIES**	**386,715**	**493,399**	**172,418**	**481,721**	**31,172**	**30,618**	**31,515**	**26,735**	**(65,476)**	**(482,096)**	**556,344**	**550,377**
	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY											**41,599,008**	**43,035,250**

CONSOLIDATED FINANCIAL STATEMENTS
AS OF 31.12.11
(in thousands of Euros)

INCOME STATEMENT
BY BUSINESS SEGMENT

		NON-LIFE INSURANCE SECTOR		LIFE INSURANCE SECTOR		REAL ESTATE SECTOR		OTHER		INTER-SEGMENT ELIMINATIONS		TOTAL	
		DEC 2011	DEC 2010	DEC 2011	DEC 2010	DEC 2011	DEC 2010	DEC 2011	DEC 2010	DEC 2011	DEC 2010	DEC 2011	DEC 2010
1.1	Net premiums	6,792,056	6,854,805	3,735,288	5,730,492	-	-	-	-	-	-	10,527,344	12,585,297
1.1.1	*Gross premiums*	*7,096,685*	*7,162,227*	*3,753,573*	*5,749,276*	-	-	-	-	-	-	*10,850,258*	*12,911,503*
1.1.2	*Premiums ceded to reinsurers*	*(304,629)*	*(307,422)*	*(18,285)*	*(18,784)*	-	-	-	-	-	-	*(322,914)*	*(326,206)*
1.2	Commission income	-	-	9,922	16,525	-	-	23,070	43,180	(8,559)	(2,389)	24,433	57,316
1.3	Net income/(charges) from financial instruments recorded at fair value through profit or loss	(3,825)	(7,027)	326,782	399,631	(307)	(601)	(18,582)	(13,682)	(25)	(30)	*304,043*	*378,291*
1.4	Income from equity investments in subsidiaries, associates and joint ventures	800	371	-	1	26	16,007	1,046	39,501	-	(85)	*1,872*	*55,795*
1.5	Income from other financial instruments and investment property	343,510	401,002	777,318	805,903	47,069	39,196	72,741	80,263	(48,529)	(42,985)	*1,192,109*	*1,283,379*
1.6	Other revenues	509,210	463,528	89,675	42,556	87,323	129,835	652,812	612,823	(672,299)	(696,980)	666,721	551,762
1	**TOTAL REVENUES AND INCOME**	**7,641,751**	**7,712,679**	**4,938,985**	**6,995,108**	**134,111**	**184,437**	**731,087**	**762,085**	**(729,412)**	**(742,469)**	**12,716,522**	**14,911,840**
2.1	Net charges relating to claims	(5,924,817)	(5,786,462)	(4,315,953)	(6,366,479)	-	-	-	-	-	-	(10,240,770)	(12,152,941)
2.1.2	*Amounts paid and changes in insurance contract liabilities*	*(6,072,005)*	*(5,955,951)*	*(4,334,852)*	*(6,385,961)*	-	-	-	-	-	-	*(10,406,857)*	*(12,341,912)*
2.1.3	*Portion attributable to reinsurers*	*147,188*	*169,489*	*18,899*	*19,482*	-	-	-	-	-	-	*166,087*	*188,971*
2.2	Commission expense	-	-	(7,822)	(14,007)	-	-	(8,033)	(14,414)	-	-	(15,855)	(28,421)
2.3	Charges from equity investments in subsidiaries, associates and joint ventures	(1,793)	(12,842)	-	-	(5,077)	(7,062)	(244)	(1,654)	-	-	(7,114)	(21,558)
2.4	Charges from other financial instruments and investment property	(436,747)	(486,391)	(303,383)	(233,343)	(217,384)	(83,667)	(40,423)	(44,534)	20,429	21,902	(977,508)	(826,033)
2.5	Operating expenses	(1,578,501)	(1,592,180)	(198,744)	(210,690)	(323)	(478)	(327,366)	(347,980)	217,892	222,424	(1,887,042)	(1,928,904)
2.6	Other costs	(753,014)	(795,890)	(212,915)	(98,372)	(115,489)	(144,144)	(457,070)	(441,105)	491,238	498,483	(1,047,250)	(981,028)
2	**TOTAL COSTS AND CHARGES**	**(8,694,872)**	**(8,673,765)**	**(5,038,817)**	**(6,922,891)**	**(338,273)**	**(235,351)**	**(833,136)**	**(849,687)**	**729,559**	**742,809**	**(14,175,539)**	**(15,938,885)**
	PROFIT (LOSS) FOR THE YEAR BEFORE TAXES	**(1,053,121)**	**(961,086)**	**(99,832)**	**72,217**	**(204,162)**	**(50,914)**	**(102,049)**	**(87,602)**	**147**	**340**	**(1,459,017)**	**(1,027,045)**

PART E – INFORMATION ON FINANCIAL RISKS

The risk management model, duties and responsibilities

The Enterprise Risk Management model and the estimate of Economic Capital.

The Risk Management Model adopted by the Fondiaria-SAI Group is based on the rationale of Enterprise Risk Management:
- aimed at generating a culture of risk management within the Group based on the different hierarchy levels involved
- based on an integrated viewpoint of all of the current and future risks to which the Group is exposed and assessing the impact that these risks can have on solvency and on the achievement of targets.

Within the ERM system, the internal model provides numerous quantitative instruments. Some of these aim to obtain information on the management of:
- the economic capital
- measures of risk-adjusted profit
- fixed operating limits, also using Value at Risk.

The model adopted for the risk assessment is based on an estimate of the Economic Capital (EC), i.e. a risk capital model is used to estimate the capital necessary to evaluate the solvency of the Group, in line with the risk appetite target . The model is in continual evolution and is regularly updated with the target so that it is always adequate to the risks assumed, to the changes in the regulations and to technical and methodological innovations.

Risk Management

Within the Fondiaria-SAI Group, the risk management structure and procedures form part of the broader internal control system, which is broken down into the following levels:
- line controls ensuring that operations are carried out properly (1st level controls)
- risk management controls aimed measuring risks and identifying risk management strategies (2nd level controls)
- internal audit controls set up to provide an independent evaluation of the overall risk control and management system in order to improve the organisation's efficiency and effectiveness (3rd level controls).

More specifically, the risk management system involves the following key players carrying out different functions depending on their institutionally assigned role, their expertise and the tools available:
- Board of Directors
- Chief Executive Officer, General Manager and senior management
- Risk Management Department
- Compliance Department
- Audit Department
- Business and Process Owner functions.

The Board of Directors has ultimate responsibility for the internal control system, and must ensure its completeness, functionality and effectiveness.
The Chief Executive Officer, General Manager and senior management are responsible

for implementing, maintaining and monitoring the internal control and risk management system, in line with the directives of the Board of Directors.
The Compliance Department identifies and assesses the risk of non-compliance with relevant legislation.
The Audit Department monitors and assesses the effectiveness and efficiency of the internal control system and indicates the corrective actions deemed necessary, and is also responsible for the execution of follow-up activities for verifying both that the corrective interventions have been carried out and that the changes made to the system are effective.
The Risk Management Department works, together with the other players involved in the risk management system, on defining and creating a management system for all risk-related activities, by developing and maintaining risk measurement strategies, methods and tools. In particular, the following responsibilities, *inter alia*, are entrusted to the Risk Management Department:

- manage the development and completion of risk capital models functional to the implementation of an efficient and effective Enterprise Risk Management system
- undertake regular monitoring of the risks through the reporting indicators
- help define the operating limits and tolerance thresholds assigned to the operating structures for risk measurement, and draw up procedures for prompt verification of these limits
- prepare reports for the Board of Directors, the Internal Control Committee, senior management and operational managers in relation to risk trends and the violation of fixed operating limits
- define, together with the other departments involved, the actions to mitigate the risk where the fixed operating limits have been exceeded
- carry out stress tests to assess the income and balance sheet impacts of adverse trends in the principal risk factors.

It carries out its function for all of the insurance companies in the Fondiaria-SAI Group and for all subsidiaries that have entered into a service contract with it. For Group subsidiaries (including the respective direct subsidiaries), which have their own risk management departments, the structure performs guidance and monitoring functions, in addition to activities related to regulatory compliance, as provided for in the Annual Plan, relative to the Solvency II Project or, ultimately, in view of specific requests not provided for by the Plan.

The Risk Management, Compliance and Audit Departments are independent from the operating structures and report functionally and hierarchically to the Board of Directors. Furthermore, the “Solvency II” Directive attributes a key role to these departments, together with the actuarial department, in overall governance.

In addition, during 2011 the company launched a procedure, now completed, for the critical review of the Audit, Compliance and Risk Management Departments, in order to identify any appropriate corrective interventions of an organisational or procedural nature, if pertinent.
Also in 2011, the Board of Directors of Fondiaria-SAI decided to create a new organisational unit, known as the “Intra-Group Activities Unit,” reporting to the Chief Executive Officer, with responsibility for examining and monitoring related-party transactions, before, during and after their execution, for evaluating conflicts of interest on a case-by-case basis and ensuring that the approval procedure for them is in line with the procedures adopted by the Board of Directors, as well as complying with current legal and regulatory provisions.
It is also the duty of the “Intra-Group Activities Unit” to support the Internal Control Committee, the Compensation Committee and the Board of Statutory Auditors, within

their respective area, in the duties attributed to them by current regulations or by the Board of Directors on the subject of related-party transactions, as well as any other bodies called upon to carry out their activities in respect of the transactions in question.
The risk management system involves special committees that help to strengthen and integrate the risk management system of the Fondiaria-SAI Group and that play an educational role with the Board of Directors, aimed at enabling it to make more informed decisions.
Specifically, the Board of Directors decided at its meeting of 21 July 2011, pursuant to Article 17 of ISVAP Regulation 20/2008, ("Collaboration between functions and bodies to which control is delegated"), to set up the Control Functions Coordination Committee, including not only the Audit, Compliance and Risk Management Department heads, but also the Board of Statutory Auditors (through its Chairman), the Internal Control Committee (through its Lead Coordinator), the Supervisory Authority pursuant to Legislative Decree 231/01 (through its coordinator) and the actuary Responsible, as well as the head of the Intra-Group Activities Unit, with the involvement, if necessary, of the independent auditor.
The coordination of this Committee, which exclusively relates to organising and conducting Committee meetings according to the respective agenda, with no management authority over the activities of the other control functions and which shall remain under the full, exclusive and autonomous responsibility of the individual managers, is entrusted to the head of the Risk Management Department.

The Risk Map

The risks considered in the Model adopted are set out in the Risk Map, shown below, which breaks down each risk by business segment. In addition to estimating the maximum potential loss, the approach adopted in monitoring total exposure also considers risks which, according to a cause-and-effect logic, may emerge as a consequence of other risks, although not always generating a directly measurable economic impact.
These risks, known as "second-level risks", are:

- reputational risk, i.e. risk related to a deterioration in the corporate image and an increase in conflict with policyholders, due amongst other things to the low quality of the products offered, the placing of unsuitable policies or the unsatisfactory conduct of the sales networks
- risks related to the membership of a group , or "contagion" risk, i.e. risk that arises due to the interlinked nature of the other Group companies, whereby a difficult situation arising in one entity spreads, affecting the solvency of the entity
- the risk of conflicts of interest.

Particular attention must also be paid to strategic risk, i.e. the current or future risk of a drop in profits or of capital deriving from a change in the operating situation or from bad corporate decisions, inadequate implementation of decisions or a failure to react swiftly and decisively to changes in the competitive environment.

The Risk Map at levels I and II represents point of reference for risk management activity. This structure, however, is not a static fixed element within the Model, in that the approach adopted, as set out above, must take into account not only all current risks but also possible future risks, in order to anticipate any possible threats arising from the context in which the Group operates.

Table 7 – Risk Map

	Non-Life	Life	Real estate	Other
Financial risks				
Market risk	√	√	√	√
Credit risk	√	√	√	√
Liquidity risk	√	√	√	√
Life technical risks				
Longevity		√		
Mortality:		√		
Disability		√		
Expense		√		
Redemption		√		
Catastrophe		√		
Non-Life technical risks				
Provision	√			
Premium	√			
Catastrophe	√			
Operational risks and other risks				
Operational risks	√	√	√	√
Risk of non-compliance with legislation	√	√	√	√
Reputational risk	√	√	√	√
Group membership risk or risk of contagion	√	√	√	√
Strategic risk	√	√	√	√

The assessment of the above-mentioned quantifiable risks is determined using an ALM approach through the internal model, using procedures that constitute best practice.
ALM estimate entails the shock analysis for the risk variables on both asset and liability accounts in the financial statements.
This phenomenon is significant for financial variables and in particular for interest rate risk. A shock on this scale appreciably impacts all interest rate-sensitive bonds and the value of the Life actuarial provisions and the Non-Life claims provisions, as a result of the discounting of cash flows.
The financial risk assessments described below, on the other hand, do not take the ALM logic into account. The compensation principle defined by that methodology is basically applied using a total balance sheet approach known as Solvency II.
Accounting standards partially allow the adoption of this technique, so for the sake of clarity, we have refrained here from describing assessments inconsistent with the criteria according to which the financial statements are prepared.
During 2011, credit risk on government bonds took on a significant weight. This risk is not assessed using the standard QIS5 formula, while the internal model estimates the risk of default for the government component as well, based on the issuer's rating.
The sizeable portion of bonds issued by the Italian government, the successive downgrades experienced, and the volatility of the spreads with private risk securities weigh greatly on the assessment of this risk, which in the internal model takes on the greatest weight among market risks.

Technical risks are also assessed using internal models and models proposed by the standard QIS5 formula.
The most significant component is the Non-Life underwriting risk, especially provision risk and premium risk, while considering the mitigating effect of reinsurance agreements, catastrophic risk has a reduced weight.
Life technical risks, including mortality and redemption and expense inflation, currently account for a reduced portion of technical risks.
Special attention was nevertheless paid to the acceleration of Life policy redemptions in the latter part of the year, especially in portfolios sold through banking channels, where sensitivity to financial market volatility is more extreme.

At this time, such phenomena are monitored based on specific scenario analysis, since due to the short period in which the phenomenon has been significant.

Information on financial risks

Objectives and criteria of financial risk management

The financial risk management objectives and policies, as well as the mitigation policies of the Fondiaria-SAI Group, are issued by resolution of the Board of Directors of Fondiaria-SAI, using management parameters for the allocation of the securities portfolio and the use of financial derivatives.
The policy adopted aims to guarantee:

- adequate diversification, avoiding excessive concentration
- a readily liquid portion of investments
- care in ensuring consistency between assets liabilities, using ALM policies
- prudent management, limiting exposure in securities with low credit ratings
- the use of derivative instruments primarily for hedging purposes.

In line with these objectives, specific operating limits are defined for all types of financial risks, also considering any exposure to concentration risk.
The structure of the limits extends to the main asset classes comprising the investments, and the limits are defined in terms of:

- maximum percentage per asset class out of total assets under management (total investments)
- concentration per issuer/counterpart
- rating
- VaR
- duration gap (differentiated between Non-Life and Life)
- minimum hedging on strategic equity investments
- liquidability, understood as a maximum percentage of “non-liquid” instruments.

The structure of the asset portfolio in the Life insurance sector is in line with the structure of the liabilities that these securities are intended to hedge. For the Non-Life sector, the assets are selected mainly in view of foreseeable changes in the settlement of claims for which the provisions are intended.

Market Risk

Market risk represents “the risk of unexpected losses due to changes in share prices, interest rates, property prices and exchange rates”.
The Group monitoring system provides for assessment of the economic impact of these variables through VaR type measurements, which permit:

- uniform risk measures, which allow for comparison of different instruments, to be obtained
- position limits to be determined
- “risk-adjusted” measures to be created.

In particular, the measures adopted are:

- short-term VaR, i.e. the VaR calculated on a time period of ten working days
- risk capital, i.e. the VaR calculated on a time period of one year.

The analysis of the VaR and risk capital of the equity and bond portfolio as of 31 December 2011, calculated at a confidence level of 99.5%, is shown below.

Table 8 – Analysis of values and Value at Risk at 31 December 2011

Type	Breakdown % (listed value)	VaR rate/ price %	VaR exchange %	Total VaR %
Total listed shares	5.84	11.92	0.14	12.06
Total derivatives	0.04	N/A	0.00	N/A
Net equity exposure	5.88	7.57	0.14	7.71
Total bonds and funds	87.09	1.16	0.02	1.18
Total unlisted shares	3.07	6.19	0.05	6.24
Sub-total	96.04	1.71	0.03	1.74
Other assets	3.96	1.24	0.01	1.25
Total	100.00	1.69	0.03	1.72

Table 9 – Analysis of values and Value at Risk at 31 December 2010

Type	Breakdown % (listed value)	VaR rate/ price %	VaR exchange %	Total VaR %
Total listed shares	6.90	10.56	0.17	10.73
Total derivatives	0.00	N/A	0.00	N/A
Net equity exposure	6.90	10.11	0.17	10.28
Total bonds and funds	86.61	1.21	0.02	1.22
Total unlisted shares	2.69	4.01	0.03	4.04
Sub-total	96.20	1.92	0.03	1.95
Other assets	3.80	1.20	0.01	1.21
Total	100.00	1.90	0.03	1.92

The percentage weight is calculated taking the listed value as a reference.
The columns "VaR rate/price %" and "VaR exchange %" show the percentage impact on the market value.
The following are not included in the scope of analysis: DDOR Life, Lawrence Life, the Tikal Fund, the Athens Fund and BancaSai.
The VaR of the derivatives reduces the riskiness of the equity positions (hedging operations).
"Other assets" includes structured securities.

Table 10 – Analysis of values and risk capital at 31 December 2011

Type	Breakdown % (listed price)	Risk capital rate/price %	Risk Capital exchange %	Total risk capital %
Total listed shares	5.84	42.90	0.66	43.56
Total derivatives	0.04	N/A	0.00	N/A
Net equity exposure	5.88	35.56	0.65	36.21
Total bonds and funds	87.09	5.47	0.08	5.55
Total unlisted shares	3.07	25.95	0.23	26.18
Sub-total	96.04	7.97	0.12	8.09
Other assets	3.96	5.88	0.05	5.93
Total	100.00	7.89	0.12	8.01

Table 11 – Analysis of values and risk capital at 31 December 2010

Type	Breakdown % (listed value)	Risk capital rate/price %	Risk capital exchange %	Total risk capital %
Total listed shares	6.90	40.84	0.81	41.65
Total derivatives	0.00	N/A	0.00	N/A
Net equity exposure	6.90	37.88	0.81	38.69
Total bonds and funds	86.61	4.74	0.08	4.82
Total unlisted shares	2.69	17.51	0.12	17.63
Sub-total	96.20	7.48	0.13	7.61
Other assets	3.80	4.73	0.04	4.77
Total	100.00	7.37	0.13	7.50

The percentage weight is calculated taking the listed value as a reference.
The columns "Risk capital rate/price %" and "Risk capital exchange %" show the percentage on the market value.
The following are not included in the scope of analysis: DDOR Life, Lawrence Life, the Tikal Fund, the Athens Fund and BancaSai.

The risk capital of the derivatives reduces the riskiness of the equity positions (hedging operations).
The "Other assets" item includes structured securities.

The increased riskiness in terms of the portfolio risk capital compared with 31 December 2010 is attributable both to the equity component, due to increased market volatility, and the debt component, due to a significant drop in the entire risk-free rates structure.

Interest rate risk

In relation to interest rate risk, i.e. "the risk of unexpected losses deriving from an adverse movement in interest rates", the exposure of the Group principally regards debt securities, particularly of a long-term nature. In order to limit this risk, the Group uses a mixture of fixed income and variable rate securities. ALM aims to maintain an equilibrium between the duration of assets and liabilities.
Through the use of stochastic models, in addition to the VaR estimate, stress tests are also undertaken using extreme interest rate situations. The table below reports a sensitivity analysis of the value of the bond portfolio corresponding to a 50 bps increase and decrease in interest rates.

Table 12 - Sensitivity analysis of the value of the bond component

(in millions of Euro)		+ 50 bps		- 50 bps
	31.12.11	**31.12.10**	**31.12.11**	**31.12.10**
Total	**(430)**	**(444)**	**456**	**471**
of which Non-Life	(53)	(58)	55	60
of which Life	(377)	(386)	401	411

The held-to-maturity and loans and receivables categories are not included.

The table below shows the analysis of the duration, VaR and risk capital of the bond portfolio at 31 December 2011 divided by type of issuer and maturity.

Table 13 - Analysis of the bond component by VaR and risk capital maturity

Type	Breakdown (as-is value)	Macaulay Duration	VaR rate %	Risk capital rate %
Government Euro	***83.19***	***4.99***	***1.15***	***5.48***
Variable rate	***19.23***	***0.69***	***0.23***	***1.39***
Fixed rate %	***63.96***	***6.22***	***1.42***	***6.72***
0.0< <=1.5	11.26	0.82	0.29	0.23
1.5< <=3.0	7.73	2.23	0.80	2.84
3.0< <=5.5	14.63	3.67	1.14	5.13
5.5< <=7	3.91	5.46	1.74	8.51
>7	26.44	9.81	2.20	11.22
Corporate Euro	***15.76***	***4.05***	***1.15***	***5.12***
Variable rate	***0.30***	***0.13***	***0.00***	***1.10***
Fixed rate %	***15.46***	***4.12***	***1.17***	***5.20***
0.0< <=1.5	1.67	0.93	0.33	0.37
1.5< <=3.0	5.34	2.22	0.76	2.70
3.0< <=5.5	3.64	3.98	1.26	5.79
5.5< <=7	2.27	5.37	1.63	7.94
>7	2.54	7.77	2.03	10.31
Bond funds Euro	***0.76***	***3.00***	***0.93***	***3.88***
Fixed rate %	***0.76***	***3.00***	***0.93***	***3.88***
1.5< <=3.0	0.76	3.00	0.93	3.88
Government non Euro	***0.20***	***4.01***	***0.24***	***0.92***
Variable rate	***0.01***	***0.20***	***0.00***	***0.89***
Fixed rate %	***0.19***	***4.14***	***0.25***	***0.92***
0.0< <=1.5	0.05	0.89	0.12	0.07
3.0< <=5.5	0.10	3.34	0.24	0.92
5.5< <=7	0.01	5.62	0.24	0.62
>7	0.04	9.89	0.41	2.01
Corporate non Euro	***0.09***	***0.97***	***0.09***	***0.18***
Variable rate	***0.02***	***0.18***	***0.02***	***0.21***
Fixed rate %	***0.08***	***1.12***	***0.10***	***0.17***
0.0< <=1.5	0.06	0.66	0.08	0.08
1.5< <=3.0	0.01	1.80	0.16	0.50
3.0< <=5.5	0.01	4.47	0.16	0.38
Total bonds	***99.24***	***4.84***	***1.14***	***5.41***
Total	***100.00***	***4.83***	***1.14***	***5.40***

The percentage weight is calculated taking the as-is value as a reference.
The analysis does not include structured securities.
The following are not included in the scope of analysis: DDOR Life, Lawrence Life, the Tikal Fund, the Athens Fund and BancaSai.

Equity risk, exchange risk and property risk

Equity risk, i.e. the risk of unexpected losses deriving from adverse changes in share prices, and exchange risk, i.e. the risk of unexpected losses deriving from adverse changes in exchange rates, are valued as stochastic models calibrated on the market.
The assets are valued using the volatility of the underlying security or of their associated benchmarks. The volatility recorded on the basis of the above-mentioned criteria is then used as input for the calculation of the VaR and risk capital.

The graphs below show the composition of the equity portfolio by segment.

Fig. 7 Composition of the equity portfolio of the Fondiaria-SAI Group

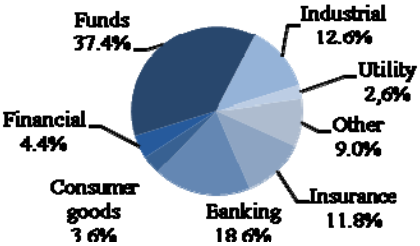


Fig. 8 Fondiaria-SAI Group Non-Life sector

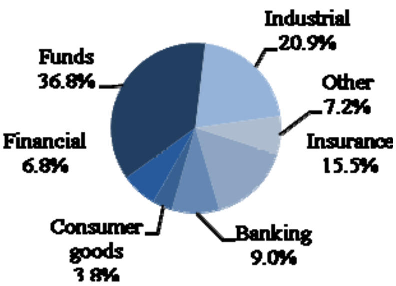
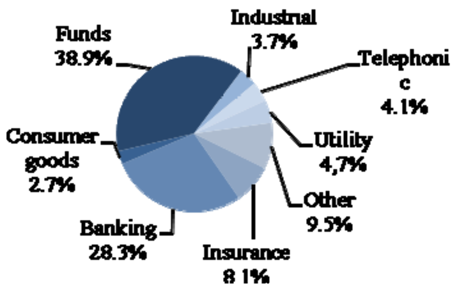


Fig. 9 Fondiaria-SAI Group Life sector



The impact in the income statement of a reduction in listed equity prices of 10% is shown below. The analysis is undertaken gross of the fiscal effect and is not calculated within an ALM scenario but only relates to financial assets.

Table 14 – Sensitivity analysis of the listed equity portfolio

(in millions of Euro)	**31.12.11**	**31.12.10**
Total	**(85)**	**(145)**
of which Non-Life	(34)	(82)
of which Life	(51)	(62)

The table below shows the analysis of VaR and risk capital relative to equity risk and exchange risk (on the equity and bond portfolio) analysed by currency.

Table 15 – VaR analysis relating to the equity portfolio and exchange rates

Type	Currency	Composition % (listed value)	VaR rate/price %	VaR exchange %	VaR total %
Shares	Norwegian crown	0.00	18.98	3.87	22.85
	Swedish crown	0.00	19.14	3.93	23.07
	Euro	5.67	11.83	0.00	11.83
	Swiss franc	0.04	16.05	7.39	23.44
	UK sterling	0.13	14.34	4.05	18.39
	Total listed shares	**5.84**	**11.92**	**0.14**	**12.06**
Derivatives on shares	Euro	0.04	N/A	0.00	N/A
	Total derivatives	**0.04**	**N/A**	**0.00**	**N/A**
	Net equity exposure	**5.88**	**7.57**	**0.14**	**7.71**
Bond funds	Euro	0.67	0.93	0.00	0.93
Bonds	US dollar	0.14	0.23	5.61	5.84
	Euro	86.17	1.16	0.00	1.16
	Swiss franc	0.10	0.15	7.53	7.68
	UK sterling	0.01	0.02	4.06	4.08
	Japanese yen	0.00	0.47	6.30	6.77
	Total bonds and funds	**87.09**	**1.16**	**0.02**	**1.18**
Shares	Serbian dinar	0.00	7.51	4.65	12.16
	US dollar	0.03	8.84	5.56	14.40
	Euro	3.05	6.17	0.00	6.17
	Total unlisted shares	**3.08**	**6.19**	**0.05**	**6.24**
	Total	**96.05**	**1.71**	**0.03**	**1.74**
	US dollar	0.01	1.15	5.58	6.73
	Euro	3.95	1.24	0	1.24
	Other assets	**3.96**	**1.24**	**0.01**	**1.25**
	Grand total	**100**	**1.69**	**0.03**	**1.72**

The percentage weight is calculated taking the listed value as a reference.
The columns “VaR rate/price %” and “VaR exchange %” show the percentage on the market value.
The following are not included in the scope of analysis: DDOR Life, Lawrence Life, the Tikal Fund, the Athens Fund and BancaSai.
The VaR of the derivatives reduces the riskiness of the equity positions (hedging operations).
The "Other assets" item includes structured securities.

Table 16 – Risk capital analysis relating to the equity portfolio and exchange rates

Type	Currency	Composition % (listed value)	Risk capital rate/price %	Risk capital exchange %	Risk capital total %
Shares	Norwegian crown	0.00	67.89	18.22	86.11
	Swedish crown	0.00	68.25	18.46	86.71
	Euro	5.67	42.59	0.00	42.59
	Swiss franc	0.04	57.59	33.01	90.60
	UK sterling	0.13	51.25	18.99	70.24
	Total listed shares	**5.84**	**42.90**	**0.66**	**43.56**
Derivatives on shares	Euro	0.04	N/A	0.00	N/A
	Total derivatives	**0.04**	**N/A**	**0.00**	**N/A**
	Net equity exposure	**5.88**	**35.56**	**0.65**	**36.21**
Bond funds	Euro	0.67	3.88	0.00	3.88
Bonds	US dollar	0.14	0.93	25.71	26.64
	Euro	86.17	5.50	0.00	5.50
	Swiss franc	0.10	0.33	33.60	33.93
	UK sterling	0.01	0.57	19.02	19.59
	Japanese yen	0.00	2.04	28.59	30.63
	Total bonds and funds	**87.09**	**5.47**	**0.08**	**5.56**
Shares	Serbian dinar	0.00	33.09	21.61	54.70
	US dollar	0.03	38.06	25.50	63.56
	Euro	3.05	25.84	0.00	25.84
	Total unlisted shares	**3.08**	**25.95**	**0.23**	**26.18**
	Total	**96.05**	**7.97**	**0.12**	**8.09**
	US dollar	0.01	5.43	25.6	31.03
	Euro	3.95	5.88	0	5.88
	Other assets	**3.96**	**5.88**	**0.05**	**5.93**
	Grand total	**100**	**7.89**	**0.12**	**8.01**

The percentage weight is calculated taking the listed value as a reference.
The columns "Risk capital rate/price %" and "Risk capital exchange %" show the percentage on the market values.
The following are not included in the scope of analysis: DDOR Life, Lawrence Life, the Tikal Fund, the Athens Fund and BancaSai.
The risk capital of the derivatives reduces the riskiness of the equity positions (hedging operations).
The "Other assets" item includes structured securities.

For real estate risk, i.e. risk related to the unexpected depreciation in the value of real estate, valuation of the exposure is made based on the type of investment and taking the fair value of the properties as a reference. The analysis model for residential and commercial property is calibrated on a historical series of price indices, relating to the trend in market prices recorded for real estate transactions at a national level.
With regard to the method described above, the risk capital at 31 December 2011 was 8.5% of the current value of the properties in the financial statements (approximately Euro 3,957 million).

Credit risk

The analysis of credit risk is broken down as follows:

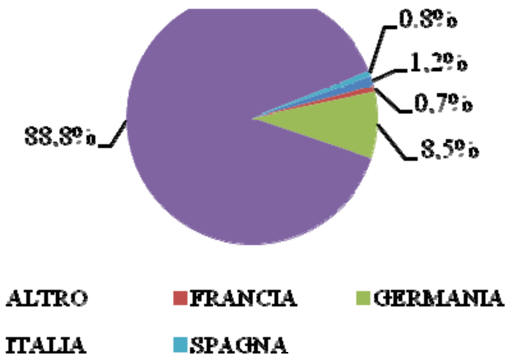
- Counterpart default risk, i.e. the risk of possible losses due to unexpected default by counterparts and debtors, excluding issuers of bonds falling under spread risk. In general, this category includes receivables from reinsurers, other receivables and receivables relating to exposure in derivatives.
- Spread risk, i.e. the risk related to the change in the value of the bonds held in the portfolio against changes in the ratings level of the issuer.

The internal model uses two models to determine the spread risk.
The first model evaluates the likelihood of default by the issuers present in the portfolio, while the second takes into account the loss in value of the portfolio as a result of issuer "migration" from one rating class to another. The latter is considered more suitable for overall determination of economic capital. On the basis of these models, the Group's exposure to credit risk is periodically monitored.
In relation to the control of overall exposure to credit risk, specific resolutions of the Board of Directors have set fixed limits in terms of concentration for reinsurers and rating classes.
For the Group companies operating in the banking segment, credit risk is analysed through constant monitoring of loan quality. For receivables from other banks constant valuation is made with reference to the ratings and the limits imposed by the Board of Directors. Receivables from customers principally involve secured guarantees and the allocation of capital is calculated using regulatory coefficients. The internal control system reports distribution and migration between the various classes and shows anomalies.

The graph shows the bond portfolio by issuer, rating and segment.

Fig. 10 – Breakdown of the bond portfolio of the Fondiaria-SAI Group

Fig. 11 – Fondiaria-SAI Group government bond portfolio by country



Issuer Country	Portion (%)
AUSTRIA	0.10
BELGIUM	0.04
CANADA	0.04
FINLAND	0.07
FRANCE	0.75
GERMANY	8.49
GREECE	0.31
IRELAND	0.14
ITALY	88.81
MEXICO	0.02
NETHERLANDS	0.01
PORTUGAL	0.02
UNITED KINGDOM	0.00
SERBIA	0.02
SUPRANATIONAL	0.35
SPAIN	0.72
UNITED STATES OF AMERICA	0.07
SWITZERLAND	0.05
HUNGARY	0.00

Fig. 12 – Corporate bond portfolio by Standard & Poor's equivalent rating

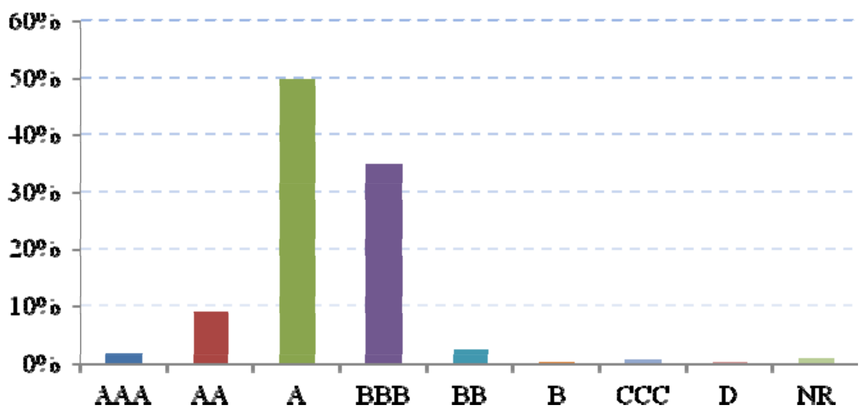


Fig. 13 – Fondiaria-SAI Group corporate bond portfolio by segment

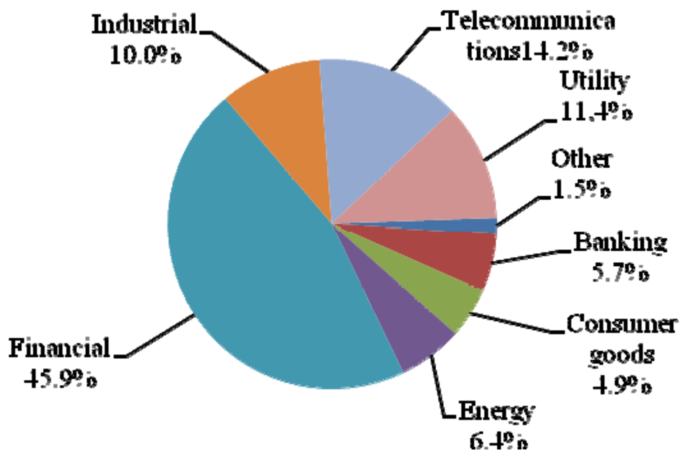
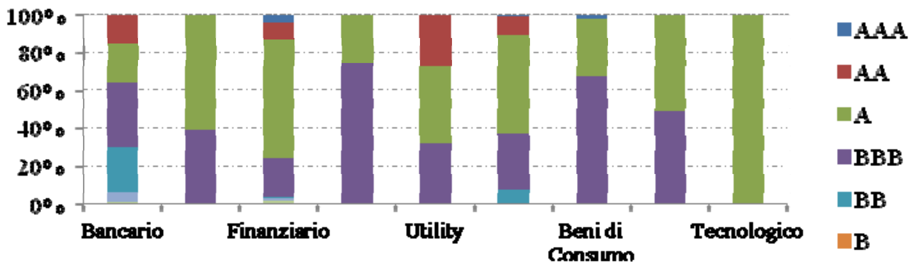


Fig. 14 – Fondiaria-SAI Group corporate bond portfolio by segment and rating

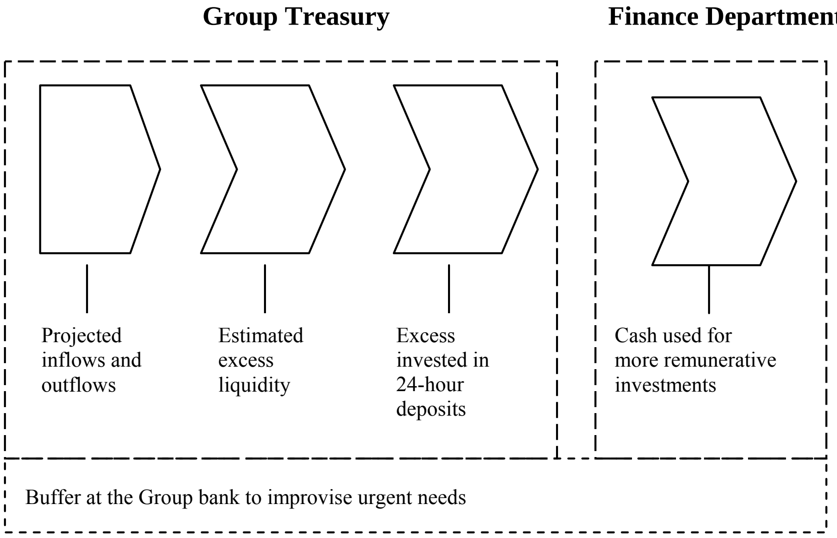


Liquidity risk

Liquidity risk is the "risk of not being able to fulfil obligations towards policyholders and other creditors due to difficulties in converting investments into cash without incurring losses".

For its liquidity management, the Fondiaria-SAI Group decided to adopt an organisational solution based a centralised cash flow management through the Group Treasury. This system guarantees not only rational monitoring of all inflows and outflows (assisted by daily cash pooling), but also the optimisation of returns on the liquidity realised through centralised management of excess liquidity in respect of scheduled commitments. In this sense, the activity of the Group Treasury is aimed at preserving equilibrium between maintaining sufficient liquid funds to cover any unexpected commitments to policyholders and suppliers and allocating excess liquidity to more remunerative investment transactions.

In order to achieve this goal, the activity, carried out primarily within a ten-day time frame, is structured as follows:



Specifically, investments in 24-hour time deposits are managed by bank counterparts identified according to the following criteria:

- maximisation of returns
- reliability of the counterpart
- diversification among several counterparts.

Limits have been set for investments, based on the Group risk policy, in terms of illiquid assets as a proportion of total assets under management (AUM).

The Solvency II convergence project

In July 2011, the Fondiaria-SAI Group updated its "Solvency II Project", in line with the July 2010 resolution for the formal request for admission to the pre-application process for its internal model.
As part of that update, aimed at ensuring that the programme is continually in line with the process for completion of the Solvency II regulations, the Fondiaria-SAI Group also redefined the scope of application of its internal model, also taking as a reference the evidence developed in participating in Quantitative Impact Study 5 (QIS 5).
Furthermore, in the request for admission for pre-application of the internal model, the specific definition of the scope of application of the model was subjected to the experiment conducted in compiling the QIS5 for all Group companies.
From a comparative analysis of the risk estimates obtained by the standard formula and the internal model, it emerged that it was not advisable to use the internal model for certain specific business lines, and therefore certain companies with business concentrated on specific lines for which the internal model requires adjustments and customisation were excluded from the scope of application.

Debt classes

Insurance companies increasingly use "hybrid" debt instruments in their portfolio, with the features of both bonds and equities, which give holders a higher return by comparison with normal bond assets but which also present greater risk in the event of issuer default, such as lower priority in repayment compared with other credit lines held (debt seniority).

Following a rising order of “riskiness” and “subordination”, senior debt is technically the simplest and least risky form: these securities have a definite maturity and no early repayment option, and payment of the coupon cannot be deferred without leading to a default event. More risky are the Tier 1 and Tier 2 subordinated capital levels, further broken down into Lower Tier 2 (Sub LT 2, less risky) and Upper Tier 2 (Sub UT 2, more risky). Tier 1 is the maximum level of subordination of a debt instrument, with features similar to those of a preference share.

The composition of the categories of debt in the portfolios of the two listed companies of the Group is shown below.

Fig. 15: Fondiaria-SAI

Seniority	%Composition
Senior	92.5
Sub LT 2	3.1
Sub UT 2	0.9
TIER 1	3.5

Fig. 16: Milano Assicurazioni

Seniority	%Composition
Senior	94.5
Sub LT 2	2.6
Sub UT 2	0.8
TIER 1	2,2

The analysis of financial liabilities by maturity, excluding those in which the investment risk is on Life policyholders, is shown below:

Financial liabilities

(in millions of Euros)	**31.12.11**	**31.12.10**
up to 1 year	642	689
from 1 to 5 years	605	688
from 6 to 10 years	370	472
over 10 years	696	698
Total	**2,313**	**2,547**

The principal financial liabilities comprise subordinated liabilities, which account for approximately 53% of the Group’s total financial liabilities; more than half of these have a maturity beyond 10 years.
Positions payable within one year, on the other hand, consist mainly of deposits opened by BancaSai with its clients for Euro 231 million, deposits received from reinsurers of

Euro 172 million and Euro 139 million from deposits with banks opened by Group companies.

Subordinated liabilities are analysed in the table below by maturity and by possible call date, if any, showing undiscounted contractual cash flows and the carrying value of the liabilities.

Subordinated liabilities

(in millions of Euro)	31.12.11		31.12.10	
	Undiscounted contractual cash flows	**Carrying value**	**Undiscounted contractual cash flows**	**Carrying value**
up to 1 year	-	-	-	-
from 1 to 5 years	-	-	-	-
from 6 to 10 years	539	353	518	345
over 10 years	994	696	1.176	696
Total	**1,533**	**1,049**	**1,695**	**1,041**

Information on insurance risks

Insurance liabilities of the Life segment and deposit accounting

In relation to the insurance liabilities of the Life segment, the Group considers the impact on the expected profitability of all the incoming and outgoing funds, with a particular focus on those relating to redemptions. The assumptions used to create product tariffs and value amounts and risks are periodically updated with effective observations on the expected outflows.

The table below shows the amounts of the provisions of the direct business of the Life segment divided by contractual maturities. For contracts without expiry (annuities and whole life contracts), an expected exit date was considered consistent with the assumptions used to measure Value in Force.

(in millions of Euros)	31.12.11	31.12.10
up to 1 year	2,426	2,089
from 1 to 5 years	13,564	13,138
from 6 to 10 years	5,674	6,700
over 10 years	2,747	2,965
Total	**24,411**	**24,892**

The total, which refers to gross direct business, includes actuarial provisions of Euro 15,147 million (Euro 16,055 million at 31 December 2010), insurance contract liabilities where investment risk is on policyholders and arising from pension fund management of Euro 7,666 million (Euro 6,951 million at 31 December 2010), liabilities from financial contracts issued by insurance companies for which the investment risk is on policyholders of Euro 964 million (Euro 1,345 million at 31 December 2010) and from pension fund management of Euro 276 million (Euro 264 million at 31 December 2010) and none as deposit accounting.
It also includes the provision for sums payable of Euro 358 million at 31 December 2011 (Euro 277 million at 31 December 2010), which, due to its nature, basically has a residual expiry of less than twelve months.

Insurance liabilities of the Non-Life segment

In relation to the Non-Life segment, the table below shows the amounts of the claims provisions and the gross direct premium provision by maturity. The total provisions are shown by duration in proportion to the expected cash flows for each interval shown.

(in millions of Euros)	**31.12.11**	**31.12.10**
up to 1 year	6,054	6,124
from 1 to 5 years	4,521	4,125
from 6 to 10 years	1,324	1,074
over 10 years	517	382
Total	**12,416**	**11,705**

The total includes premium provisions of Euro 2,707 million (Euro 2,741 million at 31 December 2010), claims provisions of Euro 9,699 million (Euro 8,954 million at 31 December 2010) and other technical provisions represented by the Health class ageing provision of Euro 9 million (Euro 11 million at 31 December 2010).

Amounts, timing and level of uncertainty in cash flows relating to insurance contracts

In accordance with paragraphs 38 and 39 of IFRS 4, this section reports, with separate disclosure for the Non-Life and Life segments, information regarding the objectives in the management of the risks related to the insurance contracts and the policies adopted to contain them, the contractual clauses and the general conditions therein which have a significant effect on the amount, the timing and level of uncertainty of future cash flows.

NON-LIFE SECTOR

The underlying risk elements in the management of the Non-Life segment relate to underwriting risk (insufficient premiums to cover claims and expenses) and to reserve risk (insufficient provisions to meet commitments assumed in respect of policyholders).

The underwriting risk is divided into mass risks, corporate risks and special risks. The mass risks, such as for example those relating to Motor TPL and Land Vehicles, as well as those relating to individual personal risks (Accident and Health), households (Residential and Civil Responsibility) and small enterprises (trades, commerce, etc.) are covered with predefined standard conditions which are determined by the central technical offices on the basis of existing regulations, by insurance market experience and by the specific experience of the Group.

In general, for mass risks and, in any event, all risks where regulatory and standard tariff conditions exist, the underwriting takes place with the various agency networks using adequate IT procedures. Within standard parameters, the commercial networks must use a flexible tariff system which is monitored centrally. In the event that the needs of a specific customer require a change in the standard conditions, the granting of the exception is assessed and authorised by the Technical Department of the Company.

In relation to the corporate risks and special risks, which due to their characteristics and size may not be covered by standard conditions or regulations or tariffs, the underwriting procedures are more structured.

Underwriting Risk

Mass risks

In the Motor TPL class, in which the Group is a leader, and which represents the largest part of the portfolio, the substantial mass of statistical data held allows for preparing sophisticated "personalised" tariffs, which take into account a large number of risk factors, both subjective and objective. The base data available are in fact statistically significant and allow the use of multilevel analysis which, through general linear models, permits the evaluation of the relationship between risk factors, highlighting all those features not directly identifiable with analysis only by single factor.
The tariffs are monitored monthly and are periodically reviewed. The portfolio is also subject to continual examination in order to identify any abnormal situations, at geographical level and for the remaining risk factors, in order also to permit timely corrective interventions against any changes in technical trends that could result from the introduction of the direct indemnity system.
Similar attention is given to the best customers whose loyalty is encouraged by means of incentive initiatives not only at existing contract levels, but also with initiatives focused on the acquisition of new niche markets.
In the Land Vehicle segment, which is traditionally a very important business area, the tariffs are established, in the case of the Fire and Theft guarantees, on the basis of the geographical location and type of vehicle insured, in addition to the guarantees provided. The TPL guarantee, however, is a tariff based on the Bonus Malus class, the age of the owner and the age of the vehicle insured. The customer can also choose between different insurance levels which allows for a significant difference in the price of the various guarantees.
Also in the Non-Motor segment, in mass risks the principal underwriting and tariffs are strictly related to the statistical experience of the portfolio of the Group, which is sufficiently vast and stable to permit the setting of guarantees and prices suitable to the various risk types. In particular, in the Health class the underwriting of risks is accompanied by and subordinated to the evaluation of a medical history questionnaire which enables tariffs to be based on the individual conditions of the policyholder.
Generally speaking, for mass risks, and in any event all risks where regulatory conditions and standard tariffs exist, underwriting takes place with adequate IT procedures and is carried out by the various agency networks that are equipped for this.

Within the standard parameters, the commercial networks may adopt tariff flexibility which is monitored centrally. In those cases in which the needs of a specific customer require a change in the standard conditions, any granting of an exception is evaluated and authorised by the Group's Technical Departments.

Corporate risks and special risks

In relation to the corporate risks and special risks, which due to their characteristics and size may not be covered by standard conditions or regulations or tariffs, the underwriting procedures are more structured.

The agency networks have an independent underwriting limit by value and type of risk; the underwriting of risks above these limits is assisted by a network of appropriately trained technicians that value the risks and set the conditions on a case-by-case basis.

Key money

With particular reference to the key money sector, risk analysis is carried out in advance and careful selection undertaken by means of a double examination:

- under the objective aspect, the examination of the nature and the specific characteristics of the original transaction, which prompted the request for the bond, first aims to assign the transactions under review to categories of risks within the class based on the regulations governing them; secondly, special attention is given to verifying the features of the bond contract, which must always respect the principle of supplemental with regard to the principal obligation;
- under the subjective aspect, the examination relates to valuation of the equity values as well as all the elements relating to the morality, professional capacity and solvency of the counterpart.

Both the objective and subjective aspects are carefully evaluated through the acquisition of specific financial documentation (financial statements, incorporation deeds, by-laws, Chamber of Commerce certificates, shareholder forms, etc.) sent by the agencies to technicians in the region or head office. This documentation is updated with appropriate comparable commercial information through specialised companies and with further inquiries relating to the history of the relationship with the customer, made in the class databank, in order to verify the cumulative exposure to the parties in question.

The above activity aims to quantify a total "underwriting limit" with the party, requested, within precise and contained limits, from the individual technicians. Beyond these limits, cases are presented to the internal boards, represented by the "Trust Committee".

The issuance of the guarantee policies is then carried out by the agencies, through an IT procedure which undertakes a preventive control of the cumulative exposure, up to the limits of the underwriting agreed.

All guarantee policies issued by the class are appropriately protected by the placement of 50% in a proportional reinsurance agreement, with capacity of Euro 70 million, to be used without distinction by individual companies (Fondiaria-SAI or Milano) or at Group level (in this case, for Liguria Assicurazioni a utilisation sub-limit is provided of Euro 15 million). In addition, further hedging exists through an excess claims agreement to protect the net retained amount, on the individual risk or event, with retention of Euro 2.5 million up to Euro 25 million.

Otherwise, in order to guarantee an adequate fractioning of the risks, which contain the exposure points, the Group currently uses the coinsurance instrument, as part of a reciprocal system only with those insurance companies that use similar underwriting policies based on the principles of caution and careful risk selection.

Hedging of catastrophic exposure

The processes used by the Group to optimise the control of exposure to catastrophic risks are reported below.

Particular attention is given to the risk concentrations in certain classes, using appropriate calculation methods according to their specific characteristics.

The Fire class, due to the greater volumes involved, requires particular and differentiated attention, especially in relation to earthquake and flood risks; for this reason concentration valuations are made on a geographic, seismic and also a hydro-geological basis.

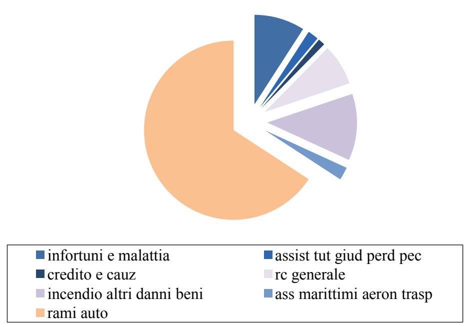
Exposure concentrations by seismic area are updated during the year and subsequently modelled once a year using principally the two products universally adopted by the international market (RMS RiskLink DLM and EQECAT WorldCAT), but also a third

tool (AIR II).
The relative results are subsequently analysed with the assistance of international operators, in order to achieve adequate reinsurance protection based on the two models used.
Specifically, a return time by catastrophic claim was adopted of approximately 250 years.
The Land Vehicle class is very similar to the Fire class, and for this reason has the same reinsurance cover per event.
The Technological Risk class, thanks to the specific proportional programmes adopted, does not give rise to particular concerns, in that the risks are protected based on the year of subscription.
The potential risk concentration following the bankruptcy of a single policyholder in the Bond class is protected by a claims excess programme, which guarantees all the acceptances made in past years of subscription.
Finally, note that underwriting in the Accident class is protected with an ample catastrophe programme which operates together with the net retentions deriving from policies underwritten by the Life segment.

The percentage breakdown of the Non-Life classes in the Group for the last two years:

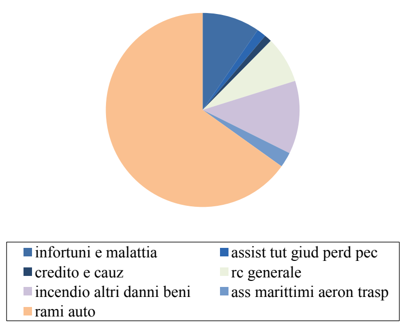
Fig. 17 – Percentage breakdown of Group Non-Life class premiums

2011



Class	Breakdown %
accident & health	9.11
legal assistance	1.98
credit & bonds	1.25
general TPL	7.48
fire and property damage	12.04
marine, aviation	2.35
motor class	65.80

2010



Class	Breakdown %
accident & health	9.59
legal assistance	1.56
credit & bonds	1.23
general TPL	7.76
fire and property damage	12.18
marine, aviation	2.53
motor class	65.14

It is clear that the Motor classes in the Group make an important contribution to future financial cash flows. This is a stable portfolio not subject to significant fluctuations sufficient to affect future projections.
The Motor products were recently redefined to improve customer service and represent the market offering more closely.

The Motor TPL segment, due its inherent characteristics, does not have particular concentrations of risk; there may be single events of particular gravity, but the size of the portfolio, which is also geographically distributed uniformly throughout the country, can absorb such events without significant repercussions on the results.
In any event, for events of extreme and unforeseen gravity the Group is protected by adequate reinsurance cover with primary reinsurers.
In relation to the Land Vehicle portfolio, risk concentrations are assumed particularly in the case of extreme weather events or natural disasters (floods, earthquakes, storms or hailstorms); these concentrations are calculated on a geographical basis and are subject to reinsurance protection in common with the Fire class.
In the Non-Motor Non-Life classes, the Group operates in all segments, with the sole exception of the Credit class which is underwritten on an irregular basis.
For some classes, such as Legal Assistance and Protection, underwriting at the Group level is centred in specialised single-class insurance companies such as Pronto Assistance and Europa Tutela Giudiziaria; for the other classes, such as Transport and Merchandise, SIAT, equipped with specific and recognised expertise, undertakes a central role for the entire Group.
The risks of the other Non-Motor Non-Life classes are underwritten by all the insurance companies of the Group, principally through exclusive agency networks, but also through brokers and in some cases through multi-mandate agency networks and bank-insurance agreements.

Concentration risk and use of co-insurers

The Group uses co-insurance, i.e. the division of risks into quotas established with other insurance companies, both for commercial reasons at local level and to limit insurance exposure in the case of large risks.
In 2011 Group policies, already implemented in previous years, confirmed the maintenance of the portfolio breakdown, with a predominance of risks assumed in Exclusive Delegation: no significant or substantial changes were made with respect to the underwriting strategies of previous years.
With regard to the key money sector, in 2011 the policy relating to the underwriting of risks under Other Delegations was characterised by a greater selection of insurance companies making co insurance offers, favouring those that maintain underwriting policies similar to those of our Group.
With regard to Other Delegations, in 2011 the weight of taxable premiums collected was 7.8%, a decrease on 2010 (9.4%). The weight of the total cost of the claims generated was 8.0%, a decrease on the previous year (9.3%).

Provision risk

The second component of the insurance risk of the Non-Life classes, i.e. provision risk, relates to the uncertainty connected to the use of the claims provisions. This is the risk that the claims provisions may not be sufficient to meet commitments with policyholders or damaged parties.
The provision risk, being related to the estimate of the provisions, can be monitored from the basic information traceable from the claims "triangulars".
In accordance with the requirements of paragraph 39 of IFRS 4, information is provided below relating to changes in Civil Liability claims.
The tables below are compiled from official data from forms provided to the Supervisory Authority by the Fondiaria-SAI Group (see forms 29, appendix 1/29, and forms 29A).

Each piece of data on the "triangle" represents a snapshot of the generation cost at 31 December of the year of observation, summarily represented by the sum of the following components:

- cumulative payment in the year of occurrence at 31 December of the year of observation
- provision on open claims, with reference to 31 December of the year of observation
- estimate of the late claims of the year of occurrence as of 31 December of the year of observation.

The "Estimated final cost", the "Payments made" and the "Provision amount" refer to the most recent year of observation, i.e. the largest diagonal of the triangle.

It is considered appropriate to show changes in claims only for the Civil Liability classes (Motor and General Civil Liability) since they are the Group's most representative classes: over 83% of the claims paid belonged to these two classes.

The General TPL class in particular is characterised by a slow reversal and a high number of late claims, in particular due to the objective difficulty in determining the generation cost, especially in the first years of observation. This situation, common to all classes, is particularly marked for the General TPL class.

(in Euro millions)

CLASSES 10 + 12 (Motor TPL)	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**Total**
Estimated costs											
At the end of the year	2,948.9	3,214.3	3,246.0	3,346.0	3,300.0	3,138.0	3,028.6	3,222.9	3,042.2	2,825.4	
After one year	2,917.5	3,088.8	3,180.4	3,226.9	3,375.5	3,022.5	3,056.0	3,202.4	3,227.6		
After two years	2,977.1	3,110.4	3,145.4	3,194.8	3,416.6	3,121.6	3,184.6	3,430.2			
After three years	2,999.2	3,111.4	3,065.8	3,265.0	3,394.1	3,229.7	3,356.4				
After four years	3,048.9	3,131.3	3,106.7	3,283.7	3,500.7	3,364.3					
After five years	3,037.4	3,159.0	3,129.1	3,343.2	3,637.7						
After six years	3,084.6	3,219.4	3,195.4	3,431.1							
After seven years	3,128.2	3,255.8	3,245.7								
After eight years	3,177.6	3,301.6									
After nine years	3,202.1										
Est. final costs	3,202.1	3,301.6	3,245.7	3,431.1	3,637.7	3,364.3	3,356.4	3,430.2	3,227.6	2,825.4	33,022
Payments	3,068.3	3,133.5	3,053.0	3,149.7	3,233.7	2,967.8	2,852.3	2,770.4	2,283.3	1,121.5	27,634
Amount to provision	133.8	168.1	192.7	281.4	403.9	396.5	504.1	659.8	944.2	1,704.0	5,389

(in millions of Euros)

CLASS 13 (General TPL)	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**Total**
Estimated costs											
At the end of the year	300.2	312.3	324.6	343.6	382.0	373.5	374.6	465.8	549.0	503.7	
After one year	293.3	350.8	337.0	360.7	371.6	371.6	388.8	440.3	510.2		
After two years	292.6	318.5	346.8	358.5	385.1	370.4	390.7	464.6			
After three years	297.2	325.8	350.6	359.8	378.6	382.3	420.6				
After four years	303.4	330.0	355.9	355.7	388.0	396.8					
After five years	305.2	336.6	350.5	364.2	405.0						
After six years	310.3	329.8	360.3	378.0							
After seven years	306.5	336.7	373.4								
After eight years	310.3	340.7									
After nine years	318.2										
Est. final costs	318.2	340.7	373.4	378.0	405.0	396.8	420.6	464.6	510.2	503.7	4,111
Payments	249.0	254.6	262.0	244.5	246.4	222.3	209.8	193.2	153.5	55.4	2,091
Amount to provision	69.2	86.1	111.4	133.5	158.6	174.6	210.8	271.4	356.7	448.3	2,020

NOTE:

Each amount of the triangle is comprised of:

- *cumulative payment in the year of occurrence (from the year of commencement to the year of observation)*

- *+provision relating to the year of occurrence on claims reported (in the year of observation)*
- *+provision relating to the year of occurrence on late claims (in the year of observation)*
- *the "estimated final cost" is the cost of the last year of observation*
- *"payments" represents the cumulative payments in the year of occurrence in the last year of observation*
- *"amount to provision" is the provision relating to the year of occurrence in the last year of observation*

The table below shows the situation of the claims for the companies of the Fondiaria-SAI Group and Milano Assicurazioni still open at the end of 2011, compared with the number of claims reported in the various years.

Generation	**Number of reported claims (*)**	**Number of claims open**	**% on reported claims**
2000	1,017,239	825	0.08
2001	996,787	1,362	0.14
2002	987,098	1,978	0.20
2003	959,946	2,762	0.29
2004	929,973	3,107	0.33
2005	929,388	4,816	0.52
2006	912,798	7,598	0.83
2007	882,694	9,512	1.08
2008	828,451	17,720	2.14
2009	865,000	31,729	3.67
2010	818,587	46,991	5.74
2011	749,328	155,265	20.72

(*) Excluding CID Mandate claims reported. From 1 February 2007, with the introduction of direct indemnity, claims caused are considered (NO CARD + CARD DEBTOR).

CARD management from 1 February 2007

Generation	Number of reported claims	Number of claims open	% on reported claims
2007	428,094	2,906	0.68
2008	537,499	6,383	1.19
2009	665,073	15,668	2.36
2010	614,066	22,240	3.62
2011	549,100	86,351	15.73

Verification of consistency of liabilities

The provision for risks in progress is created, in accordance with Article 16 of ISVAP Regulation 16/08, to cover the risks incumbent on the company after year-end, in order to meet all claims costs that might arise on the contracts that gave rise to the formation of the provisions for premium fractions.
The calculation method adopted for this provision uses the empirical method suggested by the above-mentioned Regulation. This latter provision is in line with the adequacy test of the insurance contract liabilities of the Non-Life classes required by IFRS 4 (LAT).
The current method of calculating the claims provisions according to the last cost criterion is also regarded as methodologically appropriate to represent future cash flows in the portfolio of existing contracts.

LIFE CLASSES

The principal risk management elements in the Life segment relate to financial risks (market, credit and liquidity risks) and to technical risks (longevity, mortality, disability, expenses, redemption and catastrophic risks), for which reference should be

made to respective comments in the section “Information on risks and uncertainties”.
With regard to traditional risk products, there are two segments which manage different types of insurance coverage:

- individual policies, mainly managing temporary coverage for death stipulated both in “stand-alone” form, through annual premium and single premium products with constant or decreasing capital, and in accessory form to other types of policies
- corporate policies, which typically manage risks relating to the coverage conventionally called “assistance” and therefore referring particularly to the event of death and invalidity and to the risk of non self-sufficiency (LTC).

In addition to traditional contracts, which also include savings and pension financial products (annuity and deferred capital contracts), the portfolio also includes pure investment financial products, such as unit- and index-linked contracts, the former linked to internal funds and the others to fund baskets and equity or stock exchange indices.

Individual policies

In the Individual policies segment, the typical risks insured by the Group are those relating to temporary coverage for death stipulated in “stand-alone” form, through annual premium and single premium products with constant or decreasing capital, and in accessory form to other types of policies.
For the tariffs of these products, the Group utilises specific tariff forms determined through official ISTAT statistics on the mortality of the Italian population, adapted on the basis of the mortality history of the portfolio of its own policyholders. The current products distributed provide for a personalisation of the cost to the insured party based on whether the policyholder declares him or herself to be a smoker or non-smoker. The amount insured is underwritten on the basis of fixed and standard rules, the “underwriting grid”. This grid is structured on the basis of a different step-up of capital insured for which there are different types of health events, in accordance with the “International Guidelines” in the medical field.
Extra premiums are also applied in cases where the professional and sporting activities undertaken by the insured and/or their health conditions are considered to increase risk.
In addition to a certain level of capital insured, the Group also obtains information of a financial nature in order to evaluate the economic and financial situation of the customer.
In any case, above a certain threshold of capital insured, a health enquiry is made on the basis of standard medical documentation.
Also note that, for amounts above a certain threshold, the underwriting of the risk is subject to explicit acceptance by a reinsurer.
In addition, following the medical evaluation, the underwriting of the risk may result in the application of specific extra health premiums preliminarily agreed with the reinsurer.
The technical performance on the portfolio confirms the personalisation historically applied to the statistical base adopted in respect of the general ISTAT base. On the other hand, ongevity risk (typically related to lifetime annuity portfolios) is currently marginal, due to the insignificant presence of this type of contract in the Company’s portfolio.

Corporate Policies

In the Corporate policies segment, the typical risks insured by the insurer relate to the coverage conventionally called “assistance” and therefore with particular reference to

the event of death and invalidity and to the risk of non self-sufficiency (LTC).
Given the tariff structures used by the insurance companies of the Group for this type of contract, verification that the insurance cover is due to an objective situation – an obligation of law and company regulations – which involves an entire group in a uniform manner, is requested. Therefore, all requests for insurance cover based on the needs of single individuals are excluded methodologically in order to exclude the origin of all forms of anti-selection of the risk.
This fundamental underwriting rule is supplemented by a further limitation consisting of the fact that determination of the capital or insured amount must also be based on an external rule, again in order not to allow a single individual any free determination.
The amount insured is underwritten based on standard variable rules (insurance grid) according to the type of counterpart/policyholder and the number of individuals in the group; in any case, above a certain threshold of capital/amount insured, a health evaluation is always made based on standard medical documentation.
For amounts above a certain threshold, the underwriting of the risk is also subject to explicit acceptance by a reinsurer.
Finally, following the medical evaluation, the underwriting of the risk may result in the application of specific extra health premiums, sometimes agreed in advance with the reinsurer.
Particular attention is reserved for the underwriting of cumulative risks, normally regulated through the application of a limitation clause on the amount payable by the insurer on death following a catastrophic event.
Insurance companies' use of specific tariff forms – determined based not only on the general Italian mortality/disability rate, but also calibrated specifically to the claims trend of the company's portfolio – means the recurring monitoring of the trend both within the whole portfolio acquired and among individual policies considered sensitive in terms of both overall and per capita exposure.
The technical performance on the portfolio confirms the personalisation historically applied to the statistical base adopted in respect of the general ISTAT base.
Also for this family of risks, the longevity risk is marginal and typically related to annuity portfolios, due to the almost total absence of this type of contract in the portfolio.
This risk is, however, present in the portfolio of the company, in key projections against deferred annuity contracts on pension funds or on single companies which have activated a specific supplementary pension internally for employees.
In this area, the Group has for some time implemented a distribution policy concentrated on the creation of tariff forms which utilise the most up to date statistics bases and a careful evaluation of guaranteed financial returns, subject to constant monitoring on the markets. The overall development of the portfolio shows a high level of stability in policies covering death/invalidity risk and those for corporate provisions required by law (employee leaving indemnity) and supplementary pensions (pension funds), due to the consultancy carried out by our sales network, with an increase related to salaries.
The portfolio related to managing the liquidity of the companies, however, is handled through specific policies for the financial capitalisation of the premiums paid by the counterpart on a minimum guaranteed return and annual performance consolidation basis and shows strong acceleration in line with the market trend.
In this regard, particular attention is paid to the concentration of commitments on individual counterparts in order to avoid negative impacts on the company accounts in the event of early redemption, which generally could result in a negative economic context for the insurer.
This is avoided with an internal regulation which requires i) the limiting of the presence of these contracts to within a determined percentage of the investments of the separated

management whose contracts are related; and ii) the application of penalties for early redemption and appropriate notice periods for the exercise of the redemption.

Classification of risks associated with Life products

The Group portfolio can be classified in three uniform macro-groups by technical characteristics and product offering:

- risk products, which protect the individual or his/her family, guaranteeing a certain level of financial coverage against unexpected events
- pure investment products, to provide a better response to requests for solutions to the cash requirements of small and medium-sized enterprises, replacing alternatives proposed by the financial market
- medium- to long-term savings products, also with regard to pensions.

With regard to traditional products, the first category includes all contracts with an important risk component in the event of death, as for the temporary death case and for mixed insurance; the second category includes contracts with a strong financial component such as securitisation; and the third category mainly includes annuity contracts and deferred capital.

In addition to the traditional type contracts in the portfolio, there are also unit- and index-linked contracts related respectively to internal funds and to fund baskets and equity or stock exchange indices.

A Life contract is classified as insurance if the insurance risk is significant, that is if an insured event can induce the insurer to pay significant additional benefits; "additional benefits" are to be understood as amounts paid when events occur in excess of those that would have been paid if the insured event did not occur.

A Life class contract is considered an insurance contract if either:

- the services normally and constantly exceed the level of 5% of the amount payable in the case in which the event does not occur
- it represents an annuity right
- it contains an option for conversion into a guaranteed annuity.

A non-insurance Life contract is an investment or financial contract.

The classification was made at tariff level; consequently there exist certain insurance products (for example covering death), certain financial products (for example securitisation) and in addition, residually, products for which require evaluation at individual contract level in order to classify them.

LAT model

To determine the LAT (Liability Adequacy Test) in order to evaluate the adequacy and sufficiency of the provisions recorded in the local GAAP financial statements, a model was adopted which generates prospective cash flows, developed on the MoSes platform for the companies of Fondiaria-SAI, Milano Assicurazioni, Popolare Vita and Liguria Vita.

Lawrence Life does not require a LAT for contracts classified as insurance because the provisions accrued satisfy the minimum control requirements.

For the traditional portfolio, the portfolio examined was divided into uniform groups according to product technical characteristics (capitalisation, risk, and savings and pension contracts).

The table below shows the quantification in terms of policies.

Number of policies (*) prepared at 31 December 2011

Division	CAPITALISATION	RISK PRODUCTS	SAVINGS AND PENSION	TOTAL
	37,461	114,996	265,059	417,516
Fondiaria-SAI S.p.A.				
Milano Ass.ni S.p.A.	16,058	95,713	101,754	213,525
Liguria Vita S.p.A.	2,293	9,466	7,620	19,379
Popolare Vita S.p.A.	1,638	-	92,442	94,080
Total	**57,450**	**220,175**	**466,875**	**744,500**

(*) for groups, a record was considered for each person insured

The tariffs modelled for the purposes of the LAT calculation covered almost the entire portfolio of traditional contracts under IFRS 4 at the time of evaluation, as shown by the table below.

Composition of the traditional portfolio by division as of 31 December 2011

(in € thousands)

Division	Provision elaborated	Total provision	% elaborated
Fondiaria-SAI S.p.A.	7,307,615	7,692,092	95.0
Milano Ass.ni S.p.A.	3,021,975	3,263,354	92.6
Liguria Vita S.p.A.	100,757	109,975	91.6
Popolare Vita S.p.A.	3,594,378	3,658,540	98.2
Total	**14,024,725**	**14,723,961**	**95.3**

The results obtained in the portfolio in question, in accordance with the methods described below, were thereafter proportionally extended to the entire portfolio.

For each policy, projected flows of services and counter-services are generated annually, taking into account the demographic assumptions, mortality and second-order expenses so as to value on an annual basis the economic figures useful for the calculation of the requirement, assuming that they are settled on maturity or after deferral of the corresponding capital.

To develop premium flows, only those policies that were paid at the valuation date were considered for each specific tariff.

The development of services and premiums was achieved where applicable according to the minimum guaranteed return, and the cash flows were discounted using a risk-free market curve at the reporting date.

For contracts with specific assets, the discount rate was taken from the effective return of the assets hedging the insurance liabilitiess, taking into account the credit risk associated with the individual securities in the basket. The credit risk is assessed based on the probability of default assigned to the rating given by Standard & Poor's.

In the estimate of the amounts paid following early withdrawal from contracts, in addition to the assumptions relating to mortality and probability of redemption, the specific penalties of each tariff were considered.

For the full life tariffs, a contract duration of 20 years was used.

In defining the assumptions of future commissions payable to the network based on the premiums collected, reference was made to the corresponding loading of the tariff, which reflects current commercial agreements in force.

The discounting of the future cash flows described above permitted the Company's commitments to be calculated on a "best estimate" basis at the time of the valuation. This amount is defined in the "LAT provision" table below.

With regard to the abovementioned assumptions, reference was made where possible to company experience and the Italian insurance market, in addition to economic-financial scenarios at the valuation date.

Traditional portfolio

The application of the LAT valuation model produced the following results, which are compared with the provisions in the financial statement, taking into account the actuarial provisions, provisions for future expenses and additional provisions for interest guarantee, minus the commissions to be amortised for the groupings described above.
The insurance contract liabilities, net of deferred liabilities to policyholders – the latter being represented according to the shadow accounting technique – are nevertheless in excess compared with the provisions valued using the LAT model.

(in thousands of Euros)

LAT valuation as of 31 December 2011

COMPANY		CAPITALISATION	RISK PRODUCTS	SAVINGS AND PENSION	TOTAL
Fondiaria-SAI	LAT res.	2,173,168	626,881	4,257,225	7,057,274
	Fin. statement total	2,323,511	740,958	4,713,747	7,778,216
	Balance sheet res.	2,305,308	731,732	4,655,052	7,692,092
	Additional res.	7,533	5,792	36,849	50,175
	Expense res.	10,671	4,762	30,295	45,728
	DAC	-	1,328	8,450	9,778
Milano Ass.ni	LAT res.	537,452	509,910	1,920,165	2,967,567
	Fin. Statement total	571,213	596,850	2,136,502	3,304,565
	Balance sheet res.	567,384	588,687	2,107,283	3,263,354
	Additional res.	155	7,680	27,492	35,327
	Expense res.	3,675	2,828	10,122	16,625
	DAC	-	2,345	8,396	10,741
Liguria Vita	LAT res.	15,777	15,721	68,432	99,930
	Fin. statement total	17,358	18,618	75,401	111,377
	Balance sheet res.	16,977	18,416	74,582	109,975
	Additional res.	-	21	83	104
	Expense res.	381	182	735	1,298
	DAC	-	-	-	-
Popolare Vita	LAT res.	158,698	-	3,398,399	3,557,097
	Fin. statement tot.	165,018	-	3,563,750	3,728,768
	Balance sheet res.	161,569	-	3,496,971	3,658,540
	Additional res.	2,972	-	64,000	66,972
	Expense res.	477	-	2,778	3,255
	DAC	-	-	-	-

Revaluation of services:	*according to the minimum guaranteed. The minimum guaranteed return represents the financial contractual commitment of the company, including the technical rate.*
Inflation:	*an inflation rate of 2.35% was adopted, assuming that, over the long-term, this is sufficiently prudent. This was utilised in the valuation to increase expenses year by year.*
Discount rate:	*Euro swap curve at the valuation date, plus 150 bps.*
Redemptions, reductions, cancellations:	*the frequency of elimination fluctuates in a range of 0.00% to 24.39% for the traditional portfolio and of 0.00% to 28.67% for the Unit and Index portfolio.*
Mortality:	*the actuarial valuations were made using the survival probabilities obtained by discounting those deriving from the 2002 SIM/F tables by 40%.*

Operating expenses:	*fluctuate in a range of Euro 22/year to Euro 76/year. Annual expenses attributed to the management of the contracts refer to personnel and services related to the management of the existing portfolio.*

Index- and unit-linked policies

For the valuation of index and unit products classified as "insurance" (IFRS 4), it is necessary to verify the adequacy of the insurance contract liabilitiess recorded in the financial statements in relation to the risks underwritten and to future expenses.

LAT evaluations - index and unit insurance at 31 December 2011 *(in Euro thousands)*

COMPANY		UNIT-LINKED	INDEX-LINKED	TOTAL
Fondiaria-SAI	LAT res.	18,635	106,033	124,668
	Fin. statement tot.	20,110	106,901	127,011
	Class D res.	19,372	105,649	125,021
	Additional res.	511	183	694
	Expenses res.	227	1,069	1,296
	DAC	-	-	
Milano Ass.ni	LAT res.	-	128,728	128,728
	Fin. statement tot.	-	129,507	129,507
	Class D res.	-	128,091	128,091
	Additional res.	-	373	373
	Expenses res.	-	1,043	1,043
	DAC	-	-	-
Liguria Vita	LAT res.	-	5,252	5,252
	Fin. statement tot.	-	5,282	5,282
	Class D res.	-	5,213	5,21
	Additional res.	-	-	-
	Expenses res.	-	68	68
	DAC	-	-	-
Popolare Vita	LAT res.	148,398	2,569,713	2,718,111
	Fin. statement tot.	151,891	2,573,051	2,724,942
	Class D res.	151,744	2,561,571	2,713,315
	Additional res.	247	4,086	4,333
	Expenses res.	-	7,394	7,394
	DAC	100	-	100

Revaluation of services: *according to the minimum guaranteed. The minimum guaranteed return represents the financial contractual commitment of the company, including the technical rate.*

Inflation: *an inflation rate of 2.35% was adopted, assuming that, over the long-term, this is sufficiently prudent. This was utilised in the valuation to increase expenses year by year.*

Discount rate: *Euro swap curve on the valuation date, plus 150 bps.*

Redemptions, reductions, cancellations: the frequency to be eliminated fluctuate in a range of 0.00% to 24.39% for the traditional portfolio and of 0.00% to 28.67% for the unit and index portfolio.

Mortality: *the actuarial valuations were made using the survival probabilities obtained by discounting those deriving from the 2002 SIM/F tables by 40%.*

Operating expenses: *fluctuate in a range of Euro 22/year to Euro 76/year. Annual expenses attributed to the management of the contracts refer to personnel and services related to the management of the existing portfolio.*

Guaranteed return provisions

With regard to commitments assumed in respect of policyholders, the breakdown of the Life provisions for the Group companies, as set out below, shows that more than 60% (64.7%), or approximately Euro 11,620 million, are for policies with guaranteed returns of 1% to 3%, while 15.7% (or Euro 2,814.2 million) are for policies with guaranteed returns of 3% to 5%.

Meanwhile, the provisions for non-guaranteed contracts are modest (Euro 168.6

million), while, compared with the previous year, there was a decrease in both the provisions intended for contracts with guaranteed interest rates at expiry, which went from Euro 3,547.9 million in 2010 to Euro 2,801.9 million in 2011, while provisions for contracts with guarantees connected to specific assets, rising from Euro 531.0 million in 2010 to Euro 535.9 million in 2011, remained practically unchanged.

Insurance provisions of the Life segment: guaranteed return (*)

(in Euro millions)	**2011**	**2010**
Provisions with guaranteed annual interest rate	14,443.0	15,269.8
0% - 1%	8.9	5.9
from 1% to 3%	11,619.9	12,037.0
from 3% to 5%	2,814.2	3,226.9
Provisions without guaranteed interest rate	168.6	152.1
Provisions related to specific assets	535.9	531.0
Provisions with guaranteed interest rate on maturity	2,801.9	3,547.9
Total	**17,949.4**	**19,500.8**

(*) The total includes the amount of the direct gross actuarial provisions and the insurance contract liabilities where the investment risk is on policyholders.
Companies taken into account: Fondiaria-SAI, Milano Assicurazioni, Popolare Vita and Liguria Vita.

Information on operational risks

The Operational Risk Management framework

The Fondiaria-SAI Group has prepared a framework for identifying, measuring, monitoring and managing operational risk, which is understood as “the risk of losses from inefficient people, processes and systems, including those used for distance selling, or from external events, such as fraud or the activity of service providers (outsourcing risk)”. Based on the Operational Risk Management framework, the relationships and the reciprocal impacts between operational risks and the other risks indicated in the Risk Map, including compliance risk and reputational risk, are also taken into account, with the aim of assessing the direct and indirect effects of events relating to operational risk. Specifically, the method of analysis used is aimed at a understanding of the causes of risk factors, events and effects (monetary and non-monetary) and the impacts that these effects can have on the solvency of the Group and the achievement of targets set.

Within the corporate governance structure of the Group, Operational Risk Management activity is undertaken by the Operational Risk Management, IT, Business Continuity and Data Quality units within the Risk Management Department of Fondiaria-SAI. The objectives assigned to this unit, within the internal control system, aim to safeguard Group assets, adequate control of risks and improved business efficiency.

In carrying out its activities, the Risk Management Department relies, according to the Group’s organisational model, on the cooperation of the Risk and Control Managers, who report hierarchically to the process owners and functionally to the Risk Management Department.

The classification of operational risk uses the event-type model developed in the banking sector (Basel II) and on which the current EIOPA Solvency II guidelines are based. This classification, structured on three levels, was modified at the second and third levels to adjust it to the specifics of internal analysis criteria and methods. The first level of the classification is shown below.

Table 17 – Classification of operational risk

1st level classification

1	Internal fraud
2	External fraud
3	Employment relationship and workplace security
4	Customers, products and business practices
5	Damage to property, plant and equipment
6	Interruption/reduction of operations
7	Execution, delivery and management of processes

Activities carried out

During the year, the business process risk self-assessment activity continued according to a quantitative and qualitative method based on questionnaires, which led to identifying the most significant risks in terms of economic impact. The questionnaires were constructed making reference to the risks identified following an analysis of the individual processes carried out in cooperation with the Audit Department, with the support of process owners based on previous audits.
With regard to a general business continuity plan, reconnaissance activity was completed on the Group's principal business processes and operating sites, aimed at defining minimum operating requirements under emergency conditions in principal catastrophic impact scenarios (Business Impact Analysis).
On the IT risk management front, some assessments were made regarding the vulnerability of the information system, concentrating efforts in particular on assessing the infrastructure managed by the outsourcer FSST and some applications exposed to the Internet.
IT risk management and business continuity also include the long-standing activities for overseeing the disaster recovery plans, which are managed operationally by the outsourcer FSST, but managed and verified both in the preparatory and in the test stages by the Operational Risk Management, IT, Business Continuity and Data Quality units.
The activity relative to defining a data quality management model under the Solvency II convergence plan, was developed with a pilot programme that laid a foundation for a data dictionary and a method of cataloguing and representing controls. At the same time, a specific operational project was begun to improve the quantity and quality of information on catastrophic risk in the Corporate Non-Life segment.

Other risks

Risks associated with investee companies in the banking and financial sector

Following the entry into force of the 7th update of Bank of Italy Circular 216 and based on indications provided by the Parent Company, approved by the Board of Directors, BancaSai and Finitalia adopted the simplified method to calculate the new capital requirements. The new method is used for the "first pillar", which relates to credit, counterparty, market, exchange and operational risks.
As stated in the above-mentioned regulation, application of the other two pillars – "Prudent Control Process" (ICAAP or Internal Capital Adequacy Assessment Process) and "Public Information" – within the banking groups is under the direct control of the senior management of the Group. The company functions undertaking risk analysis,

management and monitoring, particularly in relation to credit risk, use tools that are fully integrated within the decision-making process, which also permit for periodic performance information (reports and performance indicators) to be obtained.

For the details of these risks, pursuant to Article 2428 of the Italian Civil Code, see below.

BancaSai

Banking activity is based both on deposits from the public and on the lending business and is innate to the monetary and credit intermediation function typical and exclusive to banks. Comprehensive risk management not only protects business continuity in terms of engaging in typical activity, but aims to make the bank's organisational and operational model more efficient even from the standpoint of risk-return optimisation.
The business area of BancaSai is geared toward both traditional intermediation and toward offering more strictly financial services. Therefore the services offered do not only involve financial activities, such as deposits, loan transactions, payment services, operations in money market instruments and interest rate contracts, but also include investment services involving financial instruments, in particular the activity of receiving and executing proprietary and third-party orders and trades.

Added to this also are accessory services, such as advice on investments in financial instruments, foreign exchange intermediation (when associated with the provision of investment services), and custody and administration of financial instruments.
The loan provision activity is an essential element of the core business of BancaSai, and consequently credit risk represents the main risk component. Besides the loans provided, it also concerns securities held, loan guarantees relative to guarantees issued or commitments assumed to disburse funds. Special emphasis is given to optimising the cost of credit risk, which involves the evolution of loan processes (provision, monitoring and recovery) and the inclusion of risk measurements (likelihood of default, risk exposure and correlation to risk factors).
The Bank's organisational structure aims to ensure adequate oversight of credit risk management, in a logic of separation between business, provision and control functions.
The assumption of credit risk is governed by an articulated structure of operational delegations and levels of decision-making autonomy, defined by the Board of Directors, which involves the entire loan cycle process, from the initial examination phase to the final revocation or recovery phase.
Different entities are therefore assigned responsibilities for risk assessment and assumption activities, observing the credit autonomy limits provided for by the Institution's General Regulations in line with the sales network's presence in local areas.

Controlling credit risk is the responsibility of the Risk Committee, which coordinates the actions of the Loan Department and the Risk Management Department. The former primarily controls the progress of individual positions and overall portfolios, while the latter ensures that capital resources are adequate to the risk associated with the bank portfolio.
The Risk Management Department ensures the observance of capitalisation requirements, quantifying the risk weighted assets against the bank book's credit and counterparty risk according to rules defined by the "Basel II" regulatory framework.
For the purposes of determining the internal capital allocation for credit risk, BancaSai uses the standardised method for determining regulatory requirements for credit risk. Consequently, the internal capital allocation for credit risk is equal to the capital

requirements defined according to First Pillar regulations and subject to quarterly reporting to the Bank of Italy. In line with the ICAAP proportionality criterion, which provides for the use of standardised methodologies for Class 2 and Class 3 banks, BancaSai has also defined a series of stress tests aimed at assessing balance sheet impacts in keeping with hypothetical scenarios relative to deterioration rates, loyal customer migration rates and the downgrading of rated corporate and institutional counterparties.

The standardised method provides, very briefly, for the clustering of exposures into different analysis classes (Bank of Italy regulatory portfolios), depending on the nature of the counterparty, the technical form or the status of the relationship and the application of different weighting factors to each portfolio. In addition, the prudential supervision regulations allow the intermediary to use specific credit risk mitigation (CRM) techniques.

The different departments are called upon to carry out ongoing management and monitoring activity based on defined skills and rationales correlated to customer segmentation and risk, with the aid of procedures (based on an internal rating system) capable of capturing any irregular situations arising. Properly gauging creditworthiness is central to credit risk management, not just in the embryonic examination phase, but throughout the entire life of a relationship.

The heart of the risk management, measurement and control system is the Credit Rating System (CRS), a comprehensive customer creditworthiness assessment system, which works by evaluating different sorts of information on loan customers (or customers in the process of receiving loans).

In relation to credit risk mitigation techniques, the departments assigned to credit risk control, the Loan and Risk Management Departments, carry out periodic evaluations, especially on financial and property collateral, for the purposes of verifying their equivalent value and the degree of coverage for the exposure secured.

As provided for by prudential regulations, credit risk mitigation takes on a special role in reference to calculating capital absorption. In terms of credit risk mitigation (CRM) techniques, BancaSai has adopted simplified methods, considering the complexity and specific characteristics of its operations, applied both for real and personal loan guarantees. In both cases, according to the “principle of substitution”, the weighting relative to the instrument provided as loan security or to the guarantor is applied to the secured exposure portion.

Through the different CRM techniques, the bank has equipped itself with organisational rules aimed at ensuring observance of both the general and the specific admissibility requirements that must be met at the time of creating the guarantee and throughout its duration.

Finitalia

The organisational structure is based on separation between the credit provision and the credit control and management functions, ensuring adequate supervision. The granting of credit is undertaken using a profile of the potential borrower and based on their capacity for borrowing and capacity to generate sufficient cash flows to meet the repayments on the pre-established payment dates.

Finitalia has implemented a credit assessment process that takes into consideration all the information acquired from internal and external databanks, using customer knowledge in both banking/financial and insurance terms, and obtaining a customer profile based on all the relationships in progress with the Fondiaria-SAI Group. Loan applications are processed and analysed through semi-automated procedures by personnel in accordance with the levels of authority assigned and included in the management system. During the credit provision process, Finitalia obtains secured

and/or personal guarantees aimed at mitigating risk. All loans granted, except those for SMEs, have insurance cover in the event of customer death/disability/illness.
All “insurance” customers financed are required, at the time of the loan request, to sign a specific insurance assignment in favour of Finitalia on all existing insurance contracts as security in the event of insolvency. For customers referred by BancaSai branches, in the event of lack of regular repayment, the possibility is also provided to obtain the sums or cash present for any reason upon simple request addressed to the customer at BancaSai.
For customers of the Business Partner product line, where repayment of instalments is made mainly through direct salary deductions, the leaving indemnity available at the company is normally assigned, or the amounts present in the customer’s pension fund, in the event of termination of the employment relationship. General Management is directly responsible for analysing and classifying non-performing loans, as well as verifying impairment testing. The impairment test criteria provide for segmentation of the portfolio by uniform product categories and by different risk classes to which the average statistical percentage losses obtained by analysing historical data are applied. Finitalia has adopted, for the purposes of the calculation of the capital requirements necessary for credit risk, the simplified standardised calculation method, in accordance with that of the Banking Group. In order to permit correct monitoring of the risks of the BancaSai Banking Group, Finitalia provides Fondiaria-SAI with specific data extractions on a monthly basis in order to provide a general overview of the credit risk trend at consolidated level. The management and recovery of non-performing loans is undertaken through standardised and automated procedures within the management system, classifying the various loans by expiry band.
The entire process is undertaken by the Credit Recovery area, in conjunction with the Insurance area if any insurance guarantees exist.
The various credit recovery phases are based on the amount overdue and type of credit (credit card or personal loan), beginning with solicitation letters and/or telephone calls for small insolvencies, up to debt collectors and other legal action for significant amounts overdue. The eventual write-off of the position, where such conditions exist, only takes place after exhaustion of the entire recovery process, any relative legal action and through the acquisition of additional information.

PART F – Information on related-party transactions

Disclosure in the consolidated financial statements on “Related party transactions” is governed by IAS 24 and by the relative Consob Communications.

The Parent Company’s main equity, financial and economic transactions with its subsidiaries (whether or not within the scope of application of Articles 2497 *et seq*. of the Italian Civil Code) are shown in the Directors’ Report on its separate financial statements.

The transactions between the Parent Company and its subsidiaries, which are related parties of the Parent Company, were eliminated in the consolidated financial statements pursuant to the consolidation principles, and are therefore not disclosed in these notes.

The Premafin Board of Directors’ meeting held on 25 November 2010, voted unanimously and upon a prior favourable opinion of all three independent directors present at the meeting, to adopt the document known as “Rules of conduct for carrying out significant transactions and procedures for carrying out related-party transactions”, prepared pursuant to Article 4 of the Regulation issued by Consob with Resolution 17221 of 12 March 2010, as amended by Resolution 17389 of 23 June 2010.

This document contains the provisions which must be observed by the management bodies of listed companies in order to ensure the substantive and procedural transparency and the propriety of related-party transactions carried out by the company both directly and through its subsidiaries. This document can be consulted on the Company website at www.premafin.it, under the “Corporate Governance” section.

Finally, on 19 March 2012, the Board of Statutory Auditors of Fondiaria-SAI S.p.A. reported on a complaint filed pursuant to Article 2408, paragraph 2 of the Italian Civil Code on potentially censurable facts described in the complaint filed on 17 October 2011 by Amber Capital Investment, as amply described in the note “Significant events after year-end”.

The tables below show the equity, economic and financial figures relative to the related-party transactions which took place during 2011 or, in relative to real estate projects commenced in previous years and not yet completed.

Details of transactions between the Group and other related parties are shown in the following tables:

Financial statement balances

(in thousands of Euros)	31.12.11		31.12.10	
COUNTERPART	Assets	Liabilities	Assets	Liabilities
Associates	**106,129**	**837**	**128,210**	**12,646**
Affiliated companies	**7**	**8**	**7**	**8**
Other related parties	**295,866**	**19,280**	**324,606**	**37,129**
Total	402,001	20,125	452,823	49,783

(in thousands of Euros)	31.12.11		31.12.10	
NATURE	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Real estate activities	271,952	7,827	333,007	41,087
Insurance activities	199	3,988	-	109
Financial activities	128,830	4,992	118,162	2,465
Services rendered	949	-	1,372	-
Services received	63	1,460	282	2,407
Emoluments to Executives and Committee	9	1,858	-	3,705
Remuneration of sen. man. with strat. resp.	-	-	-	10
Total	**402,001**	**20,125**	**452,823**	**49,783**

(in thousands of Euros)	31.12.11		31.12.10	
COUNTERPART	**Income**	**Charges**	**Income**	**Charges**
Associates	31,242	30,777	31,065	31,144
Affiliated companies	-	-	-	-
Other related parties	38,078	108,158	85,203	122,185
Total	**69,320**	**138,935**	**116,268**	**153,329**

(in thousands of Euros)	31.12.11		31.12.10	
NATURE	**Income**	**Charges**	**Income**	**Charges**
Real estate activities	35,462	79,333	85,786	91,346
Insurance activities	32,123	16,562	29,213	20,382
Financial activities	1,076	885	127	167
Services rendered	643	-	1,109	-
Services received	-	7,085	-	15,344
Emoluments to Executives and Committee Members	16	13,266	33	20,542
Remuneration of sen. man. with strat. resp.	-	21,804	-	5,548
Total	**69,320**	**138,935**	**116,268**	**153,329**

(in thousands of Euros)	31.12.11		31.12.10	
COUNTERPART	**Inward cash flows**	**Outward cash flows**	**Inward cash flows**	**Outward cash flows**
Associates	44,954	61,226	26,810	36,477
Affiliated companies	-	-	-	-
Other related parties	34,344	116,596	32,928	146,277
Total	**79,298**	**177,822**	**59,738**	**182,754**

(in thousands of Euros)	31.12.11		31.12.10	
NATURE	**Inward cash flows**	**Outward cash flows**	**Inward cash flows**	**Outward cash flows**
Real estate activities	45,345	104,149	27,684	113,219
Insurance activities	32,143	8,392	28,138	18,615
Financial activities	488	22,389	2,853	9,470
Services rendered	1,242	-	1,063	-
Services received	80	8,915	-	20,625
Emoluments to Executives and Committee Members	-	12,028	-	15,277
Remuneration of sen. man. with strat. resp.	-	21,950	-	5,548
Total	**79,298**	**177,822**	**59,738**	**182,754**

All of the above transactions were concluded under normal market conditions. The receivables recorded under assets are not guaranteed and will be paid in cash. No provision was made during the year for eventual losses on receivables due from related parties.

The more significant transactions reflected in the statement of financial position are detailed below:

The main transactions with associates giving rise to financial assets refer to:

- Euro 64 million with the associate Garibaldi S.c.a. and Euro 14.5 million with the associate HEDF Isola S.c.s. for equity investments made by Milano Assicurazioni S.p.A.
- receivables for loans recorded by Immobiliare Milano in respect of Borsetto S.r.l. (Euro 7.8 million), Sviluppo Centro Est S.r.l. (Euro 8 million), Metropolis S.p.A. (Euro 4.1 million) and Penta Domus S.r.l. (Euro 1.2 million)

- Euro 2.5 million for loans granted by Immobiliare Fondiaria-SAI S.p.A. to the associate Progetto Alfiere S.p.A.

With regard to transactions with associates giving rise to real estate related assets, Euro 2.8 million regards receivables due towards the subsidiary Immobiliare Lombarda S.p.A. from CityLife S.r.l. for work and services provided relative to the project in the former Fiera di Milano area. CityLife S.r.l. was sold in August 2011, however the statement of financial position shows the balances in existence up until the date of deconsolidation.

The principal transactions with other related parties giving rise to real estate related assets refer mainly to:

- Euro 72.6 million in overall advance payments made during previous years to Avvenimenti e Sviluppo Alberghiero S.r.l. by Milano Assicurazioni S.p.A. in relation to the fulfilment of real estate contracts on the construction area at Via Fiorentini in Rome. The amount indicated is net of a value adjustment of Euro 29.9 million, made on the basis of an updated appraisal of the building under construction. In fact the changed economic and financial climate (increased discount rates and objective difficulties in achieving sustainable profits), the difficulties for property operators in obtaining credit and the significant decrease in demand (purchases and sales have dropped significantly) have prompted the experts responsible to adopt a more conservative valuation approach than in previous years. It should be noted that this transaction, commenced in 2003, included the sale to Avvenimenti e Sviluppo Alberghiero S.r.l. of the construction area and the purchase by it of the building complex under construction on the area in question for a price of Euro 110 million, taking account of the contractual addendum stipulated in 2009. Given that under the corporate structure of Avvenimenti e Sviluppo Alberghiero S.r.l. this company is a related party of Milano Assicurazioni, as well as of the parent company Fondiaria-SAI, the appropriate fairness and legal opinions from independent experts were obtained relative to this transaction. The fairness opinion had confirmed the congruity of both the sale prices for the surface areas, and of the purchase price for the building under construction. No further amounts were paid during the year 2011, given that construction work was suspended while awaiting the stipulation of a new planning agreement with the municipality of Rome, in replacement of the agreement of 8 August 2000.
- Euro 92.4 million for the inventory valuation of the building project at the Port of Loano. The amount capitalised by Immobiliare Fondiaria-SAI S.r.l. through the subsidiary Marina di Loano S.p.A. is Euro 92.4 million, and it includes both the sums paid during the current year, plus the sums paid in previous years to Marcora Costruzioni S.p.A. The inventory valuation also includes Euro 9.6 million paid to Sepi 97 S.r.l. for planning and design work, as well as Euro 2.6 million to I.C.E.IN. S.p.A. and Euro 1 million to IM.CO. S.p.A. for construction work.
- Euro 57 million of advance payments made to IM.CO. S.p.A. by Milano Assicurazioni S.p.A., of which Euro 17.6 million during the current year and Euro 52 million in previous years, in relation to the property transaction involving the land in Milan at Via Confalonieri-Via de Castillia (Lunetta dell'Isola).

  The amount indicated above is net of a value adjustment of Euro 12.6 million, made on the basis of an updated appraisal of the building under construction by independent experts engaged for this purpose, which takes into account the worsening economic outlook in the real estate sector mentioned previously.

With reference to the above transaction, we would point out that, with a deed dated 22 December 2005, Milano Assicurazioni S.p.A. sold the said land to IM.CO. S.p.A. for the price of Euro 28.8 million plus VAT, and that with a subsequent deed dated 15 November 2006, after the prospective vendor obtained planning permission, Milano Assicurazioni S.p.A. purchased from IM.CO. S.p.A., at the price of Euro 93.7 million plus VAT, full ownership of the property to be built on the land in question, consisting of an office building with 12 storeys above ground, plus the ground floor, a mezzanine floor and three basement storeys.

In compliance with the corporate governance principles then adopted by the Company, the overall transaction was examined and approved prior to its execution by the Board of Directors at meetings held on 20 October 2005 and on 10 November 2005.

We would point out that, during the execution of the work, the completion of which was initially scheduled for 30 April 2008, the parties mutually agreed to undertake certain qualitative changes to the complex. As a result of these changes, it was necessary to agree with the vendor a postponement of the delivery deadline, approved by the Board of Directors on 18 February 2009, which also took into account suspensions due to administrative procedures.

Due to a further work suspension imposed by the court authorities – which ended by order of the Appeals Court, with certification of the full regularity of the procedure adopted by the municipal authorities – in 2010 the parties reached an agreement to upgrade the project, taking into account its location within an urban redevelopment intervention known as "Porta Nuova," which entails a significant upgrading of the area.

Hence the need to modify the architectural features of the future property, to allow for maximum flexibility in distributing the internal spaces and thus creating a building that lends itself to a broader spectrum of possible leases, bringing it into line with market trends.

In a private deed of amendment dated 8 March 2011 and – once the construction permit became effective – in a subsequent notarised deed of amendment dated 2 August 2011, the parties agreed that the said changes may be quantified at Euro 5.4 million, which amount is to be understood as full and final settlement of any mutual claim by either party against the other for the work-stoppage period, as well as for the consequent delayed delivery of the building based on the new project, provided that this takes place within the work completion date, scheduled for 31 December 2012.

Consequently, the sale price applicable at the time of transfer of ownership of the complex, based on the new project, was revised and agreed at a total of Euro 99.1 million plus tax.

Since IM.CO. is a related party of the Company, this transaction falls within the category for which Milano Assicurazioni, in compliance with the provisions issued on the subject by Consob, has recently adopted specific procedures: the independent expert, Scenari Immobiliari, was therefore asked to prepare an opinion confirming the adequacy of the overall price of Euro 99.1 million. A legal opinion was also requested from Studio Legale Raynaud & Partners, which expressed a positive opinion on the signing of the abovementioned deed. The foregoing was subject to a resolution by the Board of Directors of Milano Assicurazioni on 23 February 2011.

An amount of Euro 13.6 million was capitalised during the year 2011 on the basis of the construction progress report, in addition to the sum of Euro 4 million paid at the time of the stipulation of the private deed of amendment.

- Euro 11.6 million payable to Immobiliare Fondiaria-SAI S.r.l. by IM.CO. S.p.A.

relating to advance payments made by the latter for the future acquisition of a hotel complex with an attached wellness centre, currently under construction in the town of S. Pancrazio Parmense (Parma). The Company engaged an independent expert to carry out an appraisal of the initiative on 31 December 2011. On the basis of this appraisal, the Company has written down the asset by a total of approximately Euro 11.7 million.

- Euro 10.5 million in advance payments made in previous years by the subsidiary Nuove Iniziative Toscane S.r.l. to the company Europrogetti S.r.l. for planning and design work in the Castello Area (FI).
- Euro 5.8 million for the valuation at inventory of the demolition and reconstruction work carried out by the related party I.C.E.IN. S.p.A. in the area owned by the subsidiary Meridiano Secondo S.r.l., both during the current year and in previous years, together with Euro 2.2 million incurred for planning and design activities with MI.PR.AV. S.r.l.
- Euro 1.5 million refers to expenses incurred with I.C.E.IN. S.p.A. and capitalised by the Tikal property fund for improvements and work necessary to comply with building regulations on the plant at the building owned by the latter at Via Tucidide in Milan.

The transactions giving rise to financial assets with other related parties include:

- Euro 20.4 million of credit facilities granted by the subsidiary BancaSai. Of these, approximately Euro 11.6 million and Euro 8.8 million are held against Sinergia Holding S.p.A. and IM.CO. S.p.A., respectively, while the remainder of Euro 3.7 million relates to receivables due from physical persons. In relation to such loans, guarantees were provided for Euro 7.9 million by IM.CO. S.p.A. and Euro 12 million by Sinergia Holding S.p.A. With regard to Sinergia Holding S.p.A., the pledge guaranteeing the opening of a current account credit facility and a bullet loan of Euro 7 million refers to units of the closed-end speculative property investment fund "UNO-FONDO SVILUPPO" managed by Zero SGR S.p.A.

Real estate liabilities towards other related parties relate to :

- Trade payables due by Milano Assicurazioni S.p.A. to IM.CO. for Euro 2.2 million, for invoices to be received in relation to the abovementioned property development project involving the land located in Milan at Via Confalonieri - Via de Castillia (Lunetta dell'Isola) and for work performed on the property at Via Lancetti, also in Milan.
- Trade payables due by the Tikal property fund towards I.C.E.IN. S.p.A., for Euro 1.5 million in relation to work on the property owned by the former located at Via Tucidide in Milan.
- Trade payables due by the subsidiary Marina di Loano S.r.l. towards Marcora Costruzioni S.p.A. for Euro 1.2 million in relation to construction work at the Port of Loano.
- Trade payables due by Immobiliare Lombarda S.p.A., towards SO.GE.PI S.r.l. for Euro 1 million for invoices to be received.

Financial liabilities with other related parties refer on, the other hand, to current accounts held by other related parties, both physical persons and legal entities, at the subsidiary BancaSai for a total of Euro 4.3 million.

Liabilities for services received from other related parties amount to Euro 1.6 million and relate to invoices to be received.

Lastly, payables are shown for emoluments due to Directors and Statutory Auditors, payable in 2012, relative to the Parent Company (Euro 0.2 million) and to the subsidiaries (Euro 1.7 million).

The principal transactions with an effect on the income statement are detailed below.

Real estate income from associates mainly refers to construction revenues of Euro 30 million payable to Immobiliare Lombarda by the associate CityLife S.r.l. for the project in the former Fiera di Milano area. We would point out that CityLife S.r.l. was sold in August 2011, but that the income statement reflects income up until the date of deconsolidation.

Real estate income from other related parties refers to:

- Euro 3.8 million, which represents income from the valuation of the work performed by Marcora Costruzioni S.p.A. on the Port of Loano construction project for the subsidiary Marina di Loano S.r.l..

As from 2010, the transactions with the Group's pension funds are considered as related party transactions. Insurance income from other related parties includes therefore not only premiums for Non-Life and Life policies of Euro 7.5 million, but also the premiums that the Fondiaria-SAI Group Employee Pension Fund and the Fondiaria-SAI S.p.A. Group Executive Pension Fund paid to Fondiaria-SAI (Euro 16.2 million) and to Milano Assicurazioni S.p.A. (Euro 10.1 million). These payments are for the investment in life policies of the contributions collected from policyholders.

With regard to property-related charges from associates, the amount of Euro 30.2 million refers entirely to costs incurred by Immobiliare Lombarda with Tre Torri Contractor S.c.r.l. for the property development project at the former Fiera di Milano area ("CityLife Project"). Tre Torri Contractor S.c.r.l. was sold at the end of 2011, however the income statement reflects the company's expenses up until the date of deconsolidation.

Property-related charges from other related parties refer mainly to:

- Euro 29.9 million incurred by Milano Assicurazioni S.p.A. from the company Avvenimenti e Sviluppo Alberghiero S.r.l., relative to the write-down made on the basis of an updated valuation survey of the building under construction in the site located at Via Fiorentini in Rome.
- Euro 12.6 million incurred by Milano Assicurazioni S.p.A. from IM.CO. S.p.A., in relation to the real estate operation concerning the land located in Milan at Via Confalonieri - Via de Castillia (Lunetta dell'Isola).
  The amount indicated is for the write-down made on the basis of an updated appraisal of the building under construction by independent experts engaged for this purpose, which takes into account the deterioration of the economic outlook in the property sector.
- Euro 3.8 million representing costs incurred by Marina di Loano S.r.l. from Marcora Costruzioni S.p.A.for work in progress on the Port of Loano project
- Euro 1 million incurred by Immobiliare Lombarda S.p.A. from SO.GE.PI. S.r.l. for technical management and rental/leasing services for the real estate managed by the Group.

We would point out that these charges are also valued under property, plant and equipment, given that the property development projects in progress are considered as inventory.

With regard to services received from other related parties, we would point out the following:

- A total of Euro 6.8 million (of which the main items include Euro 1.58 million to the Attorney Rapisarda Fausto for legal advice; Euro 1.59 million to Studio Legale Associato d'Urso Gatti e Bianchi for legal advice; Euro 0.35 million to the Attorney Geronimo La Russa for legal advice; Euro 0.32 million to the Attorney Vincenzo La Russa for legal advice; Euro 0.25 million to the Engineer Salvatore Ligresti for technical and property advice; Euro 0.25 million to Studio Spiniello for tax advice; Euro 0.2 million to the Attorney Barbara De Marchi for legal advice; Euro 0.12 million to SO.GE.PI. S.r.l. for technical and property advice; and Euro 0.32 million paid to Gilli S.r.l. for marketing services and the purchase of promotional gifts).

Insurance charges in respect of other related parties are due to:

- Settlement of claims due to redemption or expiry of Life insurance policies against premiums collected previously of Euro 6.7 million.
- Payment of contributions due by Group companies towards the Fondiaria-SAI Group Employee and Executive Pension Funds for Euro 8.1 million. These payments are governed by the contractual agreements in force.
- Commission paid to insurance brokers of Euro 1.9 million.

Residual charges with other related parties include emoluments to members of the boards of directors and statutory auditors of Group companies for Euro 13.3 million and salaries of senior managers with strategic responsibilities for Euro 10.6 million. With reference to the latter, we note that no component of this remuneration falls within the scope of point 16 of IAS 24.

Lastly, on 6 April 2011, the Board of Directors of Fondiaria-SAI approved the terms and conditions of the agreement between Fondiaria-SAI and Dr Fausto Marchionni, former Chief Executive Officer of Fondiaria-SAI and Milano Assicurazioni, regarding the termination of his employment contract. In particular, the agreement calls for a gross payment to Mr Marchionni of Euro 11.2 million, paid during the current year, as a supplement to his employee leaving indemnity.

Commitments relating to real estate transactions with other related parties included:

- Euro 38 million yet to be paid for the completion of the Milano-Isola and Rome, Via Fiorentini real estate operations. These operations, undertaken in previous years, resulted in the sale by the subsidiary Milano Assicurazioni to third parties of the above-mentioned building areas and the purchase of the buildings to be constructed upon these areas.
  Milano Assicurazioni also underwrote financial commitments to be paid under the form of Profit Participating Bonds to the associate Garibaldi S.c.a., for Euro 38.8 million, and to Isola S.c.a., for Euro 9 million.
- Euro 28.8 million in payments yet to be made by the subsidiary Nuove Iniziative Toscane S.r.l. to the company Europrogetti S.r.l. for design work in the Castello Area (FI).
- Euro 3.3 million refers to payments yet to be made by Meridiano Secondo S.r.l. to the related party I.C.E.IN. S.p.A in relation to demolition and reconstruction work in the area owned by the subsidiary Meridiano Secondo S.r.l., together with the design work carried out by MI.PR.AV. S.r.l.
- Euro 2 million for the residual amount yet to be paid by Immobiliare Lombarda

S.p.A. to IM.CO. S.p.A. for the purchase of the hotel complex with attached wellness centre under construction in the town of S. Pancrazio Parmense (Parma).

- Euro 1.9 million yet to be paid to Marcora Costruzioni S.p.A. by the subsidiary Marina di Loano S.p.A. in relation to the real estate project involving the Port of Loano.

In relation to certain property projects in the process of completion under pre-construction purchase and sale contracts (such as the construction of the hotel complex in San Pancrazio Parmense, the construction areas located at Via Fiorentini in Rome or Lunetta dell'Isola in Milano), we would point out that the Group companies and, in particular, Immobiliare Fondiaria-SAI for the former project and Milano Assicurazioni for the latter two, will become the owners of these buildings only after these are completed and approved. Furthermore, the Group companies have already made payments on account against the amount owed for the acquisition against presentation of state of advancement reports on the work carried out.

In the event that the vendors (including IM.CO and Avvenimenti e Sviluppo Alberghiero, subsidiaries of Sinergia Holding di Partecipazioni S.p.A. and all Group related parties) are no longer able to fulfil their obligations, the Group companies are exposed to the risk of losing their right to the delivery of the assets that are the subject of the abovementioned contracts, remaining creditors for the sums paid on account, given that the real estate projects in progress are not covered by secured guarantees.

The valuations of the real estate projects projects were made on the assumption that the counterparties belonging to the related party, Sinergia Holding di Partecipazioni Group, continue to operate on a going concern basis, also in consideration of the debt renegotiation that the Sinergia Group is conducting with its creditor banks. Consequently, in the absence of the above assumptions, full recovery of the investment could be difficult for the Group, save for the legal protection provided by current law.

Furthermore, the write-downs made on the above-mentioned projects, given that they show a lower valuation than the amounts paid on account in relation to the state of advancement of the work carried out, already constitute adequate protection from the risks mentioned above.

Finally, the said related parties recently asked the Group companies involved in the project for the payment of additional amounts due to presumed changes to the original plans. These requests, regarding which the due inquiries are underway, do not seem well-founded and have therefore been rejected for the time being.

Real estate cash inflows from associates consisted of payments received during the year by Immobiliare Lombarda S.p.A. from CityLife S.r.l., for work and services provided in relation to the project in the former Fiera di Milano area, for Euro 44 million.

Insurance-related cash inflows from other related parties comprised premiums paid on Non-Life and Life policies of Euro 7.5 million and premiums that the Fondiaria-SAI Group Employee Pension Fund and the Fondiaria-SAI S.p.A. Group Executive Pension Fund paid during the year, to Fondiaria-SAI (Euro 16.2 million) and to Milano Assicurazioni S.p.A. (Euro 10.1 million). These payments are for investing the contributions collected from Life policyholders.

Property-related cash outflows to associates primarily involve transactions between the

subsidiary Immobiliare Lombarda S.p.A. and its associate Tre Torri Contractor S.c.a.r.l., for work and services received in relation to the project in the former Fiera di Milano area. The payments made during the year amount to Euro 47.8 million.
Property-related cash outflows to other related parties refer to:

- Payment of invoices by Marina di Loano S.r.l. to Marcora Costruzioni S.p.A. for Euro 25.3 million, relating to the work in progress for the project involving the construction of the Port of Loano.
- Euro 24.5 million for the payment of invoices by Milano Assicurazioni S.p.A. to IM.CO S.p.A. in relation to the property project on land located in Milan at Via Confalonieri - Via de Castillia (Lunetta dell'Isola) and for work performed at the Via Lancetti property, also in Milan.
- Payments of Euro 0.9 million made during the current year by Immobiliare Lombarda S.p.A. to So.ge.p.i. S.r.l. for technical management and rental/leasing services for property managed by Immobiliare Lombarda S.p.A.
- Euro 0.5 million paid by Meridiano Secondo S.r.l. to I.C.E.IN. S.p.A. for construction work carried out in the area owned by the former at Via Gioia in Milan.

Insurance-related cash outflows to other related parties refer to:

- Claims settlement, due to compensation made for redemption or expiry of Life policies of Euro 6.7 million.
- Payment of contributions owed by Group companies to the Fondiaria-SAI Group Employee and Executive Pension Funds of Euro 8.6 million. These payments are governed by the contractual agreements in force.
- Commissions paid to insurance brokers of Euro 1.8 million.

Cash outflows to associates concern:

- Payments of Euro 10.3 million to the associate Garibaldi S.c.a., for equity investments made by Milano Assicurazioni S.p.A.
- Payments for the disbursement of non-interest-bearing loans by Immobiliare Milano to Sviluppo Centro Est S.r.l. (Euro 2.2 million) and Penta Domus S.r.l. (Euro 0.4 million).

Cash outflows to other related parties for services received refer to:

- Euro 7.4 million for technical, management and legal consultancy.

The remaining outflows to other related parties refer to remuneration paid to directors for positions held in Group companies, for Euro 12.0 million, and payment of salaries to executives with strategic responsibilities, for 10.8 million and a settlement of Euro 11.2 million paid to Dr Fausto Marchionni, as specified above.

We would point out that, at 31 December 2011, assets relating to transactions with related parties (including associates) accounted for approximately 0.97% of the total assets in the consolidated financial statements, while liabilities amounted to 0.05% of consolidated liability items, excluding equity items.
Similarly, net cash flows with related parties absorbed 15% of the net liquidity deriving from continuing operations, as shown in the consolidated cash flow statement at 31 December 2011.

The companies Immobiliare Costruzioni IM.CO. S.p.A., I.C.E.IN. S.p.A., Marcora Costruzioni S.p.A., Avvenimenti e Sviluppo Alberghiero S.r.l., Laità S.r.l. and Gilli Communication S.r.l. are related parties in that certain directors have declared to hold interests and equity investments in Sinergia Holding di Partecipazioni S.p.A., which controls these companies. In fact, Immobiliare Costruzioni IM.CO. S.p.A., I.C.E.IN. S.p.A., Marcora Costruzioni S.p.A., Avvenimenti e Sviluppo Alberghiero S.r.l. and Gilli Communication S.r.l. are related parties of the Issuer in that directors Jonella Ligresti, Giulia Maria Ligresti and Gioacchino Paolo Ligresti have declared to hold interests and equity investments in Sinergia Holding di Partecipazioni S.p.A., which controls those companies directly or indirectly. With reference to the above, Sinergia Holding di Partecipazioni is a subsidiary of Starlife S.A. ("Starlife"), a Luxembourg-based company, the share capital of which, according to information made public by the interested parties, is held as follows: 25% by Giulia Maria Ligresti; 25% by Jonella Ligresti; 25% by Gioacchino Paolo Ligresti; and 25% by Salvatore Ligresti; no single party controls Starlife pursuant to Article 93 of the TUF.

No significant balances or transactions deriving from atypical and/or unusual transactions took place with related parties during the year.

Directors' remuneration

The fees paid to directors for positions held within the Group are shown in the following table:

(in thousands of Euros)	**31.12.11**	**31.12.10**
Remuneration	11,727	13,447
Bonus and other incentives	-	-
Benefits-in -kind	226	72
Total	**11,953**	**13,519**

The remuneration of directors is based on average market remuneration levels, while bonuses and other incentives are normally determined ex-post in relation to results achieved and/or in relation to particular transactions.

Obligation to disclose audit fees and fees for other services provided by audit firms

The Consolidated Finance Act reform contained in Law 262 of 28 December 2005, supplemented by Legislative Decree 303 of 29 December 2006, changed the rules regarding conflicts of interest for independent auditors and introduced new requirements in relation to the disclosure of audit fees pursuant to Article 160, paragraph 1-*bis*.
Article 149-*duodecies* of the Consob Issuer Regulations implemented Article 160, paragraph 1-*bis* of the Consolidated Finance Act, establishing the format for the disclosure of the fees that the independent auditor and entities belonging to its network received, for auditing or for other services, disclosed separately by type or category.

The fees received by the independent auditor Reconta Ernst & Young S.p.A. from Premafin S.p.A. are listed below by type:

Nature of service	**Party providing the service**	**Recipient**	**Remuneration**
Audit	Reconta Ernst & Young S.p.A.	Premafin HP S.p.A.	164
Certification work	Reconta Ernst & Young S.p.A.	Premafin HP S.p.A.	8
Other services	Reconta Ernst & Young S.p.A.	Premafin HP S.p.A.	80
Total fees in the year			**252**

n.b. fees exclusive of VAT

The different types of fees paid to the independent auditor Reconta Ernst & Young S.p.A. by Group subsidiaries are listed below:

Nature of service	Party providing the service	Recipient	Remuneration
Audit	Reconta Ernst & Young S.p.A.	Italian subsidiaries	3,165
	Network Ernst & Young	Foreign subsidiaries	330
Certification work	Reconta Ernst & Young S.p.A.	Italian subsidiaries	2,256
Fiscal consultancy	Network Ernst & Young	Foreign subsidiaries	19
Other services	Network Ernst & Young	Foreign subsidiaries	24
	Ernst & Young Financial Business Advisors S.	Italian subsidiaries	149
Total fees in the year			**5,943**

n.b. fees exclusive of VAT

PART G – Other information

Significant events after the year end

Pursuant to IAS 10, paragraph 21 *et seq*., no significant events occurred after the year-that would entail any adjustment to the figures shown in these financial statements.

Exchange Rates

The exchange rates of the principal currencies used for the conversion of the financial statements are as follows:

	2011	2010
US dollar	1.2939	1.3362
UK sterling	0.8353	0.86075
Japanese yen	100.2	108.65
Swiss franc	1.2156	1.2504
Serbian dinar	106.177	106.045

Milan, 30 March 2012

On behalf of the Board of Directors

the Chairman and Chief Executive Officer

Giulia Maria Ligresti

PREMAFIN FINANZIARIA S.p.A.

Holding di Partecipazioni

CERTIFICATION OF THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ARTICLE 81-*TER* OF CONSOB REGULATION 11971

PREMAFIN ®
FINANZIARIA
Holding di Partecipazioni

Certification of the consolidated financial statements pursuant to Article 81-*ter* of Consob Regulation 11971 of 14 May 1999, as subsequently amended and supplemented

1. We the undersigned, Giulia Maria Ligresti, as Chairman and Chief Executive Officer, and Giuseppe Nassi, as Executive responsible for the preparation of the corporate accounting documents of Premafin Finanziaria S.p.A., hereby attest, also in consideration of Article 154-*bis*, paragraphs 3 and 4, of Legislative Decree 58 of 24 February, 1998, to:

- the accuracy of the information on company operations and the effective application of the administrative and accounting procedures for the preparation of the consolidated financial statements for the period from 1 January 2011 – 31 December 2011.

2. The evaluation of the adequacy of the accounting and administrative procedures for the preparation of the consolidated financial statements at 31 December 2011 is based on different models defined separately at the level of the Fondiaria-SAI Group and at the level of the Parent Company Premafin, in accordance with the "Internal Control – Integrated Framework" and "Cobit" models, which represent benchmarks for internal control systems generally accepted internationally.

3. They also certify that:

   3.1. The consolidated financial statements at 31 December 2011:

   a) were prepared in accordance with international accounting standards, recognised in the European Union pursuant to Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002
   b) are consistent with the data in the accounting records and other corporate documents
   c) give a true and fair view of the equity, economic and financial position of the issuer and of all the companies included in the consolidation

   3.2 The Directors' Report includes a reliable analysis of the operating performance and result, as well as the situation of the issuer and of the companies included in the consolidation, together with a description of the principal risks and uncertainties to which they are exposed.

Milan, 30 March 2012

the Chairman and Chief Executive Officer	Executive responsible for the preparation of corporate accounting documents
signed Giulia Maria Ligresti	signed Giuseppe Nassi

PREMAFIN FINANZIARIA S.p.A.

Holding di Partecipazioni

APPENDICES TO THE CONSOLIDATED FINANCIAL STATEMENTS

PREMAFIN FINANZIARIA - S.P.A.
Holding di Partecipazioni
CONSOLIDATED FINANCIAL STATEMENTS AT 31.12.11

Basis of consolidation

Order number	Name	State	Method (1)	Activities (2)	% Direct equity investment	% total holding (3)	% Available votes in ordinary general meeting (4)
1	FONDIARIA - SAI S.p.A	86	G	4	28,00	26,396	41,64
2	FINADIN S.p.A.	86	G	11	60,00	70,558	100
3	INTERNATIONAL STRATEGY S.r.l.	86	G	10	100,00	100,000	100
4	BANCA SAI SPA	86	G	7	0,00	26,396	100
5	BIM VITA SPA	86	G	1	0,00	13,198	50
6	BRAMANTE SRL	86	G	10	0,00	26,396	100
8	CAMPO CARLO MAGNO SPA	86	G	10	0,00	16,732	100
9	CARPACCIO SRL	86	G	10	0,00	26,396	100
10	CASA DI CURA VILLA DONATELLO SPA	86	G	11	0,00	26,396	100
11	CENTRO ONCOLOGICO FIORENTINO CASA DI CURA VILLANOVA SRL	86	G	11	0,00	26,396	100
12	CASCINE TRENNO S.R.L	86	G	10	0,00	26,396	100
13	COLPETRONE SRL	86	G	11	0,00	25,738	100
14	CONSORZIO CASTELLO	86	G	10	0,00	25,981	99,57
16	PONTORMO SRL	86	G	10	0,00	26,396	100
18	DIALOGO ASSICURAZIONI SPA	86	G	1	0,00	16,706	99,85
19	DOMINION INSURANCE HOLDING LTD	31	G	11	0,00	26,393	100
23	EUROPA TUTELA GIUDIZIARIA SPA	86	G	1	0,00	26,396	100
24	EUROSAI FINANZIARIA DI PARTECIPAZIONE SRL	86	G	11	0,00	26,396	100
25	FINITALIA SPA	86	G	11	0,00	26,396	100
26	FINSAI INTERNATIONAL SA	92	G	11	0,00	26,393	100
27	FONDIARIA-SAI NEDERLAND BV	50	G	11	0,00	26,396	100
29	IMMOBILIARI LITORELLA SRL	86	G	10	0,00	26,396	100
30	IMMOBILIARE LOMBARDA SPA	86	G	10	0,00	22,882	100
31	INIZIATIVE VALORIZZAZIONI EDILI IN.V.ED. SRL	86	G	10	0,00	26,396	100
32	INSEDIAMENTI AVANZATI NEL TERRITORIO I.A.T. SPA	86	G	10	0,00	26,396	100
35	MASACCIO SRL	86	G	10	0,00	26,396	100
36	MERIDIANO BELLARMINO SRL	86	G	10	0,00	26,396	100
37	MERIDIANO BRUZZANO SRL	86	G	10	0,00	26,396	100
40	MERIDIANO PRIMO SRL	86	G	10	0,00	26,396	100
41	APB CAR SERVICE SRL	86	G	10	0,00	26,396	100
43	MERIDIANO SECONDO SRL	86	G	10	0,00	26,396	100
44	ATAVALUE SRL (formerly MERIDIANO TERZO	86	G	11	0,00	26,396	100
45	MILANO ASSICURAZIONI SPA	86	G	1	0,00	16,732	63,40
46	MIZAR SRL	86	G	10	0,00	26,396	100
49	NUOVA IMPRESA EDIFICATRICE MODERNA SRL	86	G	10	0,00	26,396	100
50	NUOVE INIZIATIVE TOSCANE SRL	86	G	10	0,00	26,095	100
51	MARINA DI LOANO SPA	86	G	10	0,00	26,396	100
53	PROGETTO BICOCCA LA PIAZZA SRL in liquidation	86	G	10	0,00	19,533	74
54	PRONTO ASSISTANCE SPA	86	G	1	0,00	26,396	100
55	PRONTO ASSISTANCE SERVIZI SPA	86	G	11	0,00	21,095	100
56	RISTRUTTURAZIONI EDILI MODERNE R.EDIL.MO SRL	86	G	10	0,00	26,396	100
57	SAIAGRICOLA SPA	86	G	11	0,00	25,738	100
58	SAIFIN SAIFINANZIARIA SPA	86	G	11	0,00	26,396	100

59	SAI INVESTIMENTI S.G.R. SPA	86	G	8	20,00	38,313	80
60	SAINTERNATIONAL SA	92	G	11	0,00	26,396	100
61	SAI HOLDING ITALIA SPA	86	G	11	0,00	26,396	100
62	SAILUX SA	92	G	11	0,00	26,396	100
63	SAI MERCATI MOBILIARI SIM SPA	86	G	11	0,00	26,396	100
65	SANTA MARIA DEL FICO SRL	86	G	11	0,00	25,738	100
68	SCONTOFIN S.A.	92	G	11	0,00	51,285	89
69	SERVICE GRUPPO FONDIARIA SRL	86	G	11	0,00	23,497	100
70	SIAT SOCIETA' ITALIANA DI ASS. E RIASS. SPA	86	G	1	0,00	24,994	94,69
71	SIM ETOILE SA	29	G	10	0,00	26,396	100
72	SOGEINT SRL	86	G	11	0,00	16,732	100
73	SRP SERVICES SA	71	G	11	0,00	26,396	100
75	STIMMA SRL	86	G	10	0,00	26,396	100
76	SYSTEMA COMPAGNIA DI ASS.NI SPA	86	G	1	0,00	16,732	100
77	THE LAWRENCE LIFE ASSURANCE CO LTD	40	G	2	0,00	13,198	100
78	THE LAWRENCE RE IRELAND LTD	40	G	5	0,00	26,396	100
79	TIKAL R.E. FUND	86	G	10	0,00	21,660	95,01
80	TRENNO OVEST S.R.L.	86	G	10	0,00	26,396	100
81	GRUPPO FONDIARIA-SAI SERVIZI SCRL	86	G	11	0,00	23,041	100
82	VILLA RAGIONIERI SRL	86	G	10	0,00	26,396	100
84	FLORENCE CENTRO DI CHIRURGIA AMBULATORIALE SRL	86	G	11	0,00	26,396	100
85	LIGURIA SOCIETA' DI ASSICURAZIONI SPA	86	G	1	0,00	16,727	99,97
86	LIGURIA VITA SPA	86	G	1	0,00	16,727	100
88	INCONTRA ASSICURAZIONI SPA	86	G	1	0,00	13,462	51
90	MERIDIANO AURORA SRL	86	G	10	0,00	26,396	100
93	SINTESI SECONDA SRL	86	G	10	0,00	16,732	100
94	SOCIETA' EDILIZIA IMM.RE SARDA S.E.I.S. SPA	86	G	10	0,00	13,639	51,67
95	POPOLARE VITA SPA	86	G	1	0,00	13,198	50
96	DDOR NOVI SAD ADO	289	G	3	0,00	26,393	99,99
97	SISTEMI SANITARI SCRL	86	G	11	0,00	24,279	100
98	AUTO PRESTO & BENE SRL	86	G	11	0,00	26,396	100
99	SAINT GEORGE CAPITAL MANAGEMENT SA	71	G	11	0,00	26,396	100
100	ATHENS PROPERTY FUND – SPECULATIVE FUND	86	G	10	0,00	16,732	100
101	CITTA' DELLA SALUTE SCRL	86	G	11	0,00	26,396	100
102	ATAHOTELS COMPAGNIA ITALIANA AZIENDE TURISTICHE ALBERGHIERE S.p.A.	86	G	11	0,00	21,660	100
103	DDOR RE JOINT STOCK REINSURANCE COMPANY	289	G	6	0,00	26,396	100
104	DONATELLO DAY SURGERY SRL	86	G	11	0,00	26,396	100
105	IMMOBILIARE FONDIARIA-SAI SRL	86	G	10	0,00	26,396	100
106	IMMOBILIARE MILANO ASSICURAZIONI SRL	86	G	10	0,00	16,732	100
107	ITALRESIDENCE SRL	86	G	11	0,00	21,660	100

(1) Consolidation method: Line-by-line =G, Proportional =P, Full integration with single management =U

(2) 1=Italian ins.; 2=EU ins.; 3=third-state ins.; 4=insurance holding; 5=EU reins.; 6=third-state reins.; 7=banks; 8=asset management companies; 9=misc. holdings; 10=propert

(3) is the product of investment relationships relative to all the companies that, placed along the investment chain, are eventually positioned between the company that prepares the consolidated financial statements and the company in question. When the latter is a direct investee company of more than one subsidiary it is necessary to add together the

(4) total percentage availability of votes at the ordinary general meeting if different from the proportion of the direct or indirect equity investment

PREMAFIN FINANZIARIA - S.P.A.
Holding di Partecipazioni
CONSOLIDATED FINANCIAL STATEMENTS AT 31.12.11
(Values in €)
Breakdown of non-consolidated equity investments

Order number	Name	State	Activities (1)	Type (2)	% Direct equity investment	% Total holding (3)	% Available votes in ordinary general meeting (4)	Balance-sheet value
8	SOCIETA' FUNIVIE DEL PICCOLO SAN BERNARDO SPA	86	11	b	0,00	9,05	27,38	3.354.847
9	A7 SRL	86	10	b	0,00	4,16	20,00	266.162
10	BORSETTO SPA	86	10	b	0,00	9,34	44,93	2.890.925
13	FIN. PRIV. SRL	86	11	b	0,00	9,45	28,57	20.495.161
14	GARIBALDI SCA	92	11	b	0,00	6,65	32,00	56.118.720
16	MB VENTURE CAPITAL FUND	50	11	b	0,00	9,92	30,00	199.100
17	METROPOLIS SPA	86	10	b	0,00	6,18	29,73	0
18	SERVIZI IMMOBILIARI MARTINELLI SPA	86	10	b	0,00	4,16	20,00	128.905
19	SOFIGEA SRL in liquidation	86	11	b	0,00	6,49	22,41	0
20	SOAIMPIANTI-ORGANISMI DI ATTESTAZIONE SPA in liquidation	86	11	b	0,00	7,15	21,64	317.114
21	UFFICIO CENTRALE ITALIANO SRL	86	11	b	0,00	7,05	25,52	130.136
22	PROGETTO ALFIERE SRL	86	10	b	0,00	6,28	19,00	1.361.657
24	PENTA DOMUS SPA	86	10	b	0,00	4,16	20,00	0
25	SVILUPPO CENTRO EST SRL	86	10	b	0,00	8,31	40,00	0
27	GLOBAL CARD SERVICE SRL	86	11	a	0,00	19,74	95,00	0
30	FONDIARIA-SAI SERVIZI TECNOLOGICI SRL	86	11	b	0,00	16,86	51,00	3.378.669
33	IGLI SPA	86	11	b	0,00	8,97	33,33	0
34	QUINTOGEST SPA	86	11	b	0,00	16,20	49,00	449.668
36	INVESTIMENTI MOBILIARI S.r.l.	86	11	a	100,00	100,00	100,00	82.348
37	PARTECIPAZIONI E INVESTIMENTI S.r.l.	86	11	a	100,00	100,00	100,00	82.368
38	PARTECIPAZIONI MOBILIARI S.r.l.	86	11	a	100,00	100,00	100,00	72.910
39	CONO ROMA S.r.l. IN LIQUIDAZIONE	86	11	b	0,00	36,61	50,00	0
41	DDOR AUTO DOO	289	3	a	0,00	33,06	100,00	13.447
42	DDOR GARANT	289	11	a	0,00	15,72	40,00	534.826
43	CONSULENZA AZIENDALE PER L'INFORMATICA SCAI SPA	86	11	b	0,00	9,94	30,07	1.574.339
44	BUTTERFLY AM SARL	92	11	b	0,00	9,45	28,57	6.757.538
46	VALORE IMMOBILIARE SRL	86	10	b	0,00	10,39	50,00	6.100.000
48	HOTEL TERME DI SAINT VINCENT SRL	86	11	a	0,00	27,05	100,00	1.213.262
49	ITAL H&R SRL	86	11	a	0,00	27,05	100,00	20.687
50	TOUR EXECUTIVE SPA	86	11	a	0,00	27,05	100,00	129.021
51	ATA BENESSERE SRL in liquidation	86	11	a	0,00	27,05	100,00	28.377
54	ISOLA SCA	92	11	b	0,00	6,14	29,56	11.095.720

(1) 1=Italian ins.; 2=EU ins.; 3=third-state ins.; 4=insurance holding; 5=EU reins.; 6=third-state reins.; 7=banks; 8=asset management companies; 9=misc. holdings; 10=propertty; 11=other

(2) a=subsidiaries (IAS27) ; b=associates (IAS28); c= joint ventures (IAS 31); indicate with an asterisk (*) companies classified as held for sale pursuant to IFRS 5 and put in the key at the bottom of the table

(3) is the product of investment relationships relative to all the companies that, placed along the investment chain, are eventually positioned between the company that prepares the consolidated financial statements and the company in question. When the latter is a direct investee company of more than one subsidiary it is necessary to add together the individual products.

(4) total percentage availability of votes at the ordinary general meeting if different from the proportion of the direct or indirect equity investment

PREMAFIN FINANZIARIA - S.P.A.

Holding di Partecipazioni

CONSOLIDATED FINANCIAL STATEMENTS

AT 31.12.11

Breakdown of tangible and intangible assets

(Values in € thousands)

	At cost	At recalculated value or fair value	Total balance sheet value
Investment property	2.776.452	-	2.776.452
Other property	318.928	-	318.928
Other property, plant and equipment	86.421	-	86.421
Other intangible assets	95.157	-	95.157

PREMAFIN FINANZIARIA - S.P.A.

Holding di Partecipazioni

CONSOLIDATED FINANCIAL STATEMENTS

AT 31.12.11

Breakdown of insurance contract liabilities attributable to reinsurers

(Values in € thousands)

	Direct premiums		**Direct premiums**		**Total balance sheet value**	
	at 31.12.11	**at 31.12.10**	**at 31.12.11**	**at 31.12.10**	**at 31.12.11**	**at 31.12.10**
Non-Life provisions	**374.395**	**425.251**	**234.222**	**231.468**	**608.617**	**656.719**
Premium provision	80.682	83.240	76.330	71.164	157.012	154.404
Claims provision	293.713	342.011	157.892	160.304	451.605	502.315
Other provisions	-	-	-	-	-	-
Life provisions	**48.394**	**117.657**	**44.868**	**48.808**	**93.262**	**166.465**
Provisions for claims to be paid	1.867	1.117	1.280	1.434	3.147	2.551
Actuarial provisions	46.527	116.540	43.588	47.374	90.115	163.914
Technical provisions where investment risk borne by policyholders and from pension fund management	-	-	-	-	-	-
Other provisions	-	-	-	-	-	-
Total technical provisionss attributable to reinsurers	**422.789**	**542.908**	**279.090**	**280.276**	**701.879**	**823.184**

PREMAFIN FINANZIARIA - S.P.A.
Holding di Partecipazioni
CONSOLIDATED FINANCIAL STATEMENTS
AT 31.12.11

Breakdown of financial assets
(Values in € thousands)

							Financial assets at fair value through profit or loss					
	Investments held to maturity		**Loans and receivables**		**Available-for-sale financial assets**		**Financial assets held for trading**		**Financial assets designated at fair value through profit or loss**		**Total balance sheet value**	
	DEC 2011	**DEC 2010**	**DEC 2011**	**DEC 2010**	**DEC 2011**	**DEC 2010**	**DEC 2011**	**DEC 2010**	**DEC 2011**	**DEC 2010**	**DEC 2011**	**DEC 2010**
Equity securities and derivatives valued at cost	-	-	-	-	-	-	-	-	-	-	-	-
Equity securities at fair value	-	-	-	-	1.167.836	1.481.428	351	574	30.248	31.928	1.198.435	1.513.930
of which listed securities	-	-	-	-	*914.523*	*1.301.503*	*351*	*574*	*30.248*	*31.928*	*945.122*	*1.334.005*
Debt securities	599.713	592.138	2.465.849	1.825.970	15.636.678	17.952.179	34.239	80.030	8.038.695	7.678.402	26.775.175	28.128.719
of which listed securities	*599.713*	*592.138*	*808.874*	*879.218*	*15.592.964*	*17.906.627*	*22.102*	*29.632*	*2.803.184*	*3.364.535*	*19.826.837*	*22.772.150*
UCI units	-	-	-	-	801.948	839.740	19.015	7	617.110	459.892	1.438.073	1.299.639
Loans and receivables in respect of bank customers	-	-	636.315	685.583	-	-	-	-	-	-	636.315	685.583
Interbank loans and receivables	-	-	29.147	78.590	-	-	-	-	-	-	29.147	78.590
Deposits with ceding companies	-	-	24.895	27.417	-	-	-	-	-	-	24.895	27.417
Financial components receivable under insurance contracts	-	-	-	-	-	-	-	-	-	-	-	-
Other loans and receivables	-	-	512.969	538.677	-	-	-	-	-	-	512.968	538.677
Non-hedging derivatives	-	-	-	-	-	-	28	41	236.669	417.917	236.697	417.958
Hedging derivatives	-	-	-	-	-	-	-	-	12.328	-	12.328	-
Other financial investments	-	-	19.690	2.974	2.095	1.951	-	-	37.981	71.273	59.766	76.198
Total	**599.713**	**592.138**	**3.688.865**	**3.159.211**	**17.608.557**	**20.275.298**	**53.633**	**80.652**	**8.973.031**	**8.659.412**	**30.923.799**	**32.766.711**

PREMAFIN FINANZIARIA - S.P.A.

Holding di Partecipazioni

CONSOLIDATED FINANCIAL STATEMENTS
AT 31.12.11

Breakdown of assets and liabilities relating to contracts issued by insurance companies where the investment risk is borne by customers and deriving from pension fund management

(Values in € thousands)

	Services connected to investment funds and market indices		Services connected to pension fund management		Total	
	DEC 2011	DEC 2010	DEC 2011	DEC 2010	DEC 2011	DEC 2010
Assets in the financial statements	8.624.071	8.289.275	275.932	263.993	8.900.003	8.553.268
Intragroup assets*	6.044	6.320	-	-	6.044	6.320
Total assets	**8.630.115**	**8.295.595**	**275.932**	**263.993**	**8.906.047**	**8.559.588**
Financial liabilities in the financial st	963.677	1.344.519	275.932	263.993	1.239.609	1.608.512
Technical reserves in the financial sta	7.666.345	6.950.978	-	-	7.666.345	6.950.978
Intragroup liabilities*	-	-	-	-	-	-
Total liabilities	**8.630.022**	**8.295.497**	**275.932**	**263.993**	**8.905.954**	**8.559.490**

(*) Assets and liabilities eliminated in the consolidation process

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Breakdown of insurance contract liabilities
(Values in € thousands)

	Direct premiums		**Direct premiums**		**Total balance sheet value**	
	DEC 2011	**DEC 2010**	**DEC 2011**	**DEC 2010**	**DEC 2011**	**DEC 2010**
Non-Life provisions	**12.491.112**	**11.784.061**	**119.210**	**103.788**	**12.610.322**	**11.887.849**
Premium provision	2.740.036	2.776.392	1.811	1.545	2.741.847	2.777.937
Claims provision	9.740.723	8.995.352	117.400	102.243	9.858.123	9.097.595
Other provisions	10.353	12.317	-	-	10.353	12.317
of which provisions established after verification of consistency of liabilities	-	-	-	-	-	-
Life provisions	**22.478.237**	**22.920.460**	**18.946**	**19.663**	**22.497.183**	**22.940.123**
Provisions for claims to be paid	358.409	277.038	2.281	759	360.690	277.797
Actuarial reserves	15.146.572	16.054.508	16.665	18.904	15.163.237	16.073.412
Insurance contract liabilities where investment risk borne by policyholders and from pension fund management	7.666.345	6.950.978	-	-	7.666.345	6.950.978
Other provisions	(693.089)	(362.064)	-	-	(693.089)	(362.064)
of which provisions established after verification of consistency of liabilities	-	-	-	-	-	-
of which deferred liabilities to policyholders	*(772.473)*	*(454.658)*	-	-	*(772.473)*	*(454.658)*
Total insurance contract liabilities	**34.969.349**	**34.704.521**	**138.157**	**123.451**	**35.107.506**	**34.827.972**

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Breakdown of financial liabilities
(Values in € thousands)

	Financial liabilities at fair value through profit or loss							
	Financial liabilities held for trading		**Financial liabilities designated at fair value through profit or loss**		**Other financial liabilities**		**Total balance sheet value**	
	DEC 2011	**DEC 2010**	**DEC 2011**	**DEC 2010**	**DEC 2011**	**DEC 2010**	**DEC 2011**	**DEC 2010**
Equity instruments	-	-	-	-	-	-	-	-
Subordinated liabilities	-	-	-	-	1.049.467	1.037.075	1.049.467	1.037.075
Liabilities from financial contracts issued by insurance companies	-	-	1.239.609	1.608.512	-	-	1.239.609	1.608.512
from contracts for which the investment risk is borne by policyholders	-	-	*963.677*	*1.344.519*	-	-	*963.677*	*1.344.519*
from pension fund management	-	-	*275.932*	*263.993*	-	-	*275.932*	*263.993*
from other contracts	-	-	-	-	-	-	-	-
Deposits received from reinsurers	-	-	-	-	171.542	248.006	171.542	248.006
Financial components payable under insurance contracts	-	-	-	-	-	-	-	-
Debt securities issued	-	-	-	-	99.013	108.305	99.013	108.305
Payables to bank customers	-	-	-	-	228.416	282.022	228.416	282.022
Interbank payables	-	-	-	-	-	-	-	-
Other loans obtained	-	-	-	-	130.192	145.611	130.192	145.611
Non-hedging derivatives	45.826	31.692	839	-	-	-	46.664	31.692
Hedging derivatives	7.649	2.023	53.623	33.863	-	-	61.272	35.886
Miscellaneous financial liabilities	-	-	1.960	1.717	499.535	688.541	501.496	690.258
Total	**53.475**	**33.715**	**1.296.031**	**1.644.092**	**2.178.165**	**2.509.560**	**3.527.671**	**4.187.367**

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Breakdown of insurance contract liabilities items
(Values in € thousands)

		31.12.2011			31.12.2010		
		Gross amount	**Portion attributable to reinsurers**	**Net amount**	**Gross amount**	**Portion attributable to reinsurers**	**Net amount**
Non-Life management							
NET PREMIUMS		7.096.685	(304.629)	6.792.056	7.162.227	(307.422)	6.854.805
a	Booked premiums	7.059.924	(311.829)	6.748.095	7.204.029	(319.148)	6.884.881
b	Change in premiums provisions	36.761	7.200	43.961	(41.802)	11.726	(30.076)
NET CHARGES RELATING TO CLAIMS		(6.072.005)	147.188	(5.924.817)	(5.955.951)	169.489	(5.786.462)
a	Amounts paid	(5.488.355)	166.130	(5.322.225)	(5.931.946)	200.859	(5.731.087)
b	Change in claims provision	(751.863)	(23.911)	(775.774)	(166.632)	(3.648)	(170.280)
c	Change in recoveries	167.944	4.970	172.914	143.211	(27.722)	115.489
d	Change in other insurance contract liabilities	269	-	269	(584)	-	(584)
Life management							
NET PREMIUMS		3.753.573	(18.285)	3.735.288	5.749.276	(18.784)	5.730.492
NET CHARGES RELATING TO CLAIMS		(4.334.852)	18.899	(4.315.953)	(6.385.961)	19.482	(6.366.479)
a	Sums paid	(4.393.334)	24.226	(4.369.108)	(3.135.301)	32.095	(3.103.206)
b	Change in provision for sums to be paid	(138.661)	992	(137.669)	(60.338)	1.257	(59.081)
c	Change in actuarial provisions	912.409	(6.319)	906.090	(2.531.842)	(13.869)	(2.545.711)
d	Change in insurance contract liabilities where investment risk borne by policyholders and from pension fund management	(721.290)	-	(721.290)	(677.000)	-	(677.000)
e	Change in other insurance contract liabilities	6.024	-	6.024	18.520	(1)	18.519

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Financial income and charges and income/charges from investments
(Values in € thousands)

							Valuation gains		Valuation losses				
	Interest	**Other income**	**Other charges**	**Realised gains**	**Realised losses**	**Total realised income and charges**	**Valuation gains**	**Restatement of value**	**Valuation losses**	**Restatement of value**	**Total unrealised income and charges**	**Total income and charges 31.12.11**	**Total income and charges 31.12.10**
Result from investments	**986.387**	**316.751**	**(96.581)**	**277.489**	**(172.691)**	**1.311.355**	**144.620**	**270**	**(254.735)**	**(602.891)**	**(712.736)**	**598.619**	**954.294**
a From investment property	-	87.830	(58.281)	34.625	(82)	**64.092**	-	-	(72.463)	(243.671)	**(316.134)**	**(252.042)**	**(18.059)**
b From equity investments in subsidiaries, associates and joint ventures	-	826	(5.153)	1.046	(12)	**(3.293)**	-	-	(1.950)	-	**(1.950)**	**(5.243)**	**34.237**
c From investments held to maturity	34.789	94	(5)	704	(28)	**35.554**	-	-	-	-	**-**	**35.554**	**68.584**
d From loans and receivables	165.499	1	-	774	(6.712)	**159.562**	36	270	-	(17.835)	**(17.529)**	**142.033**	**106.011**
e From available-for-sale financial assets	601.713	62.678	(9.881)	176.281	(135.472)	**695.319**	-	-	-	(341.385)	**(341.385)**	**353.934**	**368.045**
f From financial assets held for trading	5.159	18	(44)	3.495	(1.091)	**7.537**	2.407	-	(6.841)	-	**(4.434)**	**3.103**	**(7.379)**
g From financial assets designated at fair value through profit or loss	179.227	165.304	(23.217)	60.564	(29.294)	**352.584**	142.177	-	(173.481)	-	**(31.304)**	**321.280**	**402.855**
Result of miscellaneous receivables	13.806	77	(79)	-	-	**13.804**	-	-	-	-	**-**	**13.804**	**14.189**
Result of cash and cash equivalents	12.757	-	(431)	-	-	**12.326**	-	-	-	-	**-**	**12.326**	**7.521**
Result of financial liabilities	**(84.816)**	**-**	**(627)**	**-**	**-**	**(85.443)**	**999**	**-**	**(21.340)**	**-**	**(20.341)**	**(105.784)**	**(99.316)**
a From financial liabilities held for trading	-	-	-	-	-	-	999	-	(21.340)	-	**(20.341)**	**(20.341)**	**(17.185)**
b From financial liabilities designated at fair value through profit or loss	-	-	-	-	-	-	-	-	-	-	-	-	-
c From other financial liabilities	(84.816)	-	(627)	-	-	**(85.443)**	-	-	-	-	**-**	**(85.443)**	**(82.131)**
Result of payables	(5.768)	-	27	174	-	**(5.567)**	-	-	-	-	**-**	**(5.567)**	**(6.814)**
Total	**922.366**	**316.828**	**(97.691)**	**277.663**	**(172.691)**	**1.246.475**	**145.619**	**270**	**(276.075)**	**(602.891)**	**(733.077)**	**513.398**	**869.874**

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CONSOLIDATED FINANCIAL STATEMENTS
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Breakdown of insurance management costs

(Values in € thousands)

		Non-Life management		Life management	
		at 31.12.11	**at 31.12.10**	**at 31.12.11**	**at 31.12.10**
Gross commissions and other acquisition expenses		(1.358.075)	(1.365.667)	(130.388)	(142.844)
a	Acquisition commissions	(1.056.191)	(1.055.123)	(92.938)	(111.915)
b	Other acquisition expenses	(213.502)	(213.942)	(24.485)	(22.846)
c	Change in deferred acquisition costs	(52.242)	(57.494)	(5.044)	790
d	Collection commissions	(36.140)	(39.108)	(7.921)	(8.873)
Commissions and sharing of profit received from reinsurers		80.658	80.131	1.182	1.394
Investment management expenses		(10.156)	(6.274)	(5.761)	(7.804)
Other administrative expenses		(290.928)	(300.370)	(63.777)	(61.436)
Total		**(1.578.501)**	**(1.592.180)**	**(198.744)**	**(210.690)**

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Breakdown of other comprehensive income

(Values in € thousands)

	Allocation		Adjustments for reclassification to the income statement		Other changes		Total changes		Taxes		Existing	
	31.12.11	**31.12.10**	**31.12.11**	**31.12.10**	**31.12.11**	**31.12.10**	**31.12.11**	**31.12.10**	**31.12.11**	**31.12.10**	**31.12.11**	**31.12.10**
Translation reserve	(33.859)	(13.328)	-	-	-	(4.110)	(33.859)	(17.438)	-	-	(55.269)	(21.410)
Profit or loss on available-for-sale financial assets	(775.565)	(161.920)	136.887	186.939	-	-	(638.678)	25.019	286.897	97.173	(680.217)	(41.539)
Profit or loss on cash flow hedging instruments	(12.153)	(16.524)	-	-	-	-	(12.153)	(16.524)	5.135	6.318	(38.591)	(26.438)
Profit or loss on instruments hedging a net investment in a foreign-managed portfolio	-	-	-	-	-	-	-	-	-	-	-	-
Reserve from changes in shareholders' equity of investee companies	4.168	646	-	-	-	-	4.168	646	-	-	8.955	4.787
Revaluation reserve for intangible assets	-	-	-	-	-	-	-	-	-	-	-	-
Revaluation reserve for tangible assets	(544)	(8.764)	-	-	-	-	(544)	(8.764)	-	974	(555)	(11)
Income and expenses on non-current assets or in a discontinued group held for sale	-	-	-	-	-	675	-	675	-	-	(10)	(10)
Actuarial gains and losses and adjustments related to defined benefit plans	(7.344)	(2.522)	-	-	-	-	(7.344)	(2.522)	3.812	532	(19.281)	(11.937)
Other elements	(8.085)	826	-	-	-	-	(8.085)	826	-	-	48.450	56.536
TOTAL OTHER COMPONENTS OF COMPREHENSIVE INCOME	**(833.382)**	**(201.586)**	**136.887**	**186.939**	**-**	**(3.435)**	**(696.495)**	**(18.082)**	**295.844**	**104.997**	**(736.518)**	**(40.022)**

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Breakdown of financial assets and liabilities by level
(Values in € thousands)

		Level 1		Level 2		Level 3		Total	
		31.12.11	**31.12.10**	**31.12.11**	**31.12.10**	**31.12.11**	**31.12.10**	**31.12.11**	**31.12.10**
Available-for-sale financial assets		16.507.392	19.181.967	753.370	893.097	214.388	76.560	17.475.150	20.151.624
Financial assets at fair value through profit or loss	Financial assets held for trading	22.453	30.207	31.181	50.445	-	-	53.634	80.652
	Financial assets designated at fair value through profit or loss	20.331	23.509	8.952.699	8.635.903	-	-	8.973.030	8.659.412
Total		**16.550.176**	**19.235.683**	**9.737.250**	**9.579.445**	**214.388**	**76.560**	**26.501.814**	**28.891.688**
Financial liabilities at fair value through profit or loss	Financial liabilities held for trading	-	-	53.473	33.714	-	-	53.473	33.714
	Financial liabilities designated at fair value through profit or loss	-	-	1.296.032	1.644.093	-	-	1.296.032	1.644.093
Total		**-**	**-**	**1.349.505**	**1.677.807**	**-**	**-**	**1.349.505**	**1.677.807**

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Breakdown of financial assets and liabilities for level 3

	Financial assets			Financial liabilities	
		Financial assets at fair value through profit or loss statement		Financial liabilities at fair value through profit or loss statement	
	Available-for-sale financial assets	Financial assets held for trading	Financial assets designated at fair value through profit or loss	Financial liabilities held for trading	Financial liabilities designated at fair value through profit or loss
Opening balance	**76.560**				
Purchases/issues					
Sales/buybacks					
Repayments					
Profit or loss recorded in the income statement					
Profit or loss recorded in other comprehensive income statement					
Transfers in level 3	94.388				
Transfers to other levels					
Other changes	43.440				
Closing balance	**214.388**	-	-	-	-

PREMAFIN FINANZIARIA S.p.A.

Holding di Partecipazioni

CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2010

BOARD OF STATUTORY AUDITORS' REPORT

Report by the Board of Statutory Auditors on the Consolidated Financial Statements at 31/12/2011

The consolidated financial statements of Gruppo Premafin, closing with a net loss, group share, of € 263,596,000, were prepared based on the IFRS international accounting standards adopted by the European Union, as well as on the Regulations issued for the implementation of Art. 90 of Legislative Decree no. 209/2005. In particular, the financial statements and the notes to the financial statements were drafted according to the provisions of Legislative Decree 38/2005 and adopting the schedules required by ISVAP Regulation 7 of 13 July 2007, as amended.

We have examined your company's draft financial statements at 31 December 2011 as prepared by the directors pursuant to current rules and duly delivered by them on 30 March 2012 to the Board of Statutory Auditors, together with the detailed tables and schedules and the report on operations.

The year was influenced by non-recurring extraordinary items unrelated to continuing operations; in fact the revaluation of the reserves for claims processed from previous years in the Motor TPL class had a decisive effect of approximately € 810 million as did the value adjustments on financial instruments available for sale of € 341 million, plus € 18 million in impairment losses on financial instruments valued at cost In addition to this, there were further write-downs on real estate property assets for another € 342 million. Finally, the impairment test on the goodwill attributable to Popolare Vita meant a further write-down of approximately € 101 million.

With reference to impairment losses, relative to "Available for sale" financial instruments and "Loans & Receivables", and the value adjustments on investment properties, the report describes in detail how impairment methods were applied to "Available for sale" financial instruments, which methods were unchanged from the previous year.

As further confirmed in the report by the actuary in charge, the directors note that the revaluation of the reserves for claims processed in previous years in the Motor TPL class was made upon the completion of procedures for refining the statistical-actuarial models developed based on historical series of claims records, which also take into account the regulatory and case law changes occurring during the year.

On 10 February 2012, the Board of Directors, observing the requirements of Banca d'Italia/Consob/Isvap joint document No. 4 of 3 March 2010, evaluated the appropriateness of the procedure used by the Company for determining any impairment of assets (impairment test) as per IAS 36.

The consolidated Report on Operations is exhaustive and describes the operational and development activities, strategies and transactions between companies in the Group; an examination of it has shown it to be consistent with the data and information in the Consolidated Financial Statements, as it appears also from the Report by the Audit Firm Reconta Ernst & Young S.p.A. issued on 24 April 2012.

The Board of Statutory Auditors acknowledges that the audit firm Ernst & Young S.p.A. certified in its report dated 24 April 2012 that the consolidated financial statements of Premafin at 31 December 2011 are consistent with the IFRS adopted by the European Union; they are prepared clearly and are a true and accurate representation of the equity and financial situation, the income, the changes in consolidated shareholders' equity and the cash flows of Gruppo Premafin for the year ending on that date.

Milan, 26 April 2012

The Board of Statutory Auditors
Signed Vittorio De Cesare
Chairman

Signed Antonino D'Ambrosio
Principal Statutory Auditor

Signed Maria Luisa Mosconi
Outgoing Principal Statutory
Auditor