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# ANNUAL ACCOUNTS

## 2005 financial year

 **GRUPPO  
FONDIARISAI**





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# Reports and Accounts for financial year 2005

MILANO ASSICURAZIONI S.p.A.  
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Share capital €238,591,848.04 fully paid up  
Tax Code, VAT n° and number in the  
Companies' Register of Milan: 00957670151  
Authorized to carry out insurance business (Art. 65 of Royal Decree 966 of  
29.4.1923)  
FONDIARIA-SAI Group - administration and coordination FONDIARIA-SAI  
S.p.A.

The logo for GRUPPO FONDIARIA SAI consists of a blue square with a white grid pattern to the left of the text 'GRUPPO FONDIARIA SAI' in a bold, blue, sans-serif font.



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**Members of the Statutory Bodies**

<b>Board of Directors</b>	Honorary Chairman	Salvatore	<b>Ligresti</b>
	Chairman and Managing Director	Fausto	<b>Marchionni *</b>
	Vice Chairman	Gioacchino Paolo	<b>Ligresti *</b>
	Vice Chairman	Cosimo	<b>Rucellai *</b>
<b>Board members</b>		Umberto	<b>Bocchino *</b>
		Flavio	<b>Dezzani</b>
		Maurizio	<b>Di Maio</b>
		Emanuele	<b>Erbetta</b>
		Mariano	<b>Frey</b>
		Giulia Maria	<b>Ligresti *</b>
		Jonella	<b>Ligresti *</b>
		Lia	<b>Lo Vecchio</b>
		Emilio	<b>Perrone da Zara</b>
		Massimo	<b>Pini *</b>
		Salvatore	<b>Rubino *</b>
		Nicola	<b>Squillace *</b>
		Simone	<b>Tabacci</b>
		Alessandra	<b>Talarico</b>
		Antonio	<b>Talarico *</b>
	Sergio	<b>Viglianisi</b>	
<b>Secretary of the Board and of the Executive Committee</b>		Alberto	<b>Marras</b>
<b>Board of statutory Auditors</b>	Chairman	Graziano	<b>Visentin</b>
	Statutory auditor	Giovanni	<b>Ossola</b>
	Statutory auditor	Alessandro	<b>Rayneri</b>
	Alternate auditor	Giuseppe	<b>Aldé</b>
	Alternate auditor	Claudio	<b>De Re</b>
	Alternate auditor	Roberto	<b>Frascinelli</b>

- Members of the Board who are also members of the Executive Committee have an asterisk beside their name.
- There is now an Internal Auditing Committee, the members of which may be consulted and may make suggestions as provided for in the Code of Conduct for Listed Companies. This Committee is made up of the Board Members Mariano Frey, Emilio Perrone da Zara and Cosimo Rucellai.
- With reference to the provisions of CONSOB communication 97001574 of 20 February 1997, the nature of the powers conferred on the directors is indicated below.
- As well as being the Company's Legal Representative under Art. 20 of the By-laws, the Chairman and Managing Director, Prof. Fausto Marchionni, has all the ordinary and extraordinary administrative powers, which may be exercised on his signature alone, and the power to grant mandates and powers of attorney, with the sole exception of the following powers:
  - property for a value exceeding € 10m per transaction;
  - selling and/or acquiring shareholdings for a value exceeding € 25m per transaction and in any case those that are majority shareholdings;

- arranging corporate financing for an amount exceeding €50m per transaction;
- issuing sureties of a non-insurance nature in favour of third parties.
  
- The Executive Committee continues to hold all the powers not already attributed to the Chairman and Managing Director, with the exception of those that in law or under the Bylaws are exclusively within the province of the Board of Directors. The Board of Directors is also exclusively responsible for any decision relating to those operations with related parties that are identified by the Board of Directors.

The Board of Directors was originally appointed by the shareholders' meeting held on 22 April 2005 and will remain in office until the shareholders' meeting called to approve the annual accounts on 31 December 2007.

## **Notice of convocation of an ordinary shareholders' meeting**

*(Published in the Gazzetta Ufficiale no. 71 of 25 March 2006)*

Shareholders who hold ordinary shares are invited to attend the ordinary and extraordinary Meeting at the Atahotel Executive, Viale Don Luigi Sturzo 45, Milan, at 11.30 on 26 April 2006 in first call and at the same time and place on 27 April 2006 in the event of a second call, which will have the following

### ***Agenda***

#### Ordinary part:

1. Accounts as at 31 December 2005. Board of Directors' Management Report. Report of the Board of Auditors pursuant to article 153 of Legislative Decree 58/1998 and the External Auditors' Report. Related and consequent resolutions.
2. Resolutions regarding the composition of the Board of Directors and appointment of any Directors after having determined their number.
3. Assignment of the task of auditing the annual accounts and the consolidated accounts and of carrying out a limited auditing of the half-year accounts for the period 2006-2011. Fixing of the remuneration to be paid to the Auditing Company
4. Resolutions relating to own shares in accordance with Art. 2357 and 2357 b of the Civil Code.
5. Resolutions relating to the shares in the direct holding company FONDIARIA-SAI S.p.A. in accordance with Art. 2359 a of the Civil Code.
6. Resolutions relating to the shares in the indirect holding company PREMAFIN FINANZIARIA S.P.A., in accordance with Art. 2359 a of the Civil Code

Under article 8 of the Company's By-Laws holders of ordinary shares in possession of the appropriate certificate issued by an intermediary participating in the Monte Titoli S.p.A. centralized management scheme, currently being dematerialized, may participate in the Meeting.

Holders of Milano Assicurazioni S.p.A. shares not centralized with Monte Titoli S.p.A. are reminded that the rights relating to these securities may be exercised only if they are first sent to an Intermediary in order to be included in the centralized management scheme.

The documentation relating to the agenda will be made available to the public in accordance with current legislation. Members are entitled to obtain a copy of it.

for The Board of Directors  
The Chairman and Managing Director  
*Fausto Marchionni*

# Management Report

for the financial year ended 31 December 2005



*Dear Shareholders,*

The financial year 2005 closed with a net profit of € 233,106K compared with € 306,226K for the previous year. In making the comparison it should be noted that the result for 2004 benefited from the effects of the 'tax purging' (reclassification) carried out as a result of the reform of company law which, inter alia, repealed the second paragraph of Art. 2426 of the Civil Code, which in turn enabled value adjustments and appropriations to be made exclusively for the purpose of tax legislation. In particular, this had a positive impact on the 2004 profit and loss account of € 76,155K as a result of the elimination of the value adjustment made exclusively for tax purposes in the financial year 2003 on the General shares in the portfolio, amounting to € 113,664K, and of the associated tax effect of € 37,509K.

The main elements that contributed to this positive result for 2005 are described below:

- the life business technical account shows a profit of € 24,755K compared with € 52,575K in the previous financial year. The fall is mainly due to the lower share of profits from investments allocated to the technical account and to the loss resulting from the settlement of the dispute with CONSAP relating to the abolished system of legal cessions.

In particular, the lower share of profits from investments is essentially the result of greater value adjustments on the bond portfolio, generated in the last few months of the financial year by the interest rate rises triggered by monetary policy intervention by the US Federal Reserve and, most recently, by the European Central Bank.

As regards legal cessions, we would remind you that in March of the current financial year, a settlement was signed with CONSAP to end the dispute relating to the Milano Assicurazioni portfolio (a similar settlement had been signed in November 2004 for the portfolio of the incorporated company Maa Vita).

The settlement led to the company receiving € 83,500K against receivables from CONSAP and reserves chargeable to the latter of € 103,947K in total. The cost of the settlement therefore amounted to € 20,447K, of which € 6,459 had a negative effect on the technical account, while € 13,988K were entered in the non-technical account under losses on receivables. The expected charges had in any case been set aside in the risk fund during previous financial years. During the financial year under examination, the whole amount set aside of € 20,700K was therefore withdrawn from the said fund and posted to "other income" in the non-technical account, thus neutralising the impact of the settlement on the profit and loss account for the period.

- The non-life technical balance for direct business closed with a profit of € 180,110K compared to a profit of € 214,112K recorded at the end of the previous financial year. In particular, the Land Vehicle TPL recorded a profit of € 8,447K, slightly higher than this same result for the 2004 financial year, which was € 6,898K. Non-life classes excluding Motor TPL continue to show extremely satisfactory results, although overall the technical margin was lower than the previous financial year (the technical profit was € 171,663K compared to € 207,214K in 2004). The fall is

mainly attributable to the Land Vehicle Hulls class which, while continuing to perform excellently, with a loss ratio of 43.7%, recorded a profit of € 86,492K compared to € 103,729K in 2004, as well as to the lower profits achieved in the Accidents and Fire classes. Performance in the General TPL class, which returned to profit after the heavy losses suffered in the previous year, was significantly improved.

There was a net improvement in the indirect business outward reinsurance technical balance, from a loss of € 19,108K in 2004 to a profit of € 2,161K, as a result, among other things, of a number of high value claims relating to excess loss cover, which led to a significant level of recovery from reinsurers.

- Property and financial management allowed income from investments to be achieved of € 287,850K, a significant increase on the figure for the previous year of € 243,951K. The value adjustments on investments, net of the respective value recoveries, amounted to € 26,594K compared to € 9,317K recorded in the previous financial year. The increase, as we have already mentioned, is primarily due to alignments relating to the bond portfolio, resulting from the interest rate rises recently triggered by monetary policy intervention by the US Federal Reserve and, most recently, by the European Central Bank.
- Taxes for the current financial year amount to € 90,187K and their incidence on the gross profit is significantly smaller than the previous year. The tax burden for the financial year 2005 is in fact affected by larger dividends received, which almost entirely tax free, and by the withdrawal from the deferred tax fund of € 31,507K, equal to the tax on the part that is no longer taxable of the value adjustment carried out in 2004 on the Generali shares in the portfolio, based on current tax legislation.

On 16 December 2005, the deed of merger by incorporation of First Life S.p.A. into Milano Assicurazioni S.p.A. was signed. The transaction did not bring about any changes in the share capital of Milano Assicurazioni, since the latter had purchased the entire share capital of First Life from SAI Holding Italia S.p.A. (100% Fondiaria-SAI) for € 13.700K in accordance with the relevant valuation carried out by KPMG Corporate Finance.

The legal effects of the merger, which was approved by ISVAP in an order issued on 2 December 2005, ran from 31 December 2005 while, for accounting and tax purposes, the merger came into force on 1 January 2005.

First Life was a substantially inactive life insurance company which had set up an open pension fund. The transaction will allow Milano Assicurazioni to launch direct operations in the open pension funds sector.

The table below shows a summary of the Profit and Loss Account for 2004 compared with the one for the previous year

### Summary of the profit and loss account

<i>(in € K)</i>	<b>2005</b>	<b>2004</b>
<b>Result of the Life business technical account</b>	<b>24,755</b>	<b>52,575</b>
Technical balances – direct Non-Life business:		
- Motor T.P.L.	8,447	6,898
- Other Non-Life business	171,663	207,214
<b>Total direct business</b>	<b>180,110</b>	<b>214,112</b>
Outward reinsurance and inward reinsurance	2,161	-19,108
<b>Technical balance – Non-Life business</b>	<b>182,271</b>	<b>195,004</b>
Variation in equalization provisions	-913	-745
Income allocated to the Non-Life technical account	94,509	89,504
<b>Result of the Non-Life technical account</b>	<b>275,867</b>	<b>283,763</b>
<b>Overall result of core business</b>	<b>300,622</b>	<b>336,338</b>
Return on investments	287,850	243,951
Value adjustments on investments, net of value readjustments	-26,594	-9,317
Net gains on the sale of investments	12,579	34,505
Income relating to investments where the risk is borne by policyholders	22,773	16,010
Less income allocated to the technical accounts	-256,735	-249,294
Amount of goodwill written down	-23,991	-24,144
Other income, net of other charges	-20,202	-21,004
<b>Result for ordinary business</b>	<b>296,302</b>	<b>327,045</b>
Gains on disposal of long-term investments	32,119	50,343
Tax purging (reclassification), ie. value adjustment on Generali shares written off	-	113,664
Other income and extraordinary charges	-5,128	4,444
<b>Pre-tax profits</b>	<b>323,293</b>	<b>495,496</b>
Taxes for the year	-90,187	-189,270
<b>Operating profit</b>	<b>233,106</b>	<b>306,226</b>

In order to make it easier to understand the operating results achieved in the current year and in the previous year in the section of the Notes to the Accounts dealing with valuation criteria, we show the summary profit and loss accounts for 2005 compared to that for 2004, excluding the effects of the tax purging (reclassification), i.e. of the elimination of the value adjustment carried out purely for tax purposes in 2003 on the Generali shares in the portfolio.

# **Insurance Business**

## Premium and additional income

The premium and additional income from direct business and inward reinsurance totalled € 3,304,148K and recorded an increase of 4.28% compared with the previous year.

Premium income for direct business was € 3,294,070K (+ 4.56% compared with the previous year). In particular in Non-Life business premium income of € 2,700,039K was achieved, an increase of 2.77% because of an increase of 2.46% in Motor Vehicle business and a rise of 3.64% in other Non-Life business.

In the Life business, premium income was € 594,031K, an increase of 13.55% compared with the previous year. The increase was essentially achieved by traditional type products, which recorded an increase of 16.75% with premiums of € 322,299K, and capitalisation products, which achieved premium income of € 240,885K (+ 19.83% compared to the previous financial year). There was however a fall in premiums relating to products with a high financial content (index- and unit-linked), which are becoming less popular with clients.

In inward reinsurance premium income amounted to € 10,078K compared with € 18,295K in the previous year (- 44.91%). The low premium income is due to the decision that was taken in the past to cease underwriting in the inward reinsurance sector. The further decrease compared to the previous financial year is mainly due to the absence of a treaty relating to the legal protection sector.

The table below shows the details of premium income, the percentage composition of the portfolio and the variations compared with the figures for 2004.

## Premium and additional income

Direct business	2005	2004	Variation	% Distribution	
NON-LIFE BUSINESS	<i>In € K</i>		%	2004	2003
Accident	175,541	169,296	3.69	5.31	5.34
Health	49,162	46,756	5.15	1.49	1.48
Railway rolling stock	1	1	0.00	0.00	0.00
Aircraft hull	172	143	20.28	0.01	0.00
Marine-, lake- and rivercraft hull					
	3,058	2,584	18.33	0.09	0.08
Goods in transit	4,368	4,037	8.19	0.13	0.13
Fire and the elements	149,207	144,603	3.18	4.52	4.56
Other damage to property	115,556	109,857	5.19	3.50	3.47
Aircraft T.P.L.	60	52	15.38	0.00	0.00
Marine-, lake- and rivercraft T.P.L.	2,476	2,308	7.29	0.07	0.07
General TPL	178,946	173,931	2.88	5.42	5.49
Receivables	29	474	-93.89	0.00	0.01
Bonds	23,519	23,887	1.54	0.71	0.75
Miscellaneous monetary losses					
	6,685	7,169	-6.75	0.20	0.23
Legal protection	5,468	4,894	11.73	0.17	0.15
Assistance	12,505	11,211	11.54	0.38	0.35
<b>Total Non-Life excl. MV</b>	<b>726,753</b>	<b>701,203</b>	<b>3.64</b>	<b>22.00</b>	<b>22.13</b>
Land vehicles TPL	1,700,926	1,669,306	1.89	51.48	52.68
Land vehicles – Own damage or loss	272,360	256,689	6.11	8.24	8.10
<b>Total Motor Vehicle business</b>	<b>1,973,286</b>	<b>1,925,995</b>	<b>2.46</b>	<b>59.72</b>	<b>60.78</b>
<b>Total Non-Life Business</b>	<b>2,700,039</b>	<b>2,627,198</b>	<b>2.77</b>	<b>81.72</b>	<b>82.91</b>
<b>LIFE BUSINESS</b>					
Life assurance	322,299	276,060	16.75	9.75	8.71
Insurance linked to investment funds and market indices	30,758	45,992	-33.12	0.93	1.45
Health Insurance	89	84	5.95	0.00	0.00
Capital redemption operations	240,885	201,017	19.83	7.29	6.34
Pension Fund management	0	0	0.00	0.00	0.00
<b>Total Life Business</b>	<b>594,031</b>	<b>523,153</b>	<b>13.55</b>	<b>17.97</b>	<b>16.51</b>
<b>Total Direct Business</b>	<b>3,294,070</b>	<b>3,150,351</b>	<b>4.56</b>	<b>99.69</b>	<b>99.42</b>
Inward reinsurance:					
NON-LIFE BUSINESS	9,944	18,146	-45.20	0.30	0.57
LIFE BUSINESS	134	149	-10.07	0.01	0.01
<b>Total inward reinsurance</b>	<b>10,078</b>	<b>18,295</b>	<b>-44.91</b>	<b>0.31</b>	<b>0.58</b>
<b>Grand total</b>	<b>3,304,148</b>	<b>3,168,646</b>	<b>4.28</b>	<b>100.00</b>	<b>100.00</b>

## ***Technical results***

### **Non-life business**

The total technical balance net of reinsurance, excluding the proportion of profits from investments transferred from the non-technical account and the variation in equalization provisions, shows a net profit of € 182,271K compared with a net profit of € 195,004K recorded in the previous year.

On direct business alone the technical balance, net of outward reinsurance, shows a net profit of € 178,557K compared with the profit of € 188,301K achieved in the previous year.

The direct business gross technical balance for Motor Vehicle TPL was positive in the amount of € 8,447K, a slight improvement on the result for 2004 of € 6,898K. Net of outward reinsurance, the technical balance of 2005 rose to € 21,623K, essentially as a result of a number of high value claims relating to excess loss cover, which led to a significant level of recovery from reinsurers. In 2004, reinsurance had instead had a negative impact of € 931K, lowering the technical balance retained to € 5,967K.

The land vehicle hulls business continues to show very positive technical results, although they are lower than the previous year. The retained technical balance closed with a profit of € 86,507K, equal to 32.6% of earned premiums (€ 102,732K, equal to 40.2% of earned premiums as at 31 December 2004).

In Non-MV classes the trend was once again very positive on the whole and resulted in a technical balance of € 70,427K (€ 79,602K at the end of the previous financial year). All classes recorded generally satisfactory results with the sole exception of *Other damage to property*, which recorded a loss of € 2,541K, and *Credit*, in which no new policies are however being underwritten. The technical balance for *General T.P.L.* was however positive again, as a result, among other things, of the unfavourable evolution of claims posted to reserves.

The table below gives details for each class and the variations compared with the previous year.

<b>Technical balances – retained direct business</b>	<b>2005</b>	<b>2004</b>	<b>Variations 2005/2004</b>
<b>Non-Life Business – Italian Portfolio</b>			
	<i>(in € K)</i>		
Accident	35,192	47,748	-12,556
Health	6,191	6,648	-457
Railway rolling stock	-	-	-
Aircraft hull	68	45	23
Marine-, lake- and rivercraft hull	180	18	162
Goods in transit	787	1,199	-412
Fire and the elements	11,017	25,770	-14,753
Other damage to property	-2,541	10,844	-13,385
Aircraft T.P.L.	-79	-15	-64
Marine-, lake- and rivercraft T.P.L.	136	1,256	1,120
General TPL	1,107	-24,309	25,416
Credit	-122	261	-383
Bonds	8,824	2,431	6,393
Sundry pecuniary losses	5,056	3,212	1,844
Legal protection	2,877	153	2,724
Assistance	1,734	4,341	-2,607
<b>Total Non-Life business excluding MV</b>	<b>70,427</b>	<b>79,602</b>	<b>-9,175</b>
Land vehicles – motor TPL	21,623	5,967	15,656
Land vehicles – Own damage or loss	86,507	102,732	-16,225
<b>Total motor vehicle business</b>	<b>108,130</b>	<b>108,699</b>	<b>-569</b>
<b>Grand Total</b>	<b>178,557</b>	<b>188,301</b>	<b>-9,744</b>

Below are brief comments on the trend in the individual classes. The number of claims reported also includes the relevant proportion of claims on coinsurance policies entrusted to others.

### **Accident**

Premium income € 175,541K (+ 3.69%)

Claims reported 40,404 (+ 3.2%)

The technical performance of this class is extremely positive, although slightly less than in the previous financial year, which had however benefited from significant savings on claims reserves from previous financial years. The gross technical balance showed a profit of € 35,351K and accounted for around 20% of premiums earned (€ 48,262K as at 31 December 2004, with an incidence of 29% on premiums earned). Net of reinsurance cessions, the technical profit amounted to € 35,192K compared to the € 47,748K recorded in the previous financial year.

### **Health**

Premium income € 49,162K (+ 5.15%)



Claims reported 30,032 (+ 2.8%)

The increase in premiums is the result, among other things, of targeted sales campaigns which focused the company's activities on this class, for the purpose of reversing the downward trend in premiums recorded in the previous financial years. Attention continues to be focused however on the quality of the portfolio, which allows an extremely positive technical performance to be maintained in a sector which shows an unfavourable level of profitability. The loss ratio for the current financial year, gross of reinsurance, improved compared to the previous year (56.5% compared to 59% recorded in 2004). The gross technical balance showed a profit of € 6,427K, slightly down on the profit recorded for the previous financial year, following a less favourable performance of claims posted to reserves. Net of outward reinsurance, the technical balance showed a profit of € 6,191K compared to € 6,648K in 2004.

### **Land vehicle hulls**

Premium income € 272,360K (+ 6.11%)

Claims reported 91,047 (+ 16.2%)

The increase in premium income is mainly due to the positive reaction of customers to the new cover offered to protect them from damage caused by natural events and acts of vandalism. The technical balance retained remained very satisfactory (a profit of € 86,507K) although it was lower than the one recorded in the previous financial year, as a result of the trend in claims reported, which increased the loss ratio for the current year, and to a less favourable performance of claims already posted to reserves.

### **Aircraft hull**

Premium income € 172K (+ 20.28%)

Claims reported - (- %)

Subscriptions were mainly limited to cover specifically requested by clients who already held other types of insurance. No claims were made during the financial year.

### **Marine-, lake- and rivercraft hull**

Premium income € 3,058K (+ 18.33%)

Claims reported 235 (+ 67.9%)

In line with previous financial years, premiums were essentially for risks relating to leisure craft, a sector showing interesting levels of growth and reasonable profitability. Premium income increased at a faster rate than the average market rate. The direct business gross technical balance was positive and recorded a profit of € 124K, lower than the profit of € 318K recorded in 2004, as a result of the trend in claims reported, which led to a loss ratio of 91%, compared to 82% in the previous financial

year. Net of outward reinsurance, the technical balance showed a profit of € 180K (€ 18K as at 31 December 2004).

### **Goods in Transit**

Premium income € 4,368K (+ 8.19%)

Claims reported 556 (- 5.0%)

The increase in premiums, which took place in a market context characterised by substantial stability, follows the reduction recorded in the previous financial year, which was due to the sale of an agency portfolio with a strongly negative performance.

The positive trend in claims reported determined an improvement in the loss ratio, while a lower contribution resulted from the settlement of claims already posted to reserves. The technical balance gross of reinsurance remains extremely positive, albeit down on the 2004 financial year (profit of € 2,077K compared to € 3,514K). Net of outward reinsurance, the technical profit for 2005 was € 787K compared to € 1,199K recorded in the 2004 financial year.

### **Fire and the elements**

Premium income € 149,207K (+ 3.18%)

Claims reported 36,826 (- 3.1%)

The current loss ratio remains extremely satisfactory, both because of the trend in the number of claims reported and the absence of major claims. The technical balance gross of reinsurance showed a profit of € 20,308K, down on the profit recorded at the end of 2004, which was € 34,546K, owing to the lower amount of savings on claims already posted to reserves. Net of outward reinsurance, which had a negative impact of € 9,291K, the technical balance was € 11,017K compared to € 25,770K in the previous financial year.

### **Other damage to property**

Premium income € 115,556K (+ 5.19%)

Claims reported 43,120 (+ 16.5%)

The increase in claims reported and the unfavourable development of claims already posted to reserves had a negative effect on the direct business gross technical balance, which closed the year with a loss of € 680K compared to the profit of € 17,609K recorded in the previous year, which had however also benefited from savings achieved on the settlement of claims already posted to reserves. Net of outward reinsurance, which recorded a profit in favour of reinsurers of € 1,861K, the technical balance of direct business retained closed with a loss of € 2,541K (profit of € 10,844K at the end of the 2004 financial year)

### **Land vehicles – motor TPL**

Premium income € 1,700,926K (+ 1.89%)

Claims reported 425,005 (+ 2.0%)

The increase in premium income is essentially attributable to the increase in the number of policies, which however recorded a slightly lower average premium than in the previous year.

The number of claims reported during the year rose by 2.0%. The average cost of claims paid increased overall by 5.8%, compared with an increase of 2.5% in the average cost of claims paid during the current year and an increase of 9.1% in the average cost of claims relating to previous years.

The increase relating to claims for the current year is primarily the result of a rise in the average cost of claims involving damage to property, while the increase in the cost of claims for physical injuries was smaller.

The speed of settlement of claims for the current year was 70.2% (68.3% as at 31 December 2004) while the speed of settlement of claims from previous years was 72.9%, also up on the figure for the previous year of 70.7%.

Claims for the current year amounted in total to € 1,385,408K compared to € 1,331,291K in the previous year. The loss ratio for the current year was 82.3% compared to 80.1% recorded at the end of the previous financial year. Current claims settled during the year were 317,935 and accounted for 74.7% of the total number of claims reported (73.2% as at 31 December 2004).

The table below summarizes the claims still outstanding as at 31 December 2005 and the relative incidence on claims reported:

Year	Claims reported	Claims outstanding	as % of claims reported
1997	498,713	623	0.1%
1998	428,081	841	0.2%
1999	385,580	1,380	0.4%
2000	403,984	2,134	0.5%
2001	406,937	3,238	0.8%
2002	408,878	5,584	1.4%
2003	420,498	10,414	2.5%
2004	416,868	22,097	5.3%
2005	425,431	107,496	25.3%

*(Figures include business entrusted to others and expressed as a proportion of coinsurance.)*

233,488 claims were reported under the Direct Indemnity Agreement, 104,719 of which related to 'mandatory DIA' and 128,769 to 'debtor DIA'.

The direct business gross technical balance was positive by € 8,447K, a slight improvement on the result for the 2004 financial year of € 6,898K. Net of outward reinsurance, the technical balance for 2005 amounted to € 21,623K, essentially as a result of a number of high value claims relating to excess loss cover, which led to a significant level of recovery from reinsurers. In 2004, reinsurance had instead had a negative impact of € 931K, lowering the technical balance retained to € 5,967K.

## General TPL

Premium income € 178,946K (+ 2.88%)

Claims reported 41,486 (- 3.6%)

The decrease in claims reported and the favourable performance of claims from previous years, already posted to reserves, determined a significant improvement in the loss ratio, which fell to 72.3% compared to the figure of 80.6% recorded at the end of the previous financial year.

The direct business gross technical balance recorded a profit of € 1,252K, compared to the loss of € 21,420K recorded in the 2004 financial year, which resulted, among other things, from the negative evolution of claims from previous years. The difference between the results for the current and previous years is also wider as regards retained business (profit of € 1,107K in 2005 compared to a loss of € 24,309 in 2004) as a result of the more favourable performance of outward reinsurance, which recorded a negative technical balance of € 145K compared to the loss of € 2,890K recorded in the previous financial year.

## Credit

Premium income € 29K (- 93.89%)

Claims reported 49 (- 80.8%)

The premium income performance is a result of the decision to withdraw from the commercial credit sector, following less than satisfactory results, and to maintain only a modest amount of underwriting in the other risk sectors purely as a service to customers.

## Bonds

Premium income € 23,519K (- 1.54%)

Claims reported 429 (- 25.9%)

The trend in premium income, which in line with market trends, reflects an underwriting policy based on selective criteria and the fact that some types of risk are no longer underwritten, given the burdensome contracts attached to them and the consequent high level of risk. The favourable trend in claims from previous years, already posted to reserves, determined a significant improvement in the loss ratio, which was 38.4%, compared to 69.1% in 2004.

The technical balance gross of reinsurance shows a profit of € 8,275K (€ 636K profit as at 31 December 2004). The incidence of outward reinsurance was positive by € 548K, raising the technical balance of retained business to € 8,824K (the retained technical balance was € 2,431K in 2004).

## Sundry pecuniary losses

Premium income € 6,685K (- 6.75%)  
Claims reported 204 (- 59.0%)

Technical performance remained extremely positive and improved further compared to the previous financial year. The technical balance for direct business amounted to € 5,265K compared to a profit of € 3,427K recorded in 2004.

### **Legal Protection**

Premium income € 5,468K (+ 11.73%)  
Claims reported 573 (- 7.7%)

Premium income related both to specific products and to 'legal protection' guarantees in MV policies with the aim of offering clients products that are supplemented with services of increasing interest and usefulness. The technical balance on direct business, gross of outward reinsurance, recorded a net profit of € 2,877K compared to the profit of € 3,165K recorded at the end of the previous year. The comparison in respect of retained direct business is not meaningful, given that there was no reinsurance treaty in force in 2005 while in 2004 the business relating to the Milano Assicurazioni portfolio was ceded, under a proportional reinsurance agreement, to the associated company Europa Tutela Giudiziaria, from which a significant proportion of the total portfolio was accepted, also under a proportional agreement.

### **Assistance**

Premium income € 12,505K (+ 11.54%)  
Claims reported 36,701 (+ 46.4%)

Premium income related mainly to guarantees inserted into policies covering MV, health, accident, fire and other damage to property with the aim of providing clients with integrated products able to provide fuller and more attractive insurance cover. Technical performance remained very positive (profit of € 2,678K on direct business gross of reinsurance) although it was down compared to the previous year following the trend in claims reported and the consequent worsening of the loss ratio for the current year, which increased from 32.8% in 2004 to 47.4%.

### **Life business**

Premium income from direct business amounted to € 594,031K, an increase of 13.55% compared with the previous year.

During 2005, work continued on standardising the product list of the various Divisions, which culminated – close to the end of the financial year and at the same time as ISVAP circular no. 551/D on transparency in life assurance contracts came into effect – in a single list, which is now distributed to all agency networks. The adoption of a single list and its organisation into macro areas corresponding to the various re-

quirements of customers were required in order to optimise the standard of service offered to customers, both before and after sales, without however affecting the operation of all the sales networks.

## **Individual insurance**

In the same way as in previous years, the whole financial year was focused on the work of monitoring the maturing capital of Life and capital redemption.

During the first half of the year, continuing with the process of reviewing and updating its offer, the Company launched two new products in the strategic segment of single premiums (Open Unico and Open Risparmio) associated with segregated accounts and aimed at satisfying specific targeted savings and investment requirements of clients. Both products feature a cost structure aimed, in the first case at rewarding the regularity of deposits, and in the second case, the size of deposits made by customers.

Pursuing the aim of increasing the distribution of high value annual premium products for the Company, a new product called Open Protetto was marketed in July, aimed at satisfying the medium to long term savings requirements of clients. Open Protetto is an insurance savings plan characterised by being linked to a new segregated accounts programme which allows assets to be invested in the property sector and provides a range of insurance cover options, some of them intrinsic to the product and others complementary and optionally available to the client.

Two instalments of Index Linked products were launched during the financial year, the first one characterised by the presence of annual coupons for pre-set and variable amounts, and the second by a mechanism associated with the growth of an innovative European share index.

As regards Unit Linked products, with the aim of maximising management efficiency and improving the offer to clients, with a view to the expected performance among other factors, the Company carried out a review of Internal Fund Sectors, in terms of features as well as costs.

As regards Personal Pension Plans, in a similar way to previous years, distribution by the Company, and the market as a whole, was still affected by a lower than expected demand.

## **Collective insurance**

The trend towards purchasing capital redemption products continued in 2005. In particular, the demand for this type of product remained high among Institutional Clients, with large amounts of cash to invest.

In order to cover all the areas of business that are typical of the “corporate” segment, as part of the creation of the aforementioned unified list of products, the Company repositioned two products known respectively as:

- VALORE TFR, a product dedicated to the insurance management of company funds used to cover employee severance pay, and
- VALORE TFM, a product dedicated to companies wishing to build up a financial reserve to cover their commitments towards shareholders or directors.

The two products, which have always been on the Company’s product list, are now particularly innovative, in terms of the rules applicable to them and from a technical/pricing point of view. They attracted a considerable amount of interest when they were launched, which allowed a series of new policies to be underwritten that were very interesting in terms of the volume of premiums earned and the type of clients acquired.

Furthermore, with the aim of increasing the level of penetration in the risk cover sector, the Company further restyled its product list aimed at the need for assistance with its new PLURAL VITA line for Groups and executives. This initiative allowed interesting results to be achieved in consolidating the Client portfolio by means of operations aimed at recapturing matured policies.

Finally, as regards the market segment associated with forms of supplementary welfare – which has been strongly influenced by recent legislative changes – business was focused essentially on monitoring the current portfolio, using the aforementioned VALORE TRF product as a vehicle to providing employers not only with advice on the impact of these changes on their companies, but also to providing them with a potential insurance solution that would allow them to present their employees with an alternative, or supplementary, instrument which is objectively speaking both effective and flexible.



## **New insurance products**

During the first half of 2005, two new products were launched called Casa Base and Famiglia Base, both characterised by a combination of benefits and a pre-set premium.

Casa Base offers Clients, both owners and tenants, initial protection of their home from the risks of fire and theft.

Famiglia Base is instead a product aimed at insuring the head of the family against liability arising from his/her property and his/her relationships.

The following activities took place during the second half of 2005:

- Renaming of the Group's "Protezione Salute" product. In order to achieve better commercial positioning, the Company decided to re-use the name Sanicard, because it recalls the image of a product that all stakeholders consider to be a benchmark product. Variations were then introduced to this name according to the types of products: Sanicard Salute, Sanicard Rinnovo Garantito and Sanicard Ricovero.
- Launch of a new Group product called "La Mia Assicurazione Infortuni" to provide financial protection for policyholders in the event of an occupational or non-occupational accident. This product, which will be issued in January 2006, replaces and improves the currently marketed product called "Protezione Infortuni".
- Creation of a new product called Ritiro Patente (Licence Withdrawal) to protect the policyholder's driving licence. The product, which is sold exclusively under the brand of Milano Assicurazioni and its divisions, provides a financial contribution to assist with obtaining a new licence or recovering the points lost.
- Creation of a new product called Dialogo inCasa, sold by the subsidiary Dialogo Assicurazioni and dedicated to protecting the policyholder against financial losses caused by damage to his/her home following a fire or theft.
- Creation of a new product called Dialogo inFamiglia, sold by Dialogo Assicurazioni and aimed at insuring the head of the family against liability arising from his/her ownership of the dwelling and his/her relationships.
- Creation of a new product called Systema Patrimonio, sold by the subsidiary Systema Assicurazioni, dedicated to protecting the policyholder against financial losses caused by damage to his/her home following a fire or theft.
- Creation of the new Assistance product, sold by Dialogo Assicurazioni and Systema Assicurazioni, known respectively as Dialogo Card and Systema Card, offering one of the most complete range of services currently available in the market.

During the second half of 2005, there was also a restyling of the "RC Progettista Merloni" Group policy relating to professional civil liability for risks arising from the executive design of public works or of works that benefit from public funding or concessions.

## **Reinsurance policy**

There were no significant changes to the reinsurance plan compared to the previous financial year and the costs of the respective cover remained almost unaltered.

The risks ceded in Non-Life business were placed with leading international operators by the associated company The Lawrence Re Ireland Ltd. Considering, among other things, the considerable mass of premium income from direct business, the agreements signed give preference to non-proportional cessions for Fire, Theft, Accident, General TPL, MV TPL and Land vehicles. Proportional treaties with a non-proportional structure were instead maintained to protect the retained portion in the transport, credit, guarantees and aeronautical risk classes. For technological risks, a quota and threshold structure was preferred, with joint non-proportional protection with fire and land vehicle risks. The assistance class was reinsured under quota reinsurance contracts with Pronto Assistance, while the Hail class continues to be protected by the traditional stop-loss cover. Finally, no reinsurance cover for the Legal Assistance class was proposed.

In the Life classes, the work done to standardise reinsurance cover in the Milano and Maa divisions was consolidated. Proportional threshold cover with The Lawrence Re is currently in operation with retention of the less exposed part of the portfolio.

The total premiums ceded amount to € 72,310K and account for 2.2% of the direct business premiums (the incidence in 2004 was 3.2%).

### External Organization

As at 31 December 2005, there were 1,413 agencies working under contract (1,010 of which related to the Milano division, 342 to the Nuova Maa division and 61 to the SIS division) compared with 1,452 at the end of the previous year (1,036 of which related to the Milano division, 354 to the Nuova Maa division and 62 to the SIS division). There are in addition to the agencies in Milan, Turin, Rome, Padua and Pescara.

During the year 5 new agencies were set up and 44 were closed down. In addition 58 were reorganized in order to improve the levels of efficiency of the sales outlets concerned.

The table below summarizes the geographical distribution of the Agencies and their average portfolios:

	2005	2004
<b>Number of Agencies:</b>		
North	698	719
Centre	311	308
South	404	425
<b>Total</b>	<b>1,413</b>	<b>1,452</b>
<b>Average portfolio (€ K)</b>	<b>2,030</b>	<b>1,904</b>

### **Inward reinsurance**

Premium income from inward reinsurance amounted to € 10,078K, € 9,944K of which was from Non-Life business and € 134K from Life business (€ 18,295K in 2004 – € 18,146K from Non-Life business and € 149K from Life business). The low amount of premium income is a result of the decision taken in the past to cease underwriting new policies in the inward reinsurance market. The further decrease compared to the previous financial year is mainly due to the absence of a treating relating to legal assistance.

The accounts show the technical data for 2005 for optional business and for policies with Companies in the Group and, in addition and of little significance, those for 2004 for other business since, in accordance with Italian and international procedure, the figures relating to 2005, not all of which have yet reached us, are held over in the relevant transit accounts on the balance sheet.

The total technical balance, net of retrocession, shows a net profit of € 3,658K compared with a profit of € 6,695K in the previous year.

### **Underwriting costs**

Underwriting costs for gross direct business amounted to € 462,970K, an incidence on premium income of 14.1%, compared to the 15% recorded in the 2004 financial year, which was however burdened by a share of the commissions on multiannual policies issued in previous financial years.

Underwriting and collection commissions alone amounted to € 402,986K, an incidence on premium income of 12.2% (13% in the previous financial year).

Other underwriting costs amounted to € 59,984K, compared to € 61,525K in the previous year, with the incidence on premium income falling from 2% to 1.8%.

### **Administrative costs**

Administrative costs, net of amounts allocated to items relating to core business or capital and reserves, amounted to € 68,963K, substantially in line with the amount of € 68,731K recorded in 2004. They include labour costs of € 26,723K, other expenses of € 41,005K and depreciation of capital goods of € 1,235K. The incidence on the premium income from direct business fell to 2.09% from 2.18% recorded in 2004.

### **Staffing costs**

As at 31 December 2005 the Company had 1,629 employees (1,657 as at 31.12.2004) 25 of whom were executives, 1,602 clerical and insurance staff and 4 caretakers, whose terms of employment are governed by the caretakers' contract.

Employee costs incurred during the year totalled € 98,794K compared with € 96,933K in the previous year, having risen by 1.9%.

Taking account of the reciprocal charges between the companies in the Fondiaria-Sai Group as a result of their sharing the costs of the functions carried out jointly, the Company's employee costs amounted to € 94,495K and were allocated to the following items in the profit and loss account, based on the work actually carried out:

	(€ K)
Charges relating to claims	33,074
Underwriting costs	32,137
Administration costs	26,723
Investment management charges	72
Other charges	2,489
<b>Total</b>	<b>94,495</b>

# **Property and financial business**

Investments as at 31 December 2005, compared with those at the end of the previous year, are broken down in the following table:

	<b>2005</b>	<b>%</b>	<b>2004</b>	<b>%</b>
	(€ K)		(€ K)	
Land and buildings	404,735	4.70	415,716	5.10
Bonds issued by Group undertakings	3,984	0.05	4,000	0.05
Bonds and other fixed-yield securities	6,156,210	71.50	6,033,327	73.97
Units and shares in Group undertakings	425,591	4.94	271,765	3.33
Investments in minority shares and units	870,095	10.11	798,091	9.78
Corporate financing to Group undertakings	29,530	0.34	-	-
Loans to policyholders and corporate financing to minority interests	65,999	0.77	68,012	0.83
Units in investment funds	267,118	3.10	185,162	2.27
Deposits with credit bodies	2,141	0.02	2,482	0.03
Sundry financial investments	21,984	0.26	19,318	0.24
Deposits with ceding undertakings	4,110	0.05	6,450	0.08
<b>Total</b>	<b>8,251,497</b>	<b>95.84</b>	<b>7,804,323</b>	<b>95.68</b>
Investments where the risk is borne by policyholders and arising out of pension fund management	358,253	4.16	352,394	4.32
<b>Grand total</b>	<b>8,609,750</b>	<b>100.00</b>	<b>8,156,717</b>	<b>100.0</b>

Average net returns achieved during the year compared with those for the previous year are shown in the following table. In calculating returns on shares, bonds and units in investment funds account has been taken of the net gains from the realization of investments recorded in the working capital.

	<b>2005</b>	<b>2004</b>
	%	%
Land and buildings	1.6	2.4
Bonds, other fixed-yield securities and units in investment funds	3.9	4.3
Shares and units	3.8	1.4
<b>Total</b>	<b>3.8</b>	<b>3.8</b>

The approach taken in the bonds sector in 2005 was a slow but steady increase in the duration of Non-Life and Life Portfolios.

As regards the non-life classes portfolio, the main reason for this strategy was to draw benefits from the flattening of the rates curve resulting from the restrictive monetary policy implemented throughout 2005 by the US Federal Bank and, during the last month, by the Central European Bank as well.

In fact the process of increasing rates from what was a historically low level in absolute terms caused a "flattening" of the rates curve, following an increase in returns on short-term maturities and a stability or fall in long-term maturities.

This also occurred thanks to an almost total absence of inflationary expectations in the medium-long term, as a result of various factors, including the strong credibility acquired over the years by the US Federal Bank and the increasingly significant

presence of the Chinese economy in the world markets, which prevented European and US companies from significantly increasing their prices because of a need to compete with Chinese companies which benefit above all from the advantages of a lower cost of labour.

As regards the life classes portfolio, the increased duration was determined, among other things, by a greater correlation between assets and their respective liabilities, which generally present longer maturities.

In the shares and units class, the favourable macroeconomic scenario and attractive valuations allowed the asset allocation to be rebalanced by increasing working capital positions and strategic investments.

In the context of life portfolios, the objective of reducing the weight of investment funds and the focus on Italian securities and financial securities in particular was pursued, favouring the direct management of securities which, while maintaining the euro as the benchmark currency, could widen geographical and sectorial diversification. Share management in the non-life business was instead directed at making short-term opportunist choices.

At the end of 2005, the bond class accounted for 80% of the total securities portfolio, with a duration of approximately 3.9.

The Non-Life Business consists of fixed-rate treasury and supranational bonds (approximately 67%) and variable rate bonds (the remaining 33%) with a total portfolio duration of 2.20.

The Life Business presents a longer duration (5.20) and a greater presence of fixed rate treasury bonds, which account for 80% of the total, with the remaining 20% invested in variable rate bonds.

In terms of strategy, preference was given to investments in Euro zone government bonds, which account for 80% of the portfolio, while the weight of the Corporate class, which consists to a very great extent of investment grade securities, fell from 25% to 20% during the financial year.

During 2005, the weight of the share class rose from 11.5% to 13% as a consequence of a more positive view of the performance of European equity markets and of a financial situation that allowed a greater degree of reasoned risk to be assumed on portfolios.

## **Other significant events occurring during the financial year**

### **Garibaldi Repubblica property project**

During the first six months, negotiations were completed with the US real estate group HINES for the purpose of establishing a joint venture with the Fondiaria-SAI Group, and specifically with Milano Assicurazioni, to carry out a property development project in an area of Milan known as “Garibaldi Repubblica”.

The “Garibaldi Repubblica” project is expected to develop approximately 110 square metres of buildable area, with approximately 50,000 square metres for offices, approximately 10,000 square metres for commercial premises, approximately 15,000 square metres for residential premises, approximately 20,000 square metres for exhibition areas and approximately 15,000 square metres for hotels.

On 15 July, the implementation agreement (Convenzione Attuativa) was signed with the Municipality of Milan and, on the same day, purchase and sale agreements were signed with the private organisations and the private building rights were exchanged with the Municipality of Milan. Based on the latest estimates, the total cost of the project will be approximately € 650m and the project is expected to take around five years to complete, counting from 2005.

On 18 April 2005, Milano Assicurazioni acquired from the HINES Group a share in the capital of a Luxembourg company called Garibaldi S.c.s. for € 15.34m by acquiring part of a shareholder loan which amounted to almost the total value of the transaction. Through another Luxembourg holding company, this company will control a number of Italian vehicle companies that will develop the buildable areas. Further financing of €9m was subsequently disbursed to Garibaldi S.c.s.

The total financial commitment of Milano Assicurazioni is estimated to be € 100m for the period between 2005 and 2010, against expected revenue in the same period of € 130-140m. The Company’s investment will primarily take the form of interest-bearing loans made to the investee company Garibaldi S.c.s., with a minor share consisting of capital payments

### **Purchase of a minority shareholding in Progestim S.p.A. (now Immobiliare Lombarda S.p.A.)**

Subsequent to authorisation by ISVAP as required by law, on 21 September 2005 Milano Assicurazioni purchased from Fondiaria-SAI a 12% stake in the capital of Progestim S.p.A. for €43,416K, determined on the basis of a valuation of the capital of Progestim carried out by KPMG Corporate Finance.

Progestim (subsequently incorporated into Immobiliare Lombarda S.p.A.) was the Group’s company that specialised in providing property services to Fondiaria-SAI and its subsidiaries. In particular, Progestim carried out the activities, now carried out by Immobiliare Lombarda, of managing the property portfolio of the Group companies, based on a specific mandate granted by the latter.

In view of this and of the size to which the property portfolio of Milano Assicurazioni had grown, the opportunity had arisen for the Company to purchase a minority



shareholding in Progestim and therefore benefit from this company's revenue prospects. With the legal effects running from 1 December 2005, Progestim was therefore merged by incorporation with Immobiliare Lombarda. As a result of this merger, Milano Assicurazioni now owns a 7% stake in the capital of Immobiliare Lombarda, while Fondiaria-SAI has direct control with a shareholding of over 50%.

### **Sale of a share of Uniservizi to other Group companies**

During the second half of 2005, as part of the reorganisation of the functions performed by Uniservizi S.c.r.l., a review was carried out of the shares held in this company, which provides organisational and logistical support to Fondiaria-SAI Group companies. As a result of this, Milano Assicurazioni, which owned 56.80% of Uniservizi, sold a total of 28.80% of the shareholding to other Group companies, with 20.61% going to the parent company Fondiaria-SAI and 5.85% to the subsidiary SASA.

### **Fondiaria-SAI foundation**

In a letter dated 28 October 2005, the Prefecture of Milan confirmed that the Fondiaria-SAI Foundation had been inscribed on the same day in the register of legal persons of the Prefecture of Milan under order no. 645, page 1024, of volume 3.

The Fondiaria-SAI Foundation is the natural outcome of a series of initiatives previously or currently implemented by the Fondiaria-SAI Group relating to the promotion of art and culture, to supporting initiatives for young people and disadvantaged categories and funding medical and scientific research. The aim of the Foundation, at least initially, has been to channel all these initiatives.

The Foundation currently has an available fund of approximately € 190K, as well as further resources of € 1,000,000.

These funds were set up during 2005 by the founders of Fondiaria-SAI and Milano Assicurazioni, each of whom will be supporting the initiatives of the Foundation as of 2006 with annual contributions of € 300,000.

### **Sale of shareholding in Finitalia**

On 7 November 2005, Milano Assicurazioni sold its entire shareholding in Società Finitalia S.p.A., equal to 60% of the share capital, to the subsidiary Saifin-Saifinanziaria S.p.A. (hereinafter: Saifin).

As part of the process of rationalisation and reorganisation of companies in the Fondiaria-SAI Group, the parent company Fondiaria-SAI had itself expressed an interest in acquiring, through Saifin, the shareholding in Finitalia held by Milano Assicurazioni.

As is well-known, Finitalia operates in the field of personal loans and of individual loans intended for the payment of insurance premiums.

The Company currently provides its service to customers insured through the network of agencies of the former Fondiaria Group companies. The service is therefore currently being expanded to include customers insured through the network of agencies of the other Fondiaria-SAI Group companies and of the SAI division of the Fondiaria-SAI network, as a result, among other factors, of the merger of Finitalia with My Fin S.p.A., the other Fondiaria-SAI Group Company which operated in the

consumer credit sector and performed the same activities with regard to the former SAI network.

In the above context, the incorporation of My Fin into Finitalia has allowed activities to be rationalised and structures to be strengthened, guaranteeing the resources required to sustain the development of consumer credit activities serving the network of agencies of Group Companies and other companies with which they have arrangements.

With regard to the above, the agency networks of Fondiaria-SAI and the other companies it controls have assumed an increasingly bigger role in the business of Finitalia than that of the Milano agency network.

In view of the above, the Board of Directors of Milano Assicurazioni decided that it was in the best interest of the company to sell its shareholding, which naturally does not jeopardise the possibility for Milan to continue working with Finitalia.

The sale price of the shareholding owned by Milano Assicurazioni, equal to 60% of the share capital, was fixed at € 18.8m, compared to a book value of € 13.1m, based on an estimate of the value of the economic capital of Finitalia carried out for this purpose by KPMG Corporate Finance.

The conclusions reached by KPMG, which identified the value of 100% of the economic capital of Finitalia as € 31.3m, were shared by the Board of Milano Assicurazioni.

The transaction also received prior authorisation from ISVAP as required by law.

### **Novara Assicura S.p.A.**

On 9 November 2005, the subsidiary Novara Assicura S.p.A. (100% Milano Assicurazioni S.p.A.) was authorised by ISVAP to carry out business in a number of non-life classes, including the Motor TPL class. Subsequently, on 23/12/2005, ISVAP authorised the transfer by Milano Assicurazioni S.p.A. of 50% of the capital of Novara Assicura S.p.A. to Banco Popolare di Verona e Novara.

As a result of these authorisations, it will now be possible to launch a partnership with the banking group in the non-life bank insurance sector, involving the placement of non-life insurance products created by Novara Assicura S.p.A. through branches of Banca Popolare di Novara, a subsidiary of Banco Popolare di Verona e Novara.

### **Property operation relating to land owned by the Company in Milan**

In December 2005, a property operation was carried out consisting of the sale of land for cash by the Company and the purchase at a future date, by the same Company, of a property to be built on the said land.

In particular, the operation is split into two separate but functionally associated parts, which are the following:

- sale by Milano to the company IM.CO. S.p.A. of a plot of land located at Via Confalonieri-Via de Castilia (Lunetta dell'Isola), Milan, for which building permits and the results of the signing of an urban planning agreement with the Municipality of Milan on 24 June 2005, which established the buildable areas for office, retail, warehouse and parking use, are currently awaited;
- purchase from IM.CO. by Milano Assicurazioni, once the building permits have been issued, of a property to be built on the land in question by IM.CO. itself. This

will be a property assigned to the provision of services, to be built in the area constituting Unit A2 of De Castilia development area "A", consisting of a tower building with twelve floors above ground, a ground floor and two floors below ground.

The land was sold for the value resulting from the expert valuation survey carried out by SCENARI IMMOBILIARI S.r.l., which was € 28.8m (compared to a book value of approximately € 15.7m), while the completed property was purchased for a pre-established non-reviewable price of approximately € 93.7m, which was also determined on the basis of the valuation carried out by SCENARI IMMOBILIARI, with deferred payment based on the stages of progress of the works.

Given that the company structure of IM.CO. makes it a related party of both the Company and FONDIARIA-SAI, appropriate fairness and legal opinions were obtained, as required by the corporate governance system adopted by the Company, drawn up respectively by KPMG ADVISORY S.p.A. CORPORATE FINANCE and the ASHURST legal firm.

The fairness opinion confirmed the fairness of the aforesaid selling prices of the land and purchase price of the property, while the contracts signed took account of the suggestions contained in the legal opinion.

In approving the operation, the Boards of Directors of Fondiaria-SAI and Milano noted:

- the strategic and industrial value of the operation and the interest of Milano Assicurazioni and the Group in the operation itself;
- the nature of the relationship and the methods for determining the financial conditions of the operation, as well as the legal and tax aspects;
- the absence of atypical and/or unusual features.

The same assessment was carried out by the Board of Directors of the parent company FONDIARIA-SAI, of which – as explained above – IM.CO. is a related party.

By means of the operation in question, Milano Assicurazioni transferred all entrepreneurial risks to the construction company, with the latter assuming all commitments of an organisational and site control nature, which means that Milano Assicurazioni retains the role of an investor exclusively. Furthermore, the fixed purchase price protects the Company against any price reviews affecting materials and labour. As a result of the operation, therefore, the Company will become the owner of a major property asset at market value, without taking on any of the entrepreneurial charges (and associated risks) which are typical of construction activity, thus limiting its involvement to that of an institutional investor

### **Purchase of the entire share capital of Campo Carlo Magno S.p.A. and Campo Carlo Magno Sport S.r.l.**

In December 2005, contracts for the purchase by Milano Assicurazioni of 100% of CAMPO CARLO MAGNO S.p.A. and CAMPO CARLO MAGNO SPORT S.r.l. and company leasing contracts between these companies and ATAHOTELS S.p.A. were signed.

CAMPO CARLO MAGNO is the owner of a hotel property complex in Madonna di Campiglio called GOLF HOTEL, while CAMPO CARLO MAGNO SPORT is involved in the management of ski lifts, ski slopes and golf courses.

The Executive Committee of FONDIARIA-SAI had also expressed a favourable opinion on the transaction.

ATAHOTELS was therefore identified as a hotel operator to whom the hotel property complex could be leased and could therefore take over the management.

The price paid to purchase the entire share capital of the two companies, as well as of the receivables represented by the various loans made to CAMPO CARLO SPORT, amounted to €22.5m in total, lower than the value shown in the total financial value report on the two companies drawn up by an expert appointed for this purpose – who in turn used an expert report produced by SCENARI IMMOBILIARI S.r.l. for the property component – taking into account the balance sheets of the last four years for the two companies, the accounting situations as at 31 October 2005, the business plan and other accounting and management information made available. Once the sale of the two companies had been completed, as explained above, a company leasing contract was signed between CAMPO CARLO MAGNO and CAMPO CARLO MAGNO SPORT on the one hand and ATAHOTELS on the other. Given that the company structure of ATAHOTELS makes it a related party of both the Company and FONDIARIA-SAI, appropriate fairness and legal opinions were obtained, as required by the corporate governance system adopted by the Company, drawn up respectively by KPMG ADVISORY S.p.A. CORPORATE FINANCE and the ASHURST legal firm.

The fairness opinion found that the lease payments – as contractually established between the parties at 20% of the net annual revenue of the lines of business leased, subject to a guaranteed minimum payment – represented a fair return on the lines of business and was in line with other similar operations on the market.

The contracts that were signed took into account the suggestions contained in the legal opinion.

In approving the operation, the Board of Directors of MILANO noted:

- the strategic and commercial validity of the operation as a whole and, in this respect, the interest of the subsidiary and the Group in signing a company leasing contract;
- the nature of the relationship and the methods for determining the financial conditions of the offer, bearing in mind the legal and tax aspects as well, had been highlighted;
- the company leasing contract did not present any atypical and/or unusual features.

The same assessment was carried out by the Board of Directors of the parent company FONDIARIA-SAI, of which – as explained above – ATAHOTELS is a related party.

### **Merger by incorporation of First Life into Milano Assicurazioni**

On 16 December 2004, the deed of merger by incorporation of First Life S.p.A. into Milano Assicurazioni S.p.A. was signed. The operation did not bring about any changes in the share capital of Milano Assicurazioni, since the latter had purchased the entire share capital of First Life from SAI Holding Italia S.p.A. (100% Fondiaria-SAI) for €13.7m on 3 August 2005, in accordance with the relevant valuation carried out by KPMG Corporate Finance.

The legal effects of the merger, which was approved by ISVAP in an order issued on 2 December 2005, ran from 31 December 2005 while, for accounting and tax purposes, the merger came into force on 1 January 2005.

First Life was a substantially inactive life insurance company which had set up an open pension fund.

The transaction will allow Milano Assicurazioni to launch direct operations in the open pension funds sector.

### **Organisation and management model pursuant to Legislative Decree no. 231 of 8 June 2001**

The Board of Directors of the Company has decided to equip itself with an organisation and management model suited to preventing the offences described in Legislative Decree no. 231 of 8 June 2001, which – as is well known – contains the rules on the administrative responsibility of legal persons, companies and associations, with or without legal status, under the terms of article 11 of Law no. 300 of 29 September 2000”, which introduced the criminal responsibility of companies into Italian law for the first time, this being additional to the responsibility of the natural person who physically perpetrated the offence.

The Board believes that, even though it is not compulsory, adoption of the organisation and management model provided for by Legislative Decree no. 231/2001 may be an effective way of building awareness among all the employees and everyone who has an interest in the company of the need to perform their activities in a proper and straightforward manner, so as to avoid the risk of committing the offences defined in the decree.

The Board of Directors has therefore approved the general principles that will inspire the organisation model:

- the verifiability and recordability of all operations that are relevant to Legislative Decree no. 231/2001;
- respect for the principle of functional separation;
- establishing authorisational powers that consistent with the responsibilities assigned;
- assigning the task of promoting proper and effective implementation of the Model to a Supervisory Body, monitoring the company’s conduct and establishing a right to be constantly informed about activities that are relevant for the purposes of Legislative Decree no. 231/2001;
- providing the Supervisory Body with relevant information;
- establishing of specific preventive “garrisons” for each macro-category of activity and the associated risks, aimed at preventing the various types of offences envisaged by the Decree (ex-ante control);
- providing the Supervisory Body with adequate resources to support it in performing the tasks entrusted to it and achieving the results that can reasonably be achieved;
- verifying the operation of the Model with consequent periodic updating (ex-post control);
- implementing awareness-building and dissemination measures at all levels of the company in respect of the rules established.

The Board has decided to establish the Supervisory Body, which is in general terms entrusted with the task of supervising compliance with the requirements of the model by the respective recipients, verifying the actual effectiveness and capacity of the model, in relation to the company’s structure, to prevent the offences defined in Legislative Decree no. 231/2001, and updating the Model where changes in company conditions require it to be adapted.

Finally, the Board of Directors has approved the Code of Ethics of the Company, as a further confirmation of the fact that in performing its activities Milano Assicurazioni is inspired by criteria of transparency and fairness, complying with the law and respecting the interests of the community.

## **Significant events occurring after the end of the financial year**

### **Sale of the shareholding in Swiss Life Holding**

On 11 January 2006, the Company sold its entire shareholding in Swiss Life Holding to an institutional investor (UBS).

Milano Assicurazioni sold 828,709 Swiss Life Holding shares for CHF 234.75 each. The price was determined by applying a discount of 0.53% on the closing price of CHF 236 on 11 January 2006.

The income from the transaction amounted to approximately CHF 194.5m, compared to a total book value of approximately CHF 193.2m. Considering the CHF/€ exchange rate and the CHF/€ exchange rate used to convert the proceeds of the sale, a capital gain of €336K was achieved.

As regards the valuation of the shareholding in the 2005 accounts, the Company carried out no alignment or adjustment, given that – as we have said - the sale of the shares in Swiss Life Holding gave rise to a small capital gain.

In 2004, the Fondiaria-SAI had determined together with the Swiss Life Group that the premises for the planned joint venture in the Italy Life sector did not exist.

In view of the opportunity presented by the stock exchange performance of the Swiss Life Holding shares, the Company shared the opinion of the parent company FONDIARIA-SAI Group and the subsidiary Fondiaria Nederland that it was of interest to the FONDIARIA-SAI Group and to Milano Assicurazioni and Fondiaria Nederland to sell the shareholding in the shortest possible space of time, contacting a number of institutional investors for this purpose and inviting the interested ones to take part in a competition, submitting their final bids by 11 January 2006, so as to seize the moment that was considered most appropriate for the divestment in the context of the market at that time.

The transaction allows diversification of the asset allocation to be achieved and greater flexibility to be gained in the strategic investment sector in future.

### **Alliance and co-operation project with Banca Popolare di Milano in the bancassurance sector**

Following the agreement for the development bancassurance activities with Banca Popolare di Milano signed on 21 December 2005 by the parent company Fondiaria-SAI S.p.A., in agreement with MILANO ASSICURAZIONI, on 7 February 2006, the parent company designated MILANO as the purchaser of a shareholding in the capital of Bipiemme Vita S.p.A..

This agreement provides for the implementation of a wide-ranging alliance and co-operation plan with Banca Popolare di Milano (BPM) in the bancassurance sector, to be implemented essentially by means of agreements in the life classes as well as in the non-life sector and in banking and financial services.

On 29 November last, the Board of Directors of BPM resolved to approve the offer to develop the bancassurance business in the life sector jointly and exclusively with the

FONDIARIA-SAI Group, and more generally to sign a Framework Agreement containing the guidelines for the wider project described above.

Under the terms of the aforesaid Framework Agreement, and subject to obtaining the authorisations from the relevant supervisory bodies, MILANO will initially purchase from BPM, and the subsidiary BANCA DI LEGNANO, a 46% share of the capital of BIPIEMME VITA S.p.A., with the option to transfer control of the latter from the BPM Group to MILANO itself by the purchase and sale of a further two shareholdings of 4% and 1% respectively, at two different times in the future, respectively by 31 December 2006 and by 30 June 2007.

BPM and MILANO will sign a shareholders' agreement containing the corporate governance rules of BIPIEMME VITA, as well as the industrial aspects of the partnership, providing for BIPIEMME VITA itself to continue to have access the distribution networks of the BPM Group for a period of 5 years from the closing date, with the option to renew this for a further 5 years on expiry by mutual agreement between the parties.

The price of 46% of BIPIEMME VITA was agreed to be € 94.3m, corresponding to a overall valuation of the company of € 205m. This price will be adjusted at the time of the purchase – which is expected to take place in the first half of 2006 – mainly based on the dividends to be received by the current shareholders for the 2005 financial year, which are still to be determined.

Bipiemme Vita is the insurance company of the BPM Group that operates through the approximately 700 branches of the Group itself, with a premium income in 2004 of € 518m. The company ended the 2004 financial year with a net profit of € 11.8m. As at 30 June 2005, the net equity was € 53.9m, while total technical reserves amounted to € 2,904m.

Bipiemme Vita's business plan, on the basis of which the assessments were made in order to determine the price, forecasts a rise in new premium income from € 481m at the end of 2004 to over € 750m by 2010, and an increase in the net profit from € 11m in 2004 to € 25m by 2010.

The price stated above is to be understood as a provisional price, determined by means of an appraisal value approach, considering as part of the analysis all the value components connected with the life classes (e.g. embedded value as at 30 June 2005 and goodwill associated with the new production expected from 1 July 2005), with the non-life classes (e.g. TCM and Accidents and Health classes) and the overheads of BIPIEMME VITA.

The definitive price on the closing date will be the provisional price redetermined between the signing date and the closing date at a reference rate to be agreed, net of 2005 dividends and increased by any capital increases paid (both pro-quota).

The purchase price of the subsequent shares of 4% and 1% of the capital of BIPIEMME VITA is agreed to be the definitive price paid for the 46% redetermined at the reference rate up to the date on which the payment is made for exercising the options, net of any dividends distributed and increased by any capital increases paid – both pro-quota – from the closing date to the respective dates on which the prices for exercising the aforesaid options are paid.

The put and call options on the 4% of Bipiemme Vita will be exercisable between September and December 2006. The Milano call option is conditional on the agreement relating to banking and financial services being signed. Following the exercise of these options, joint control and equal governance would be achieved.

The put and call options on the remaining 1% of BIPIEMME VITA, with the resulting acquisition of a controlling stake and complete consolidation by Milano, would be exercisable between March and June 2007. This put option will only be exercisable by BPM if it has previously exercised the put option on the 4%. Exercising of MILANO's call option will be subject to the approval of a joint committee consisting of four members (two for each party) called to assess the execution and results of the agreement at each stage.

In the current market, which is characterised by renewed focus among customers on traditional insurance products, the partnership will allow BIPIEMME VITA to benefit from the technical and commercial know-how of a leading insurance operator, promoting the development of new products and improving penetration among BPM customers, while allowing MILANO ASSICURAZIONI to benefit from the expertise of the BPM Group in commercial banking.

The agreement will allow the BPM Group to benefit from greater technical and managerial support in insurance services, which is needed in order to pursue significant objectives for growth in production volumes through a range of products that respond to customer requirements more effectively. This support will also be needed in view of the role that banks and insurance companies may be called to perform in respect of households and small and medium sized companies with the future development of complementary welfare.

The agreement is a further opportunity for the Company and the FONDIARIA-SAI Group to develop the Life sector. From an industrial point of view, the operation is perfectly in line with current the current bancassurance agreements of the Company and the FONDIARIA-SAI Group, which will continue to be strategic elements of the growth policy adopted by the Company and the Group themselves.

The operation is subject to authorisation being obtained from the relevant authorities.



## **BUSINESS OUTLOOK**

In the non-life insurance sector, the objective for 2006 is further to consolidate the development of the portfolio, maintaining satisfactory levels of profitability in terms of combined ratio, applying the right pricing policy and ensuring careful risk selection.

In the motor classes in particular, the objective will be to achieve a gradual alignment of the prices offered by the various sales networks of the Company and, at the same time, an increasing degree of personalisation of the price structure, making good use of information drawn from the vast client portfolio built up by the Company.

Operations will be implemented for the purpose of maintaining the portfolio built up in profitable areas and sectors, in order to improve the profitability achieved, as well as targeted action aimed at reorganising sectors that require technical rebalancing. In particular, the fleets class portfolio will be reduced by means of divestment operations.

In the non-motor classes, in particular, development of the retail sector will be pursued by means of targeted campaigns offering incentives for the sale of products in areas, such as health and benefits associated with housing, in which an increasing amount of sensitivity is displayed by customers. Priority will be given to products offering different kinds of cover, in order to satisfy the increasingly evolved insurance requirements of customers.

In the life classes, action aimed at developing the portfolio of traditional annual and recurring premium products is planned with a view to ensuring adequate profitability and guaranteeing greater customer loyalty, and consequently the greater value of the portfolio in the long term. Specific attention will also be paid to the requirements of institutional clients, who view the insurance sector as a good opportunity to diversify their investments and use their liquidity.

Asset and financial management will be aimed at ensuring a careful balance in the investment portfolio, so as to achieve high profitability and consistency with the strategic objectives of the Fondiaria-SAI group.

Generally speaking, a prudent stance will be maintained, with the aim of containing interest rate and counterparty risks, while still benefiting from the opportunities offered by the bond and equity markets. In particular, a great deal of attention is being paid to the evolution of interest rates following the recent action taken on monetary policy by the US Federal Reserve and the European Central Bank.

## OTHER INFORMATION

Subject to what is stated above on the system of corporate governance implemented by the Company, we should like to point out that the actions carried out by the corporate bodies and the instruments used by them ensure that current legislation (Legislative Decree 58 of 24 February 1998) and the CONSOB recommendations relating to company audits aimed at corporate bodies of listed companies (communications 97001574 of 20 February 1997 and 98015375 of 27 February 1998) are observed.

In accordance with CONSOB recommendations we should like to point out that before the various reports on the accounts are issued the Board of Statutory Auditors and the External auditors exchange information on the audits carried out.

### **Confidentiality (as per Legislative Decree 196/2003)**

In view of the provisions of point 26 of the 'Technical regulations relating to security measures', Appendix B) of Legislative Decree 196 of 30 June 2003, the Company declares that it has drawn up the Document on Security for 2004 in compliance with the provisions of Art. 34 of Legislative Decree 196 of 30 June 2003 and of the Technical Regulations referred to above.

### **Litigation**

As at 31 December 2004 there were 27,418 current cases relating to claims, 21,012 of which related to MV TPL. During the year 12,465 cases were settled, 10,774 of which related to MV TPL.

Litigation consisting of civil cases brought by Company policyholders applying for a partial reimbursement of their MV TPL premiums because of the anticompetitive activities that your Company is alleged to have carried out in MV TPL in league with the other major insurance Companies is still ongoing, albeit to a lesser extent. There was a drop in the number of cases with the coming into force of Legislative Decree 18 of 8 February 2003, converted into Law 63 of 7 April 2003, which provided that this type of dispute should be dealt with by the courts, and the passing of sentence no. 2207/05 of the Joint Sections of the Court of Cassation, according to which the authority to decide on the aforesaid cases rests with the Courts of Appeal rather than with the Justices of the Peace under article 33 of Law 287/1990. Following this decision, the disputes before the Justices of the Peace have practically ceased, while a number of cases have been brought before the Courts of Appeal but only in certain geographical areas. In particular, 2,760 cases were pending on 31/12/2005 and the disbursements so far made by the Company amount to € 4,844,079 (approximately € 870 per case).

Finally we should remind you that the Joint Sections of the Court of Cassation have issued a ruling on the case, rejecting the appeals lodged by the companies sanctioned and therefore making definitive the sanction imposed by the Italian competition authority (*Autorità Garante della Concorrenza e del Mercato*) and the decisions of the regional court of Lazio and of the Council of State, which had in turn rejected the appeals lodged by the companies.

### **Stock Exchange listing**

During 2005 the stock exchange listing of ordinary securities rose from € 4.192 at the beginning of the year to € 5.720 at the end of the year and in the case of savings shares the listing rose from € 4.327 to € 5.686. The stock exchange market value, based on listings as at 20 March 2006 of € 6.564 for ordinary shares and € 6.580 for savings shares, amounted to € 3,066.4m.

\* \* \*

Under Art. 126 of decision 11971 of 14 May 1999, a list is appended of the companies with unlisted shares and of the limited companies in which as at 31 December 2005 the Company owned, direct and/or indirectly, a holding exceeding 10% of the capital or the shares or units in which gave the Company voting rights exceeding this percentage.

## **Subsidiaries and Affiliated companies**

In accordance with Art. 2427, para. 1, point 5 of the Civil Code a list of these is contained in Appendix 6 to the Notes to the Accounts. The balance sheet and the profit and loss account of the most recent set of approved accounts of each of them are also appended.

The salient figures for the business carried out by the principal subsidiary companies in 2005 are shown below.

## **Subsidiary companies**

### **SYSTEMA Compagnia di Assicurazioni S.p.A. – Milan (our direct holding 100%)**

This Company operates in Non-Life business by marketing standardised products distributed by banking channels with which specific agreements have been reached. During 2005, new bancassurance agreements were concluded but have not yet had any significant effect on the Company's portfolio.

Gross premiums recorded during the current year amounted to € 12,395K compared with € 15,213K in the previous financial year (-18.52%).

The technical account for the 2005 financial year suffered from the fall in premiums earned but remained nonetheless positive. The profit and loss account for 2005 recorded a profit of € 2,075K compared to the profit of € 2,800K recorded in the previous year.

### **DIALOGO ASSICURAZIONI S.p.A. – Milan (our direct holding 99.85%)**

This company mainly operates in selling MV products by telephone.

During the year, the Company reviewed the Motor TPL tariff based on the performance of the portfolio and in order to maintain a correct underwriting policy.

Overall, the gross premiums recorded amounted to € 17,596K compared to € 21,245K in the previous financial year (-17.18%).

The positive evolution of claims from previous financial years, already posted to the reserve, and the absence of advertising costs – posted entirely to the profit and loss account in the last financial year – contributed to the achievement of a profit of € 761K compared to the loss of € 3,150K as at 31 December 2004.

### **FONDIPREV S.p.A. – Florence (our direct holding 60%)**

This Company operates in Life business via the banking channel. New policies are issued through the outlets of Banca delle Alpi Marittime whilst old policies continued to be managed directly.

Gross premiums recorded during 2005 amounted to € 394K compared with € 422K in 2004 (-6.64%).

The 2005 financial year closed with a net profit of € 434K compared to a profit for the previous year of € 175K. The variation is essentially attributable to business combina-

tion activities, which benefited from capital gains from sales of shareholdings of € 280K.

**MERIDIANO EUR – Milan** (our direct holding 100%)

During the financial year, the Company acquired from Milano Assicurazioni the property in Assago which had previously housed the offices of Milano Assicurazioni and is currently undergoing renovation work. The property was sold for € 34,000K, as per the estimate carried out for this purpose by Scenari Immobiliari.

The company also has shares in the “Tikal R.E. Fund” property investment fund with a book value of € 76,506, resulting from the transfer to this fund, during the 2004 financial year, of the property owned at Piazzale dell’Industria, Rome.

The 2005 accounts closed with a profit of € 315K on the income relating to the shares in the “Tikal” fund, which furthermore presented a current value at the end of the financial year of € 93,953K.

**MERIDIANO ORIZZONTI – Milan** (our direct holding 100%)

On 28 December 2004 this Company, which was founded in December 2003, acquired a property at Piazza S.M. Beltrade 1, Milan, from Pirelli Real Estate-Morgan Stanley for € 54,590K. The 2005 accounts closed with a profit of € 952K compared to the loss of € 14K for the previous year.

**CAMPO CARLO MAGNO S.p.A. – Madonna di Campiglio** (our direct holding 100%)

Acquired by Milano Assicurazioni in December 2005, this company owns a hotel property complex in Madonna di Campiglio called GOLF HOTEL.

In December, the company entered into a company leasing contract with Atahotels S.p.A. which provides for the payment of annual fees of 20% of the net annual revenue, subject to a guaranteed minimum payment. The operation guarantees the company an adequate return on the line of business leased, in line with other similar operations on the market.

The accounts for 2005, which covered a period of eight months, because of the decision to make the financial year coincide with the calendar year (it had previously started on 1st May and ended on 30th April) closed with a loss of € 457K.

**CAMPO CARLO MAGNO SPORT S.r.l. – Madonna di Campiglio** (our direct holding 100%)

Acquired by Milano Assicurazioni in December 2005, this company owns concessions for the management of ski slopes, ski lifts and golf courses in the Golf Hotel hotel property complex.

In December, the company entered into a company leasing contract with Atahotels S.p.A. which provides for the payment of annual fees of 20% of the net annual revenue, subject to a guaranteed minimum payment. The operation guarantees the com-

pany an adequate return on the line of business leased, in line with other similar operations on the market.

The accounts for 2005, which covered a period of eight months, because of the decision to make the financial year coincide with the calendar year (it had previously started on 1st May and ended on 30th April) closed with a profit of €21K.

**MAA FINANZIARIA – Milan (our direct holding 100%)**

Originally involved in the financial leasing of capital goods and financing, the Company is now limited to managing a number of financing contracts already in its portfolio. The annual accounts as at 31 December 2005 closed with a loss of €18K.

**SOGEINT – Milan (our direct holding 100%)**

This Company operates in the sector of commercial assistance to agencies. The annual accounts closed as at 31 December 2005 closed with a loss of €189K.

**Affiliated companies**

**GARIBALDI S.c.s. – Luxembourg (our direct holding 47.95%)**

Through a Luxembourg holding company, this company will control a number of Italian vehicle companies that will be carrying out the property development project in an area of Milan known as “Garibaldi Repubblica”.

The “Garibaldi Repubblica” project is expected to cover an area of 110,000 square metres of buildable land, with approximately 50,000 square metres for office use, approximately 10,000 square metres for retail outlets, approximately 15,000 square metres for residential use, approximately 20,000 square metres for exhibition space and approximately 15,000 square metres for hotel accommodation.

On 15 July, the implementation agreement was signed with the Municipality of Milan and, on the same day, the purchase and sale contracts with the private entities and the deeds of exchange of the private building rights with the Municipality of Milan were also signed. Based on the latest estimates, the total cost of the project is estimated to be approximately €650m and the expected duration of the development work is approximately 5 years from 2005.

The accounts for the 2005 financial year closed with a loss of €280K.

## **Relations with associated parties**



We have summarised below the significant relations with associated parties, as defined by International Accounting Principle no. 24 (Related Party Disclosures), which is referred to in article 2, letter h) of Consob Resolution no. 11971 of 14 May 1999, included in Consob Resolution no. 14990 of 14 April 2005.

The item "land and buildings" includes:

- the downpayment of € 9,370K made during the financial year to IM.CO. S.p.A. in relation to the property operation relating to the land at Via Confalonieri-Via Castillia (Lunetta dell'Isola), Milan. This operation involved:
  - the sale by Milano Assicurazioni to IM.CO. of the said land, the respective building permits for which are currently awaited.
  - the purchase from IM.CO. by Milano, once the building permits have been issued, of a property for the provision of services which will be built on the land in question by IM.CO. for the price of € 93,700K

The operation is described in detail in the chapter of the management report dedicated to property and financial management, to which the reader is therefore referred for further information.

- the downpayments of € 18,701K in total made during the current financial year and previous years to IM.CO. S.p.A. in relation to the area on Via Lancetti, Milan. We would remind you that this operation, which was carried out in the 2003 financial year and was described in detail in the management report accompanying the accounts for that year, had led to the sale of the land to IM.CO. S.p.A. and the purchase from IM.CO. of the completed property complex to be built by the same company on the land in question for the price of € 36,400K.
- the downpayments of € 45,360K in total made during the current financial year and previous years to Avvenimenti e Sviluppo Alberghiero s.r.l. in relation to the area on Via Fiorentini, Rome. We would remind you that this operation, which was carried out in the 2003 financial year and was described in detail in the management report accompanying the accounts for that year, had led to the sale of the land to Avvenimenti e Sviluppo Alberghiero s.r.l. and the purchase from Avvenimenti e Sviluppo Alberghiero s.r.l. of the completed property complex to be built by the same company on the land in question for the price of € 96,200K.

The company structure of the counterparts in the above operations means that the companies are related parties of the Company and of the parent company Fondiaria-SAI. Because of this, the appropriate fairness and legal opinions in respect of these operations were obtained from independent experts. The fairness opinions confirmed the fairness of the sale prices for the areas and of the purchase prices of the properties.

As regards the operation carried out in the 2005 financial year with regard to the land at Via Confalonieri-Via de Castillia, Milan, the fairness opinion was drawn up by KPMG ADVISORY S.p.A. CORPORATE FINANCE and the legal opinion by the ASHURST legal firm. The fairness opinion confirmed the fairness of the aforesaid selling prices of the land and purchase price of the property, while the contracts signed took account of the suggestions contained in the legal opinion.

In approving the operation on 9 November 2005 the Board of Directors of Milano Assicurazioni noted:

- the strategic and industrial value of the operation and the interest of Milano Assicurazioni and the Group in the operation itself;
- the nature of the relationship and the methods for determining the financial conditions of the operation, as well as the legal and tax aspects;
- the absence of atypical and/or unusual features.

\* \* \*

Appendices 16 and 30 of the notes to the accounts respectively indicate the assets and liabilities, as well as the income and charges, relating to the group companies and other investee companies. They relate mainly to:

- relations connected with reinsurance activities, all of which took place at market prices
- charges, income and consequent credits/debits associated with the distribution among the Fondiaria-SAI Group companies of the cost of the unified services at group level
- credits/debits deriving from the participation of Milano Assicurazioni in the tax consolidation of the FONDIARIA-SAI group.

Milan, 27 March 2006

MILANO ASSICURAZIONI S.p.A.  
The Board of Directors

## **Tables of Accounts**

Balance Sheet

Profit and loss account

**Shareholdings of the Directors, Auditors and Chief Executive**

<b>Surname and forenames</b>	<b>Participating interest</b>	<b>Number of shares owned at the end of the previous year (2004)</b>		<b>Number of shares acquired</b>		<b>Number of shares sold</b>		<b>Number of shares owned at the end of the current year (2005)</b>	
		Ordinary	Savings	Ordinary	Savings	Ordinary	Savings	Ordinary	Savings
Rucellai Cosimo	Milano Assicurazioni	8,694 a)	-	-	-	-	-	8,694 a)	-
Erbetta Emanuele	Milano Assicurazioni	8,000 b)	19,50 0 b)	5,000 a) 27,30 0 b)	8,763 a) 9,598 b)	5,000 a) 15,30 0 b)	8,763 a) 4,871 b)	20,00 0 b)	24,22 7 b)
Pini Massimo	Milano Assicurazioni	10,00 0 a)	-	10,00 0 a)	-	-	-	10,00 0 a)	-
Talarico Antonio	Milano Assicurazioni	20,10 0 a)	-	-	-	-	-	20,10 0 a)	-
Rayneri Alessandro	Milano Assicurazioni	10,00 0 c)	20,00 0 c)	10,00 0 c)	10,00 0 c)	-	-	20,00 0 c)	30,00 0 c)

The other members of the Board of Directors and of the Board of Statutory Auditors and the Chief Executive do not own any shares.

- a) *shares owned direct*  
b) *shares owned by spouse*  
c) *shares owned through subsidiary companies*

# Notes to the Accounts

## **PART A**

### **VALUATION CRITERIA**

#### **Section 1**

##### ***Illustration of valuation criteria***

##### **General principles**

The valuation criteria adopted for drafting these accounts comply with current legal provisions and refer, for the purposes of interpretation, to the accounting principles issued by the Consigli Nazionali dei Dottori Commercialisti e dei Ragionieri (National Council of Professional Accountants and Bookkeepers). These criteria have not changed from those applied last year.

##### **Intangible assets**

**Acquisition commissions to be depreciated:** these relate to the residual amount still to be depreciated of the commissions on multi-year life contracts from the 2002 financial year which, in accordance with the accounting principle in force at the time, continue to be distributed based on the duration of each contract and in any case over a period of no more than 10 years

As of 2003, the commission on multi-year contracts, for both life and non-life classes, has been allocated entirely to the profit and loss account:

**Goodwill:** the amount entered in the accounts includes:

- the goodwill recorded following the merger by incorporation of Lloyd Internazionale S.p.A., which took place in 1991;
- the goodwill arising from the purchase of the insurance portfolio of Latina Assicurazioni, which took place in 1992;
- the goodwill recorded in 1992 following the purchase of the insurance portfolio of Card S.p.A.;
- the goodwill relating to the life portfolio of La Previdente Assicurazioni originally purchased from La Previdente Vita (formerly Latina Vita) in 1993;
- the goodwill relating to the purchase of the insurance business of Maa Assicurazioni S.p.A., which took place in 1995, arising from the accounts of the incorporated company Nuova Maa.
- the goodwill recorded in 1999 following the merger by incorporation of La Previdente Vita;
- the goodwill arising from the purchase of the portfolio of insurance policies of Profilo Life, which took place in 2001, arising from the accounts of the incorporated company Maa Vita.
- the goodwill recorded in 2003 following the merger by incorporation of Maa Vita, corresponding to the difference between the book value of the shareholding and the value of the corresponding share of the net book equity.

This goodwill is systematically depreciated in equal instalments over 20 years with the exception of the goodwill recorded in 2003 following the incorporation of Maa Vita, that recorded in 1999 following the incorporation of La Previdente Vita as well as that relating to Profilo Life, arising from the accounts of Nuova Maa, which are depreciated over 10 years.

These periods are considered to be suitable, taking into account the characteristics of the portfolios to which they refer as well as the distinctive features of the insurance business and the long-term prospects on the basis of which the investments in the sector are made.

The allowances for depreciation for the year amount to a total of € 23,992K and are allocated to the item "other charges".

**Other multi-year costs:** these are entered in the assets at a sum equal to the purchase cost, and depreciated over three or five years, in equal instalments.

## Investments

### Immovable property

These are considered to be long-term investments on the basis of the 2<sup>nd</sup> paragraph of Art. 15 of Legislative Decree no. 173/97.

They are entered at cost, plus, where applicable:

- incremental costs;
- ten-year INVIM, excluding the extraordinary tax described in Law no. 363/91;
- revaluations made in accordance with laws no. 576 of 2 December 1975; no. 72 of 19 March 1983 and no. 413 of 30 December 1991.
- revaluations made during the allocation of the merger deficit; and decreased, where applicable, by
  - write-downs made to take account of any lasting losses in value, determined on the basis of surveys drawn up by independent experts.

Property intended for use by the company is systematically depreciated at the rate of 3%.

Property intended for use by third parties is not subject to depreciation, even considering the close and constant maintenance which means that their use over time is not restricted.

### Investments in stocks and shares:

Investments in group undertakings and other participating interests are generally entered under the long-term assets as laid down by the aforementioned 2<sup>nd</sup> paragraph of Art. 15 of Legislative Decree 173/97 and are therefore entered at cost, adjusted if applicable to include losses of value considered to be lasting. Lasting losses in value in subsidiary and affiliated companies are generally shown with reference to the quota of the loss for the year incurred by us; the values thus determined are adjusted, if applicable, in relation to the actual existence of surplus values in respect of the accounting net equity. In particular, the value attributed to holdings in subsidiary

and affiliated companies is compared to the valuation made in accordance with art. 16, paragraph 5 of Legislative Decree 173/1997; the higher values maintained in respect of the last valuation criterion are justified by the goodwill, which is gradually recovered through current management.

The other stocks and shares entered under long-term assets are entered at cost, adjusted if applicable for lasting losses in value.

Listed shares which do not constitute long-term assets are recorded at the lower value between the book value, calculated using the continuous average cost criterion, and the value resulting from the arithmetical average of prices for December; for those shares, where the circumstances stated in Art. 16, paragraph 6 of Legislative Decree 173/97 occur, the rises in value within the limits of the write-downs operated in previous years have been entered.

Shares not listed and other holdings in joint stock companies are recorded at the book value, which is fundamentally considered to be prudential.

#### **Bonds and other fixed-income securities:**

Securities entered under long-term investments are valued at the purchase cost applying the continuous average cost criterion, adjusted by the quota of the trading spread (positive or negative difference between purchase value and repayment value) matured over the year.

Listed securities entered under the current assets are recorded at the lower value between the book value, calculated using the continuous average cost criterion, adjusted to take account of matured issue spreads and the value resulting from the arithmetical average of prices for December; for these securities any rises in value as stated in Art. 16 paragraph 6 of Legislative Decree no. 173/97 have been entered, within the limits of the write-downs operated in previous years.



**Other financial investments:**

**Unit trust holdings** recorded under long term assets are valued at cost, net of any reductions for long term losses in value; those recorded under working capital are valued at the lower value between the purchase cost and their value, shown with reference to the date of closure of the financial year.

The “**repo contracts**” with the obligation to repurchase are entered in the accounts as autonomous investment or financing operations. In particular, the operations of cash purchase and forward sale are shown under the item “sundry financial investments” for the sum paid cash, while those for cash sale and forward repurchase are shown as debits, without generating changes in the stock of securities. The income components are shown “pro-rata temporis” respectively under “Income from other investments” and under “Investment charges and interest payable”.

**Options and derivative contracts:** The premiums paid for options purchased are entered under the item “sundry financial investments”; the premiums paid for options sold are entered under “sundry loans and other creditors.” The premiums operated on expiry are adjusted by the book value or sale price of the related asset; the premiums relating to abandoned options are entered amongst the profits or losses on the realisation of the investments.

Operations in derivative instruments to hedge the investments are valued consistently with the underlying assets; the efficient management operations at the lower amount between cost and market price.

**Investments for the benefit of policyholders in the life branches who bear the risk thereof**

Securities to hedge against the liabilities arising from life policies, which are linked to the progress of specific share indices (Index Linked) or to shares in internal funds (so-called Unit Linked), have been entered at the current value, calculated on the basis of the value on the last day of business of the financial year, or for investments traded in unregulated markets, at the average price at which those investments were traded on the last day of business of the financial year; that criterion is also used to calculate the liabilities to the policyholders, in order to create the correlation with the actuarial provisions entered in the liabilities.

During the course of the year some investments were transferred between “class C” and “class D”, due to the issue of new insurance policies whose provisions were hedged by securities already held in the portfolio. These transfers, which took place in accordance with the procedures laid down in Art. 20 of Legislative Decree no. 173/97, led to an increase of € 5K of the specific revaluation reserve entered under the net equity.

For the composition of each individual item of those investments and the comparison with the purchase cost, please refer to annex 11 to these Notes to the Accounts,

## **Premiums for the financial year**

### **NON-LIFE BUSINESS:**

The gross premiums entered in the accounts include the amounts which have matured during the financial year for insurance policies; in accordance with Art. 45 of Legislative Decree no. 173/1997 and the instructions in the ISVAP instruction on the chart of accounts for insurance companies, they include:

- the cancellations caused by technical reversals of individual securities issued during the year;
- changes to the policy with or without a change in premium, by means of substitutions or appendices;

while they do not include the following, as they allocated to "other technical charges":

- write-downs due to the impossibility of recovering receivables from policyholders for premiums for the year, carried out when the year ends;
- write-downs of receivables from policyholders for premiums in previous years.

### **LIFE BUSINESS:**

The gross premiums entered in the accounts include the amounts which have matured during the financial year for insurance policies; in accordance with Art. 45 of Legislative Decree no. 173/1997 and the instructions in the ISVAP instruction on the chart of accounts for insurance companies, they include:

- the cancellations caused by technical reversals of individual securities issued during the year;
- the cancellation of premiums for subsequent years falling due in previous years;
- changes to the policy with or without a change in premium, by means of substitutions or appendices;

while they do not include the following, as they allocated to "other technical charges":

- write-downs due to the impossibility of recovering receivables from policyholders for premiums for the year, carried out when the year ends;
- devaluation of receivables from policyholders for premiums for the first annual period or single premiums written in previous years.

## Technical provisions

### NON-LIFE BUSINESS:

**Premium reserve on direct insurance risks:** this includes both the reserve for premium portions and the reserve for risks in progress, as laid down by Art. 32 of Legislative Decree no. 173 of 26 May 1997.

The reserve for premium portions has been determined using the “pro-rata temporis” method applied analytically for each policy on the basis of the gross premiums entered in the accounts.

In bonds, the methodology provided for in ISVAP instruction 1978-G of 4 December 2001 has been applied. In credits, atomic risks, hail and for earthquake risk and other natural disasters the supplements provided for by the specific provisions have also been applied.

The reserve for risks in progress has been allocated at the level of individual class of insurance where the loss ratio expected for current generation losses is higher than the reserve for premium portions.

The amount has been calculated with reference to the ratio of losses to premiums relating to the current generation, also taking account of the premium instalments still due.

The amount allocated in total is judged to be adequate to hedge against the liabilities for risks in progress at the end of the financial year.

**Loss reserve on direct insurance risks:** this includes the sums which, from a prudent valuation made on the basis of objective factors, are necessary to meet the payment of losses occurring during the year or in previous years, and still outstanding, as well as the related settlement costs.

The reserve is valued at a sum equal to the last cost as stated in paragraph 2 of Art. 33 of Legislative Decree 173/97 and therefore takes account of all the future foreseeable charges calculated on the basis of historical data and objective prospects.

Moreover, the loss reserve related to the Nuova Maa portfolio, incorporated into Milano during the financial year 2003, as well as the loss reserve for the SIS portfolio, incorporated during the financial year 2004, have been calculated according to the methodologies usually used by those companies and their adequacy has been checked by applying the statistical methods generally used, along with similar parameters.

In particular, regarding the TPL Motor business, the current generation reserve of Milano Assicurazioni is valued separately for each loss while for Nuova Maa and SIS the criterion of the average cost for groups of losses in sufficient numbers is used.

To determine the final cost of losses outstanding (both current generation and previous generations) similar statistical methodologies on the increase in the cost of losses have been used, based on historical and prospective factors adapted appropriately to the specific features of the undertaking (methods falling under the various Fisher-Lange types). In particular, for the determination of the future growth in the cost of the outstanding claims, projected inflation and the specific dynamics of insurance industry costs were taken into account.

For the other classes of business the reserve is entered on the basis of a prudent technical valuation of each loss notified and the calculation of the final cost has been

checked on the basis of the historical progress relating to the dismantling of losses outstanding.

The loss reserve includes the necessary allocation to meet the losses applicable to the financial year and not yet notified at the year end, estimated with reference to the experience of previous years.

**Other technical provisions:** this item includes the provision for increasing age in health insurance, to offset the increase in risk due to the increase in age of the policyholders; to calculate this, the lump sum method described in point 5 of Art. 25 of Legislative Decree no. 175 of 17 March 1995 has been used.

**Equalization provisions:** this item includes the equilibrium reserve for risks of natural disasters set up in accordance with Art. 12, paragraph 1 of Decree Law no. 691 of 19 December 1994, converted, with amendments, into Law no. 35 of 16 February 1995, and according to the procedures laid down by Ministerial Decree no. 705 of 19 November 1996, as well as the provision for credit sector compensation, set up in accordance with Art. 24 of Legislative Decree no. 175 of 17 March 1995.

**Reserves for premiums on risks in indirect business:** these are calculated on the basis of the notifications received from the ceding companies; if these are not available, suitable lump sum rates are applied to the premiums entered and concerning risks still in progress at the end of the financial year, taking account of the Ministerial provisions for Hail, Credit, Bonds, and Atomic Risks.

**Reserves for losses on risks accepted in reinsurance:** these are calculated on the basis of the notifications received from the ceding companies, possibly along with the objective and statistical factors in our possession. The amounts set aside are considered to be sufficient to meet the liabilities in existence at the end of the financial year.

#### LIFE BUSINESS:

**Technical provisions relating to direct insurance risks:** these are calculated according to technical actuarial procedures which comply with the current legislative provisions and in particular the principles of calculation laid down by Art. 25 and the provisions in art. 119 of Legislative Decree no. 174/95; the calculation is done analytically for each policy on the basis of pure liabilities without deductions for acquisition costs; the technical bases of the calculation (technical interest rates, demographic hypotheses of eliminations for death or disability and frequency of abandonment) are the same ones as are used to determine the premiums for the individual policies. In all cases the actuarial provisions are not less than the surrender values.. This item also includes the additional reserve for technical bases and the additional reserve for interest guarantee.

The additional provision for technical bases, in line with ISVAP instruction no. 1380-G of 21 December 1999, provides for the higher cost which the undertaking must sustain to meet the average increase in life expectancy with tariffs in the form of a life income or where it exists the option to convert into a predetermined income.

The additional provision for interest guarantee, on the basis of ISVAP instruction no. 1801-G of 21 February 2001, provides for the higher cost which the undertaking must

sustain to meet the difference between the rate of interest guaranteed to policyholders and the progress of foreseeable earnings of the separate managements calculated in line with the aforementioned ISVAP instruction no. 1801-G.

For products with the features indicated in article 30, paragraphs 1 and 2, of Legislative Decree 174/95, for which the investmenty risk is borne by the insured, the calculation is carried out analytically on an individual contract basis, adopting positions that represent the value of the underlying assets as accurately as possible.

**Technical provisions on risks accepted in reinsurance:** these are entered on the basis of the notifications provided by the ceding companies.

#### **Technical provisions to be debited to reinsurers**

The technical provisions to be debited to the reinsurers are calculated using the same criteria as those used for the allocation of the reserves in direct business, taking into account the contractual reinsurance clauses.

The reserves to be debited to the retrocessionaires are calculated using the same criteria as those used for the formation of the reserves for risks accepted and represent the quota, to be debited to them, of the liabilities provided for contractually.

#### **Receivables**

These are entered at the presumed realisation value, taking into account the provision for bad debts allocated to the direct reduction of their nominal value. In particular the write-down of receivables from policyholders for premiums has been carried out taking account of the presumed increase in receipts, taken from the experience obtained by the undertaking in previous years and shown for similar categories of those receivables.

#### **Other items in the assets**

**Tangible assets and stocks:** these are entered at the purchase cost net of any depreciation allowances.

The depreciation for the year has been calculated on the basis of the maximum fiscal rates allowed, which are considered to be adequate in relation to the remaining possibility of use of the items concerned.

These rates are as follows:

<u>Furniture and fittings</u>	12%
<u>Office machinery</u>	12%
<u>Electronic machinery</u>	20%
<u>Internal means of transport</u>	20%
<u>Moveables entered in public registers</u>	25%
<u>Plant and equipment</u>	15%

An additional allowance was calculated for the electronic machinery, justified by the higher technical depreciation of those items.

The aforementioned rates are reduced by half for purchases made during the year.

### **Provisions for risks and charges**

These relate to:

provisions for taxes, to which the charges for deferred taxes and current taxes for IRAP only have been posted. the tax burden relating to IRES has instead been posted to “debts owed to parent company” as a result of Milano Assicurazioni joining the tax consolidation of the Fondiaria-Sai group;

provision for future risks and costs relating to charges of a determined nature associated with the financial year and known on the day the financial statements were drawn up.

### **Accrued income and prepayments**

This item shows the quotas of charges and income common to two or more financial years calculated on an accruals basis.

### **Criteria used for the other items in the accounts**

**Indirect business:** the items of acceptance and retrocession relating to contracts with the Companies in the group are entered on an accruals basis. The items relating to contracts with third parties which are in the profit and loss account concern the financial year 2004, however, in accordance with Italian and international practice. The data relating to 2005 which has only partially reached us, is suspended in the appropriate deferred accounts payable and receivable.

**Claims handling expenses,** both paid and reserved, include all the expenses concerning the investigation, assessment, valuation and settlement of losses and have been allocated to the individual classes of insurance according to the amount of losses dealt with, taking into account their different incidences.

**The dividends** on the holdings are entered at the time of collection.

### **Conversion into Euro of Items expressed in currencies other than the Euro**

The accounts are drawn up in Euro. The items in currency other than the Euro are converted into Euro at the rates of exchange at the end of the year, according to the provisions of multi-currency accounting, allocating the adjustments for exchange differences to the items “other charges” and “other income” in the non technical account.

### **Deferred taxation**

The company applies accounting principle no. 25 of the business experts and accountants concerning the accounting treatment of taxes on income, which requires the tax burden for the year to be calculated taking into account the taxes relating to future years (advance taxes) and those which, while they may become payable in fu-

ture years, relate to the current financial year (deferred taxes). The assets for advance taxes are entered in the accounts only if their future recovery is reasonably certain, while the liabilities for deferred taxes must not be entered if it is unlikely that the debt will arise.

The reasonable certainty of the recovery of advance taxes has been verified on the basis of the ability of the Company to produce taxable income in a quantity which is at least sufficient to recover those taxes.

The advance taxes under consideration refer to the amounts set aside to the provisions for risks and charges, write-downs, value adjustments carried out in previous years on fixed holdings deductible over five years in accordance with the provisions of Decree Law 209/02 converted into Law no. 265/02, to value adjustments on shares carried out during the year, excluding those that are included in the "participation exemption" system provided for by article 87 of Presidential Decree 917/86. However, the advance taxes relating to the quota share of funds set aside to meet costs of uncertain deductibility have not been considered.

Also taken into consideration were the deferred taxes relating to capital gains in instalments over various financial year, primarily relating to properties sold. The deferred taxes have not been evaluated which relate to suspended tax reserves for which operations possibly involving taxation were not foreseen.

The calculation of the deferred taxes was done separately for IRES and IRAP taking account of the current rates.

The advanced taxes are posted under "other assets" in the asset and liability statement, while the deferred taxes are posted among the "provisions for risks and charges" by appropriation to the "provisions for taxes".

The changes in deferred tax payable and advance taxes relating to the 2005 financial year have been entered in the profit and loss account as an adjustment to the item "taxes for the year".

As is known, Legislative Decree no. 6 of 17 January 2003, containing a reform of company law, revoked the second paragraph of Art. 2426 of the Civil Code, which allowed value adjustments and appropriations to be carried out only to comply with tax legislation. As a result of the revocation of this article, the option to enter in the profit and loss account value adjustments and appropriations which, despite being considered deductible under tax legislation, could not be entered according to civil law regarding balance sheets, has been removed.

We feel it is appropriate to point out that during the financial year 2003 Milano Assicurazioni carried out a value adjustment exclusively for tax purposes on the General shares held in the portfolio. In particular, in the balance sheet for 2003, the unitary book value of the Generali shares was reduced from € 28 to € 20.29, equal to the average of stock exchange prices in the 2nd half of 2003, entering a value adjustment of € 113,664K in the profit and loss account.

On the basis of the above, therefore, during the current year, the effects of this value adjustment have been removed, with a positive impact on the profit and loss account of € 76,155K as a result of the reverse entry for this value adjustment, entered under

extraordinary income for an amount of € 113,664K, and of the appropriation of the corresponding deferred taxes, which increased the “taxes” item by € 37,509K.

In the financial year 2005 an amount of € 31,507 was withdrawn from the fund for deferred taxes. This amount is equal to the tax burden on the non-taxable portion, based on current tax legislation, of the adjustments made in 2004 on the Generali shares in the portfolio.

In order to make it easier to understand the operating results achieved during the current financial year and the previous year we have shown the summary profit and loss accounts for 2005 compared to the one for 2004, having removed the effects of the fiscal purging (reclassification).

<i>(in thousands of Euro)</i>	<b>Financial year 2005</b>	<b>Financial year 2004</b>
<b>Result of technical account life business</b>	<b>24,755</b>	<b>52,575</b>
Technical balances Non-life direct business		
- Motor T.P.L.	8,447	6,898
- Other non-life business	171,663	207,214
<b>Total direct business</b>	<b>180,110</b>	<b>214,112</b>
Outward reinsurance and indirect business	2,161	-19,108
<b>Technical balance non life business</b>	<b>182,271</b>	<b>195,004</b>
Change in equalization provisions	-913	-745
Income attributed to non life technical account	94,509	89,504
<b>Result of technical account non-life business</b>	<b>275,867</b>	<b>283,763</b>
<b>Total technical management result</b>	<b>300,622</b>	<b>336,338</b>
Income from investments	287,850	243,951
Value adjustments of investments, net of rises in value	-26,594	-9,317
Net profits on realisation of investments	12,579	34,505
Income relating to investments with risk borne by policyholders	22,773	16,010
Less: income assigned to the technical accounts	-256,735	-249,294
Depreciated shares of goodwill	-23,991	-24,144
Other income, net of other charges	-20,202	-21,004
<b>Result of ordinary activities</b>	<b>296,302</b>	<b>327,045</b>
Profits from disposal of long-term investments	32,119	50,343
Other extraordinary income and charges	-5,128	4,444
<b>Profits before tax</b>	<b>323,293</b>	<b>381,832</b>
Taxes for the year	-90,187	-151,761
<b>Profit for the year</b>	<b>233,106</b>	<b>230,071</b>

\* \* \* \* \*



For the important events occurring in the first few months of 2006 and the financial relations with related parties, see the annual report.

## **PART B INFORMATION ON THE BALANCE SHEET AND THE PROFIT AND LOSS ACCOUNT**

The Company operates jointly in the areas of insurance indicated under point A) of the table as laid down in Annex 1 to Legislative Decree no. 174 of 17 March 1995 (life business) and under point A) of the Annex to Legislative Decree no. 175 of 17 March 1995 (non-life business). We therefore attach:

- the balance sheet relating only to the management of non-life business (annex 1);
- the balance sheet relating only to the management of life business (annex 2);
- table showing the breakdown of the result for the year between non-life and life business (annex 3).

All the amounts are expressed in thousands of Euro.

On 16 December 2004, the deed of merger by incorporation of First Life S.p.A. into Milano Assicurazioni S.p.A. was signed. The operation did not bring about any changes in the share capital of Milano Assicurazioni, since the latter had purchased the entire share capital of First Life from SAI Holding Italia S.p.A. (100% Fondiaria-SAI) for € 13.7m on 3 August 2005, in accordance with the relevant valuation carried out by KPMG Corporate Finance.

The legal effects of the merger, which was approved by ISVAP in an order issued on 2 December 2005, ran from 31 December 2005 while, for accounting and tax purposes, the merger came into force on 1 January 2005.

First Life was a substantially inactive life insurance company which had set up an open pension fund. The transaction will allow Milano Assicurazioni di launch direct operations in the open pension funds sector.

In commenting on the various items in the balance sheet and the profit and loss account will highlight any changes resulting from the aforesaid merger.

**BALANCE SHEETS - ASSETS**

## Section 1

**Intangible assets (item B)**

	2005	2004	Change
	<b>153,575</b>	<b>180,140</b>	<b>-26,565</b>

Comprising:

1. Deferred acquisition commission:			
a) Life	3,302	5,104	-1,802
b) Non-Life	-	-	-
2. Other acquisition costs	-	-	-
3. Set-up and enlargement costs	412	618	-206
4. Goodwill	149,330	173,322	-23,992
5. Other multi-year costs	531	1,096	-565
<b>Total, as above</b>	<b>153,575</b>	<b>180,140</b>	<b>-26,565</b>

The reduction in the item “deferred acquisition commission” is the result of the decision to allocate the commission on multi-year contracts taken out during 2003 entirely to the profit and loss account, in line with the accounting practice adopted by the holding company Fondiaria-SAI. The amount entered therefore represents the quota still to be depreciated for commission on multi-year contracts taken out up to 31 December 2002, which are spread over the actual duration of each contract with a limit of 10 years.

The item “goodwill” includes:

The goodwill entered following the merger by incorporation of Lloyd Internazionale S.p.A., which took place in 1991	12,144
The goodwill entered in 1992 following the purchase of the insurance portfolio of Card S.p.A.	24,790
The goodwill arising from the purchase of the insurance portfolio of Latina Assicurazioni S.p.A., which took place in 1992	26,706
The goodwill relating to the life portfolio of La Previdente Assicurazioni S.p.A. originally purchased from La Previdente Vita (formerly Latina Vita) in 1993	12,770
The goodwill arising from the acquisition of the portfolio of Maa Assicurazioni by Nuova Maa, incorporated in Milano in the last financial year	53,291
The good will entered in 1999 following the merger by incorporation of La Previdente Vita	15,271
The goodwill arising from the acquisition of the Profilo Life insurance portfolio by Maa Vita, incorporated in Milano in the last financial year	752
The goodwill entered in the last year following the merger by incorporation of Maa Vita	3,606
<b>Total</b>	<b>149,330</b>

This goodwill is depreciated in equal instalments over 20 years with the exception of:

- the goodwill entered in 1999 following the merger by incorporation of La Previdente Vita;
  - The goodwill arising from the acquisition of the Profilo Life insurance portfolio by Maa Vita, incorporated in Milano in the financial year 2003;
  - The goodwill entered in the financial year 2003 following the merger by incorporation of Maa Vita;
- which are depreciated over 10 years.

The amount indicated is net of the allowances for depreciation for the year, equal to € 23,992K.

The item other multi-year costs consists of the share still to be depreciated of the costs incurred for purchasing software.

The change compared to the previous year is analysed in annex 4.

## Section 2

## Investments (item C)

**Land and Buildings (item C.I)**

	2005	2004	Change
	<b>404.735</b>	<b>415.716</b>	<b>-10.981</b>

## Comprising:

1. Property for use by the company	30,903	56,426	-25,523
2. Property for use by third parties	299,957	295,696	4,261
3. Other property	439	13,670	-13,231
4. Other property rights	-	-	-
5. Assets under construction and advances	73,436	49,924	23,512
<b>Total, as above</b>	<b>404,735</b>	<b>415,716</b>	<b>-10,981</b>

To summarise, the change compared to the previous year is due to:

Assets under construction and payments on account	25,959
Improvement work	7,740
Sales	-43,380
Depreciation	-1,300
<b>Total, as above</b>	<b>-10,981</b>

The increase in the item “assets under construction and payments on account” includes:

- the advance of € 9,370K paid to IM.CO. S.p.A. in relation to the property operation concerning the land at Via Gonfalonieri-Via de Castilia (Lunetta dell’Isola), Milan. This operation involved:
  - the sale by Milano Assicurazioni to IM.CO. of the said land, for which building permits are currently awaited, and in respect of which costs of € 2,447K which were already recorded in this item were transferred.
  - the purchase from IM.CO. by Milano Assicurazioni, once the building permits are issued, of a property to be used for services which will be built on the land in question by IM.CO. itself for € 93,700K.

This operation is described in detail in the chapter dedicated to property and financial management of the management report, to which you are therefore referred for further information.

- the further advances paid during the year for the property operation concerning the Via Lancetti area in Milan, equal to € 6,532K. We should remind you that the operation, which was set up in 2003, involved the sale of the land to IM.CO. S.p.A. and the purchase from IM.CO of the property complex to be built by it, at the price of €36,400K.

- the further advances paid during the year for the property operation concerning the Via Fiorentini area in Rome, equal to €9,319K. This operation too, which was set up last year, involved the sale of the land to Società Avvenimenti e Sviluppo Alberghiero s.r.l. and the purchase from the same purchaser of the property complex to be built in the area, at the price of €96,200K.

The improvement work relates mainly to the restructuring work carried out on the properties in Milan, Via Broletto (€ 2,817K); Milan, Corso Europa (€ 1,386K); Milan, Via Senigallia (€ 1,206K); Rome, Via Tre Madonne (€908K).

The sales concerned:

- the aforesaid land at Via Gonfalonieri-Via Castilia (Lunetta dell'Isola), sold to IM.CO. S.p.A. for €28,800K, achieving a net capital gain of €13,121K.
- the property in Assago which previously housed the head office of Milano Assicurazioni and is currently undergoing renovation work, sold to the Meridiano Eur subsidiary for €34,000K, achieving a net capital gain of €8,565K.
- portions of properties owned in San Donà di Piave, Via del Veronese and Milan, Piazza Caneva, which allowed capital gains of €2,483K to be achieved.

The change compared to the previous financial year is analysed in annex 4 which also shows, among other things, in accordance with Art. 16 of Legislative Decree 173/97, the current value of the property assets at the year end. This value was calculated for each individual asset according to the criteria in ISVAP instruction 1915-G of 20 July 2001 issued under Art. 18, point 2, of the aforementioned Legislative Decree 173/97.

The analytical list of the property belonging to the company is attached to these Notes to the Accounts, with the movements occurring during the course of the year.

#### **Investments in Group undertakings and other participating interests (item C.II)**

	2005	2004	Change
	<b>459,105</b>	<b>275,765</b>	<b>183,340</b>
Comprising:			
Stocks and shares of group undertakings	425,591	271,765	153,826
Bonds of group undertakings	3,984	4,000	-16
Loans to group undertakings	29,530	-	29,530
<b>Total, as above</b>	<b>459,105</b>	<b>275,765</b>	<b>183,340</b>

The item "Stocks and shares of group undertakings" includes:

- 5,362,557 shares in the parent company Fondiaria-SAI, equal to 4.09% of the ordinary share capital, with a book value of € 103,672, which present a capital gain compared to average stock market prices in December of € 41,438K;
- 9,157,710 shares in the indirect parent company Premafin Finanziaria, with a book value of € 12,196K, compared to a market value, determined on the basis of the average prices for December, of € 18,407K;

- stocks and shares in unlisted subsidiaries valued at € 245,957K;
- stocks and shares in associated companies valued at € 62,779K;
- stocks and shares in affiliated companies and other participating interests valued at € 987K.

The increase from 31 December 2004 is essentially the result of the following transactions:

- the purchase from Fondiaria-SAI of a 12% shareholding in the capital of Progestim S.p.A. (now Immobiliare Lombarda) for € 43,416K and the subscription of Progestim capital increases, in proportion to its share of the capital, of € 7,800K;
- the purchase of 1,751,000 shares in Fondiaria-SAI and of 3,588,010 shares in Premafin for a total cost of € 39,236K and € 6,248K respectively;
- the purchase, for a total price of € 22,684K, of 100% of Campo Carlo Magno S.p.A., the owner of a hotel property complex in Madonna di Campiglio called Golf Hotel, and of Campo Carlo Magno Sport S.r.l., which manages the ski lift, ski slope and golf course facilities;
- the capital financing of € 37,800K in favour of the subsidiary Meridiano Eur and of € 11,200K in favour of Meridiano Orizzonti.
- The sale to the associated company Saifin of the shareholding in Finitalia equal to 60% and with a book value of € 13,141K.

The purpose of the capital financing paid to Meridiano Eur was to allow the subsidiary to acquire from Milano Assicurazioni the property in Assago, previously the head office of Milano Assicurazioni itself and currently undergoing renovation work.

The capital financing paid to Meridiano Orizzonti allowed the subsidiary to pay the balance of the price of the property in Santa Maria Beltrade, Milan, which was purchased during the previous financial year.

This financial transactions are described in detail in the chapter dedicated to property and financial management of the management report, to which you are therefore referred for further information.

The stocks and shares of Group undertakings listed, valued at the average prices for December, show, in respect of the balance sheet values, capital gains of € 50,956K.

Also with reference to the item "Stocks and shares of Group undertakings", we give the detail of the differences between the value entered in the balance sheet calculated using the method described in Art. 16, paragraphs 1 and 2 of Legislative Decree 173/97 and that arising from the valuation made in accordance with Art. 16, paragraph 5 of the same decree:

	Value as stated in par. 5 art. 16 Leg.D. 173/95	Book value	Difference
Campo Carlo Magno S.p.A.	3,979	21,292	-17,313
Campo Carlo Magno Sport s.r.l.	279	1,392	-1,113
Garibaldi S.c.s.	-135	-	-135
Sogeint	-89	-	-89

For the companies Carlo Magno S.p.A. and Campo Carlo Magno Sport s.r.l., the differences are essentially explained by the capital gains existing on the property and assets and equipment owned by the companies themselves. For Garibaldi S.c.s. and Sogeint by the income prospects of the companies, which make it reasonable to presume that these can be cancelled in the short term.

The item “Bonds”, equal to € 3,984K, refers to a bonded security issued by Banca Apulia, in which the company has an interest.

The item “Loans to group undertakings” includes € 24,293K of loans disbursed to the associated company Garibaldi S.c.s. and relating to the property development project in the area situated on the northern edge of the historical centre of Milan, known as “Garibaldi-Repubblica”. This operation is described in detail in the management report, to which you are referred to further information.

We also attach:

- change during the year of stocks and shares and loans to undertakings (Annex 5);
- table containing information relating to participating interests (Annex 6);
- analytical table of movements (Annex 7).



**Other financial investments (item C.III)**

	2005	2004	Change
	<b>7,383,547</b>	<b>7,106,394</b>	<b>277,153</b>
<b>Comprising:</b>			
Stocks and shares	870,095	798,092	72,003
Holdings in unit trusts	267,118	185,162	81,956
Bonds and other fixed-income securities	6,156,210	6,033,28	122,882
Loans	65,999	68,012	-2,013
Holding in mutual investments	-	-	-
Deposits with credit institutions	2,141	2,482	-341
Sundry financial investments	21,984	19,318	2,666
<b>Total, as above</b>	<b>7,383,547</b>	<b>7,106,394</b>	<b>277,153</b>

The listed shareholdings, valued at the average December price show, in respect of the balance sheet value, capital gains of € 70,858K and capital losses of € 5,785K; the capital losses concern long-term investments exclusively and in particular € 1,579K relate to the shareholding in Swiss Life Holding and € 4,206K relate to the shareholding in AEM.

With regard to the shareholding in Swiss Life Holding, as described in detail in the management report, in the chapter dedicated to significant events since the end of the financial year, on 11 January 2006, the Company sold its entire shareholding to an institutional investor (UBS). In particular, the transaction involved the sale of 828,709 Swiss Life Holding shares held in the portfolio for CHF 234.75 each, resulting in a total income of € 194,539K compared to a book value of € 193,230. Considering the book value exchange rate and the one negotiated for the conversion of the income into euros, the transaction resulted in a capital gain of € 336K, recorded in the financial year 2006.

The item "Bonds and other fixed income securities" includes € 1,236K allocated in the year for issue spreads and € 4,151K allocated for negative trading spreads and consists of the following:

Listed State securities	4,877,295
Unlisted State securities	5,106
Other listed securities	1,214,532
Other unlisted securities	59,277
<b>Total, as above</b>	<b>6,156,210</b>

This item includes € 15,012K of bonded securities from the incorporated company First Life S.p.A., of which € 14,663K in particular are listed State securities and the remaining € 349K are other listed securities.

Overall, the bonds and other fixed income securities present capital gains of € 178,459K and capital losses of € 22K determined with reference to the average stock market prices for December for the listed securities and the presumed realisation value for the unlisted securities. The following table summarises the amounts:

	Capital gains	Capital losses
Listed	177,624	17
Unlisted	835	5
<b>TOTAL</b>	<b>178,459</b>	<b>22</b>
Of which:		
Short-term	76,064	-
Long-term	102,395	22

The item “Loans” includes € 40,449K for the loan secured by a lien on mezzanine property granted to Ganimede S.r.l. in relation to the improvement of part of the company’s property assets that took place during the financial year 2003. This loan was accompanied by a second degree mortgage on the property sold to Ganimede. The repayment of the capital and the related interest is subject to fulfilment of the payment obligations by the debtor within the terms of the “senior” Loan obtained, again in relation to the aforementioned operation. The term is seven years from the date it was granted, therefore the due date is December 2010. Partial advance repayments were also provided for in relation to the plan for the disposal of the property by the debtor and the debtor also has the right to repay the loan early, fully or partially, at any time.

The item “Sundry financial investments” includes € 4,667K recorded in respect of options purchased on shares in the portfolio and € 17,317K relating to the following repo contract operations:

Security	Counterpart	Amount
BOT 15/06/06 365 GG	UBM	1,978
BTP FB 01/03/06 2.75%	MPS FINANCE	2,529
CTZ 30/7/04 31/7/06	UBM	7,883
CTZ 30/7/04 31/7/06	UBM	7,883
<b>Total</b>		<b>17,317</b>

We also attach:

- the breakdown, on the basis of long-term and short-term use, of the assets included in the items "Stocks and shares" - C.III.1, "holdings in unit trusts" - C.III.2, "Bonds and other fixed income securities" C.III.3, and "Sundry financial investments" - C.III.7 (annex 8);
- the changes in the year in the long-term assets included in the items stated in the previous point (annex 9);
- the changes in the year in loans - item C.III.4 (annex 10).

**Deposits with ceding undertakings (item C.IV)**

2005	2004	Change
<b>4.110</b>	<b>6.450</b>	<b>-2.340</b>

These concern life business of € 2,701K and non-life business of € 1,409K.

### Section 3

#### **Investments for the benefit of Life assurance policy holders who bear the risk of such investments and investments deriving from the management of pension funds (item D)**

##### **Investments relating to benefits connected to investments funds and market indices**

2005	2004	Change
<b>358,253</b>	<b>352,394</b>	<b>5,859</b>

The change compared to the previous year is mainly due to the new production of index and unit linked policies, with benefits linked to the progress of the main stock exchange markets indices or to investment funds.

During the course of the year some investments were transferred between “class C” and “class D”, due to the issue of new insurance policies whose provisions were hedged by securities already held in the portfolio. These transfers, which took place in accordance with the procedures laid down in Art. 20 of Legislative Decree no. 173/97, led to an increase of € 5K of the specific revaluation reserve entered under the net equity.

The details are given in Annex 11 by category of business.

## Section 4

**Technical provisions to be debited to the reinsurers (item D a)**

	2005	2004	Change
	<b>356,399</b>	<b>436,289</b>	<b>-79,890</b>

## Comprising:

## NON-LIFE BUSINESS

1. Premium reserve	20,866	23,073	-2,207
2. Loss reserve	187,434	218,671	-31,237
3. Reserve for bonuses and rebates	-	-	-
4. Other technical provisions	-	-	-

## LIFE BUSINESS

1. Actuarial provisions	147,176	193,121	-45,945
2. Premium reserve for supplementary insurance	-	-	-
3. Reserve for sums to be paid	923	1,424	-501
4. Reserve for bonuses and rebates	-	-	-
5. Other technical provisions	-	-	-
6. Technical provisions where the investment risk is borne by policyholders and provisions arising out of pension fund management	-	-	-

<b>Total, as above</b>	<b>356,399</b>	<b>436,289</b>	<b>-79,890</b>
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The decrease in actuarial provisions for life business is attributable to the settlement of the dispute with CONSAP relating to the abolition of compulsory cessions. We would remind you in fact that in March of the current financial year a settlement was signed with CONSAP with regard to the dispute regarding the portfolio of Milano Assicurazioni (a similar settlement was signed in November 2004 for the portfolio of the incorporated company Maa Vita).

The settlement led to the company receiving € 83,500K against receivables from CONSAP of € 71,110K and reserves chargeable to the latter of € 32,837K. The cost of the settlement therefore amounted to € 20,447K, of which € 6,459 had a negative effect on the technical account, while € 13,988K were entered in the non-technical account under “losses on receivables”. The expected charges had in any case been set aside in the risk fund during previous financial years.

During the financial year under examination, the whole amount set aside of € 20,700K was therefore withdrawn from the said fund and posted to “other income” in the non-technical account, thus neutralising the impact of the settlement on the profit and loss account for the period.

## Section 5

**Debtors (item E)**

	2004	2003	Change
	<b>1,151,486</b>	<b>1,116,307</b>	<b>35,179</b>

## Comprising:

## DIRECT INSURANCE OPERATIONS

1. Policyholders for premiums	325,234	307,320	17,914
2. Insurance brokers	325,042	296,355	28,687
3. Current account companies	10,246	33,179	-22,933
4. Policyholders and third parties for sums to be recovered	48,228	55,442	-7,214

## REINSURANCE OPERATIONS

1. Insurance and reinsurance companies	68,112	131,933	-63,821
2. Reinsurance brokers	-	-	-

OTHER DEBTORS	374,624	292,078	82,546
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<b>Total, as above</b>	<b>1,151,486</b>	<b>1,116,307</b>	<b>35,179</b>
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The item "Other debtors" is made up of the following principal amounts:

Receivables from the Treasury	149,897
Tax advances paid during the financial year and recorded among debts owed to the parent company Fondiaria-Sai following the entry of Milano Assicurazioni into the fiscal consolidation of the Fondiaria-Sai group	130,822
Invoices issued and to be issued, mainly for services provided to Group companies	91,389

During the course of the year, losses on receivables were recorded of € 77,296K with allocation to the specific items in the profit and loss account; in particular the losses concern amounts receivable from policyholders for premiums of € 57,621K and other receivables of € 19,675K. The losses on receivables from policyholders relate mainly to Motor TPL (€ 23,475K), general TPL (€ 5,975K) and land vehicles (€ 4,737K).

The losses relating to other receivables relate to receivables from CONSAP (€ 13,988K) and were recorded following the settlement of the dispute relating to the abolition of compulsory cessions. However, the total burden of the transaction, amounting to € 20,447K, including the loss of € 6,459K relating to the technical reserves chargeable to CONSAP, has not had a negative impact on the profit and loss

account given that it is covered by the withdrawal of the same amount from the risk fund in which the expected cost of the settlement had been set aside during previous financial.

The values shown are net of a provision for bad debts of € 119,367K, directly deducted from them.



## Section 6

**Other items in the assets – (item F)**

	2005	2004	Change
	<b>404,805</b>	<b>364,876</b>	<b>39,929</b>

## Comprising:

## TANGIBLE ASSETS AND STOCKS:

1. Furniture, office machinery and internal vehicles	2,227	3,229	-1,002
2. Moveables entered in the public registers	75	17	58
3. Plant and equipment	222	280	-58
4. Sundry stocks and items	-	-	-

## CASH AT BANK OR IN HAND:

1. Bank deposits and post office accounts	147,877	137,227	10,650
2. Cheques and cash in hand	125	12	113

## OWN STOCKS AND SHARES

	374	374	-
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## OTHER ASSETS

1. Deferred reinsurance accounts payable	66	37	29
2. Sundry assets	253,839	223,700	30,139

<b>Total, as above</b>	<b>404,805</b>	<b>364,876</b>	<b>39,929</b>
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The item "Bank deposits" includes € 145,935K of sight deposits denominated in Euros and € 1,942K represented by the countervalue of deposits denominated in foreign currencies.

The item "Deferred reinsurance accounts payable" includes negative income values of a technical nature relating to indirect business and retrocessions, offsetting operations entered in the accounts in the name of the reinsurance companies, whose entries in the technical account are deferred to the following year, as the information received from the ceding companies was insufficient to calculate the economic result of the individual acceptances in full.

The item "Sundry assets" consists of the following principal amounts:

Liaison account between Non-life and Life sections	36,945
Assets for advance taxes	161,692

The item "Assets for advance taxes" entered at Euro 161,692 has undergone the following changes.

	2005
Initial amount	174,382
Advance taxes arising during the year	45,621
Advance taxes cancelled during the year	62,024
Other decreases	3,713
<b>Final amount</b>	<b>161,692</b>

The item "Other increases" takes into account the changes arising from the items actually entered in the UNICO form presented in 2005.

The temporary deductible differences subject to calculation of advance taxes concern:

- the surplus of the adjustments on insurance receivables for the years 1998 and 1999 in respect of the limit of 0.50% of the amount of receivables themselves, deductible in equal instalments over the seven subsequent years;
- the surplus of the adjustments on insurance receivables for the years 2000 to 2004 in respect of the limit of 0.60% of the amount of receivables themselves, deductible in equal instalments over the nine subsequent years;
- the surplus of the adjustments on insurance receivables for the year 2005 in respect of the limit of 0.40% of the amount of receivables themselves, deductible in equal instalments over the nine subsequent years;
- the provisions for bad debts, risks, charges allocated for costs for which the deductibility is provided for;
- capital losses not realised up to the financial year 2003 on fixed holdings deductible in consistent amounts in the year and in the four subsequent years according to the provisions of Decree Law 209/02 converted into Law no. 265/02;
- the share of the increase in the claims reserve recorded in the 2003 to 2005 financial years and deductible over nine financial years;
- the commissions on multi-annual non-life policies fully posted to the profit and loss account and deductible over 3 financial years.

The total amount of temporary deductible differences taken into account is € 448,764K, to which advance taxes of € 161,694K, determined separately for IRES and IRAP at the current rates, correspond.

The temporary differences for which the calculation of the deferred taxation was not done amount to € 41,256 and relate essentially to quotas of funds allocated to meet costs of uncertain deductibility.

## Section 7

**Accrued income and prepayments (item G)**

	2005	2004	Change
	<b>90,742</b>	<b>77,007</b>	<b>13,735</b>
Comprising:			
ACCRUED INCOME			
For interest	90,683	76,032	14,651
For rent	14	4	10
Other	-	949	-949
PREPAYMENTS			
For interest	-	-	-
For rent	45	22	23
Other	-	-	-
<b>Total, as above</b>	<b>90,742</b>	<b>77,007</b>	<b>13,735</b>

The accrued income for interest concerns coupons for securities in the course of maturity.

\* \* \*

We should point out that in Item C.III.3 of the Balance Sheet the following assets appear which have subordination clauses:

<i>(in thousands of Euro)</i>		
ISIN Code	Description of security	Book value 31/12/2005
XS0082765289	AMBROVENETO SUB GUAR 98/2008 FLOAT	3,439
XS0206511130	AVIVA PLC 25.11.04/PERP	9,764
XS0147222540	B. INTESA 02/14 TV FIX TO FLOAT	2,705
XS0203156798	B. ITALEASE 15.10.04/14 FLOAT	7,983
ES0213540018	BANESTO EMISION 23.03.04/16 FIX TO FLOAT	2,566
XS0186652557	BANK OF IRELAND 25.02.04/27219 4.625%	4,484
XS0214398199	BARCLAYS BANK 15.03.05/PERP FIX TO FLOAT	13,022
XS0225369403	BAYER 29.07.05/29.7.2105 FIX FLT	1,979
XS0108245167	B. LOMBARDA 00/10 6.875%	5,586

XS0198037839	CAPITALIA 11.08.04/14 TV	2,515
XS0181782144	CARIFIRENZE 05.12.03/13 FLOAT	7,464
XS0135565637	CARIGE 28.09.01/ 11 TV	2,515
FR0010248641	CREDIT AGRICOLE 09.11.05 PERP. FIX FLT	4,987
XS0054850531	CREDIT SUISSE 20.12.94/2014 ZC	339
XS0213725525	CREDITO VALTELLINESE 14.03.05/15 FLOAT	751
XS0214318007	DANSKE BANK 16.03.05/18 FIX TO FLOAT	4,992
FR0010251421	DEXIA CREDIT LOCAL 18.11.05 PERP FLOAT	3,000
DE000A0DZTE1	DZ BANK CAP 06.06.05/PERP FLOAT	2,485
XS0214965534	HBOS 17.03.05/18.03.30 4.50% FIX FLOAT	2,544
XS0221574931	LEGAL & GENERAL GROUP 06.06.05/25	3,008
XS0176510641	MONTE PASCHI 4.5% FLOAT	10,412
XS0120282610	SAN PAOLO IMI 1.011.00 8.126% PERP.	3,006
XS0151267522	SL FINANCE 12.07.02/2022 6.375% DAL 2012 TV	2,810
XS0172565482	SNS BANK 22.07.03 PERP.	2,743
FR0010237016	THOMPSON 26.09.05/PERP.	1,311
XS0231436238	UNICREDITO ITAL 27.10.05 PERP. FIX TO FL.	4,883
XS0173649798	UNIPOL 28.07.03/23 TV	5,020
<b>Total</b>		<b>116,313</b>

Item C.III.4 of the assets includes the amount of € 40,449K for the loan secured by a lien on mezzanine property granted to Ganimede S.r.l. in relation to the improvement of part of the company's property assets that took place during the financial year 2003. This loan was accompanied by a second degree mortgage on the property sold to Ganimede. The repayment of the capital and the related interest is subject to fulfilment of the payment obligations by the debtor within the terms of the "senior" Loan obtained, again in relation to the aforementioned operation. The term is seven years from the date it was granted, therefore the due date is December 2010. Partial advance repayments were also provided for in relation to the plan for the disposal of the property by the debtor and the debtor also has the right to repay the loan early, fully or partially, at any time.

**BALANCE SHEETS - LIABILITIES**

## Section 8

**Net equity**

	2004	2003	Change
	<b>1,502,515</b>	<b>1,389,072</b>	<b>113,443</b>

## Comprising:

1. Share capital	238,575	238,569	6
2. Provision from issue premium	325,145	324,966	179
3. Revaluation reserve	1,277	1,277	-
4. Legal reserve	47,714	42,098	5,616
5. Statutory reserves	-	-	-
6. Reserves for own shares and holding company shares	116,242	70,758	45,484
7. Other reserves	534,170	398,892	135,278
8. Profit (loss) carried forward	6,286	6,286	-
9. Profit (loss) for the period	233,106	306,226	-73,120
<b>Total, as above</b>	<b>1,502,515</b>	<b>1,389,072</b>	<b>113,443</b>

As at 31 December 2005 the share capital consisted of 458,787,121 shares at € 0.52 face value, of which 428,058,239 were ordinary shares and 30,739,882 were savings shares. During 2005, the share capital increased by € 6K as a result of the subscription of 10,952 ordinary shares carried out following the conversion of 27,380 Milano Assicurazioni 1998-2007 warrants.

As at 31 December 2005 a further 32,356 ordinary shares had also been subscribed as a result of the conversion, by the respective holders, of 80,890 Milano Assicurazioni 1998-2007 warrants. The new share capital, including the new shares subscribed, was registered with the Registry of Companies on 23 January 2006.

The revaluation reserves comprise the following:

Monetary revaluation reserve L. 72/83	208
Revaluation reserve under L. 342/2000 applied in relation to the property belonging to the property company Nava, incorporated in 1999	1,069
<b>Total</b>	<b>1,277</b>

The share premium reserve was increased as a result of the subscription, at a price of € 4,648, of which € 0.52 at nominal value, of 43,308 shares resulting from the conversion, by the respective holders, of 108,270 Milano Assicurazioni 1998-2007 warrants.

The legal reserve increased following the resolutions of the Shareholders' Meeting of 22 April 2005 on the distribution of the result for 2004.

The reserve for own shares and holding company shares is as follows:

5,362,557 Fondiaria-Sai shares	103,672
9,157,710 Premafin shares	12,196
115,460 own shares	374
<b>Total</b>	<b>116,242</b>

The increase compared to the previous year is due to:

- the purchase of 3,588,010 Premafin shares for a countervalue of € 6,248K, which took place by resolution of the meeting of 22 April 2005 which, in accordance with Art. 2359 a of the Civil Code, authorised the purchase of these shares, on one or more occasions and for a period of twelve months from the date of the resolution, for a maximum increment, taking into account any sales made in the meantime, of 6,000,000 shares, subject to a maximum amount of € 10 million.
- the purchase of 1,751,000 Fondiaria-SAI shares for a countervalue of € 39,236K, which took place by resolution of the meeting of 22 April 2005 which, in accordance with Art. 2359 a of the Civil Code, authorised the purchase of these shares, on one or more occasions and for a period of twelve months from the date of the resolution, for a maximum increment, taking into account any sales made in the meantime, of 2,000,000 shares, subject to a maximum amount of € 40 million.

The item “Other reserves” includes:

Extraordinary reserve	189,909
Reserve from Previdente Vita merger	73,137
Reserve from Lira property company merger	2,687
Reserve from Italia Assicurazioni merger	21,873
Reserve from Nuova Maa merger	152,887
Reserve from Maa Vita merger	2,799
Reserve for holding company shares to be purchased	4,516
Reserve for own shares to be purchased	80,000
Special reserve for life business	4,260
Reserve for transfer of assets from class C to class D	2,085
Reserve for shares subscribed	17
<b>Total</b>	<b>534,170</b>

The extraordinary reserve was increased compared to the previous year by € 134,419K following the resolutions of the Shareholders’ Meeting of 22 April 2005. In particular, the reserve increased by € 180,739K on the allocation of the result for 2004 and decreased by € 46,320K due to the adjustment of the reserve for own shares to be purchased and of the reserve for holding company shares to be purchased.

The reserve for holding company shares to be purchased, originally adjusted in 2005 to € 50,000K (€ 40,000K for shares in the direct parent company Fondiaria-SAI and € 10,000K for shares in the indirect parent company Premafin) was reduced by € 4,516K as a result of the transfer of € 45,484K to the “reserve for own and parent company shares” carried out in relation to the Fondiaria-SAI and Premafin shares purchased during the financial year for € 39,236K and € 6,248K respectively.

The reserve for own shares to be purchased was set up in 2005, after zeroing the existing reserve at the end of the previous financial year, in the amount of € 74,627K.

The reserve for the transfer of assets from class C to class D includes the difference between book value and current value of some bonded securities transferred to the class “Investments relating to benefits linked to investment funds and market indices”; it increased by € 5K and is posted in accordance with Art. 20 of Legislative Decree no. 173 of 26 May 1997.

The reserve for shares subscribed represents the face value of 32,356 shares subscribed in 2005 following the conversion of Milano Assicurazioni 1998-2007 warrants. Registration of these shares with the Registry of Companies took place on 23 January 2006.

In order to have a better understanding of the movements involving the net equity during the course of the financial year, we give below a summary of the changes.

## Statement of variations in net equity accounts

(values in €)

	Share capital	Equity reserves	Operating result	Grand total
<b>Balances at 31/12/2003</b>	<b>238,569,328</b>	<b>779,432,017</b>	<b>157,196,054</b>	<b>1,175,197,399</b>
Allocation of profits:				
Undivided reserves and profits		64,823,915	(64,823,915)	
Ordinary shares dividend			(85,609,365)	(85,609,365)
Savings shares dividend			(6,762,774)	(6,762,774)
Increase in reserve for transfer of assets from class C to class D		20,702		20,702
Profit for the year			306,225,692	306,225,692
<b>Balances at 31/12/2004</b>	<b>238,569,328</b>	<b>844,276,634</b>	<b>306,225,692</b>	<b>1,389,071,654</b>
Allocation of profits:				
Undivided reserves and profits		186,355,963	(186,355,963)	
Ordinary shares dividend			(111,262,562)	(111,262,562)
Savings shares dividend			(8,607,167)	(8,607,167)
Capital increase following warrant conversion	5,695	195,601		201,296
Increase in reserve for transfer of assets from class C to class D		5,300		5,300
Profit for the year			233,106,422	233,106,422
<b>Balances at 31/12/2005</b>	<b>238,575,023</b>	<b>1,030,833,498</b>	<b>233,106,422</b>	<b>1,502,514,943</b>



## Section 9

### **Subordinated liabilities (item B)**

There were no subordinated liabilities as at 31 December 2005.

## Section 10

**Technical provisions (item C.I – Non-life business and C.II Life business)**

	2005	2004	Change
	<b>7,985,531</b>	<b>7,670,479</b>	<b>315,052</b>
<b>Comprising:</b>			
<b>NON-LIFE BUSINESS</b>			
1. Premium reserve	984,088	942,765	41,323
2. Loss reserve	3,306,704	3,229,492	77,212
3. Reserve for bonuses and rebates	-	-	-
4. Other technical provisions	2,084	3,281	-1,197
5. Equalization provisions	5,333	4,420	913
<b>LIFE BUSINESS</b>			
1. Actuarial provisions	3,655,978	3,445,206	210,772
2. Premium reserve for supplementary insurance	383	469	-86
3. Reserve for sums to be paid	6,313	18,540	-12,227
4. Reserve for bonuses and rebates	-	29	-29
5. Other technical provisions	24,648	26,277	-1,629
<b>Total, as above</b>	<b>7,985,531</b>	<b>7,670,479</b>	<b>315,052</b>

The premiums reserve includes € 982,744K for the direct business premium portions reserve and € 1,313 for the indirect business premiums reserve; in view of the favourable technical performance recorded during the year and the prospects for the current year the conditions for appropriation of the risks in progress reserve required by Art. 32 of Legislative Decree 173/97 have not arisen, with the exception of the amount of € 31K appropriated in the Marine, lake and river hull class. We give below the detail of the premiums reserve by class of insurance.

	Reserve for premium portions	Reserve for risks in progress	Reserve for indirect business
Accidents	67,295	-	-
Health	19,420	-	-
Land vehicles hull	90,713	-	-
Rail vehicles hull	-	-	-
Aircraft hull	66	-	-
Marine, lake and river hull	1,232	31	-
Transported goods	840	-	-
Fire	78,289	-	116
Other damage to property	55,102	-	-
Land vehicles T.P.L.	553,318	-	-
Aircraft T.P.L.	54	-	-
Marine, lake and river T.P.L.	986	-	-
General T.P.L.	73,198	-	347
Credits	287	-	-
Bonds	34,599	-	850
Pecuniary losses	1,652	-	-
Legal protection	1,874	-	-
Assistance	3,819	-	-
<b>Total</b>	<b>982,744</b>	<b>31</b>	<b>1,313</b>

The claims reserves relate to direct business reserved of € 3,289,652K and reserves relating to reinsurance acceptances of € 17,052K. Direct business reserves include € 3,122,295K of reserves for compensation and direct costs and € 167,357 of reserves for liquidation costs.

The aforesaid amounts include € 334,600K appropriated for losses that occurred during the financial year but had not been reported before the end of the year.

The item "Other technical provisions" - non-life business - includes the health class ageing reserve, calculated using the method described in point 3 of Art. 25 of Legislative Decree no. 175 of 17 March 1995 (analytical method). During the previous financial year, the ageing reserve had been calculated using the lump sum method described in point 5 of the aforesaid article 25 of Legislative Decree 175/95. The change of method had a positive impact on the profit and loss account of € 1,198K.

The life business actuarial reserves relate to direct business in the amount of € 3,653,255K while the residual amount of € 2,723K relates to indirect business.

The direct business reserves – which include € 1,694K of reserves relating to First Life S.p.A. incorporated into Milano Assicurazioni on 30 December 2005 with ac-

counting effects backdated to 1 January 2005 – are calculated analytically for each policy based on the pure commitments, without deducting underwriting costs. The technical basis for calculation (technical interest rates, demographic assumptions regarding eliminations due to death or invalidity and frequency of abandonment) is the same as the one used to determine the premiums on individual contracts. In any case, the actuarial reserves are not lower than the redemption values.

The item "Other technical provisions" - life business - includes:

<hr/>	
Reserve for future expenses:	
Line I	13,847
Line III	3,488
Line IV	65
Line V	4,185
<hr/>	
Supplementary reserves (Art. 25 paragraph 3 Legislative Decree 174/95):	
Line I	1,347
Line V	1,716
<hr/>	
<b>Total</b>	<b>24,648</b>
<hr/>	

We also attach:

- table of changes during the year in the components of the premiums reserve (item C.I.1) and the components of the loss reserve (item C.I.2) in non-life business (annex 13);
- table of changes during the year in the components of the actuarial provisions (item C.II.1) and the reserve for bonuses and rebates (item C.II.4) (annex 14).

## Section 11

### **Technical provisions where the investment risk is borne by policyholders and reserves arising out of pension fund management (item D)**

#### **Reserves relating to policies whose benefits are linked to investment funds and market indices (item D.I)**

2005	2004	Change
<b>358,251</b>	<b>352,381</b>	<b>5,870</b>

These are products with benefits linked to the progress of the primary share markets indices amounting to € 300,442K and policies with benefits linked to internal or external investment funds of € 57,809K.

For these products the amount of the reserves for minimum guarantees offered to policyholders is equal to € 379K entered under item C.II.1 – actuarial provisions.

## Section 12

**Provisions for risks and charges (item E)**

	2005	2004	Change
	<b>149,462</b>	<b>197,624</b>	<b>-48,162</b>

## Comprising:

1. Funds for retirement pay and similar obligations	-	-	-
2. Funds for taxes	86,107	133,831	-47,724
3. Other provisions	63,355	63,793	-438
<b>Total, as above</b>	<b>149,462</b>	<b>197,624</b>	<b>-48,162</b>

The funds for taxes include IRAP on the income for the year, equal to € 22,530K, as well as the amount of deferred tax existing at the end of the year, equal to € 63,533K, the IRES debt is instead appropriated to “various debts owed to parent company” as a result of Milano Assicurazioni joining the fiscal consolidation of the Fondiaria-Sai Group.

The amount of deferred tax underwent the following changes during the year:

	2005
Initial amount	107,927
Deferred taxes arising during the year	10,833
Deferred taxes cancelled during the year	56,355
Other increases	1,128
<b>Final amount</b>	<b>63,533</b>

The temporary taxable differences that are the subject of deferred tax calculations primarily relate to:

- capital gains which – provided that the premises required by article 54, paragraph 4, of Presidential Decree 917/86 (Art. 86, paragraph 4, of the new TUIR) are fulfilled – may be taxed at constant rates during the year in which they were made and in subsequent ones up to a maximum of four;
- depreciation on properties deducted when completing the income tax return;
- the taxable share of value adjustments on investment securities, the subject of value adjustments entered and deducted in previous financial years.

The deferred taxes cancelled during the financial year relate, in the amount of € 31,507K, to the part that is no longer taxable of the € 113,664K value adjustment made during the previous financial year on the General shares in the portfolio.

The other increases relate to the postings actually entered in the UNICO form presented in 2005.



The total amount of temporary taxable differences taken into account is € 174,218K, to which deferred taxes payable of € 63,533K, determined separately for IRES and IRAP at the current rates, correspond.

The temporary taxable differences for which the deferred tax has not been calculated amount to € 4,788K and relate to suspended tax reserves entered in the corporate assets for which no operations are planned that are likely to remove the benefit of the facilitate regime.

The item "Other provisions" includes the reasonable valuation of the future charges and risks existing at the year end, including those arising from disputes in progress. In particular:

- € 50,441K concern allocations to the risks fund relating mainly to disputes with the agency network and disputes in progress;
- € 12,914K relate to allocations to the fund for future charges.

Annex 15 shows the changes during the year in the provisions for risks and charges.

## Section 13

**Creditors and other liabilities (item G)**

	2005	2004	Change
	<b>374,898</b>	<b>365,520</b>	<b>9,378</b>

## Comprising:

I. CREDITORS ARISING OUT OF DIRECT INSURANCE OPERATIONS, CONCERNING:			
1. Insurance brokers	71,967	57,891	14,076
2. Current account companies	14,717	17,278	-2,561
3. Policyholders for deposits and premiums	298	283	15
4. Guarantee funds in favour of policyholders	1,683	3,758	-2,075
II. CREDITORS ARISING OUT OF REINSURANCE OPERATIONS, CONCERNING:			
1. Insurance and reinsurance companies	13,261	13,368	-107
2. Reinsurance brokers	-	-	-
III. BONDED LOANS	-	-	-
IV. CREDITORS TO BANKS AND FINANCIAL INSTITUTIONS	-	-	-
V. CREDITORS WITH LIEN ON PROPERTY	-	-	-
VI. SUNDRY LOANS AND OTHER CREDITORS	4,190	317	3,873
VII. SEVERANCE INDEMNITY FOR SUBORDINATED EMPLOYMENT	29,098	27,993	1,105
VIII. OTHER CREDITORS			
1. For taxes payable by the policyholders	28,120	28,488	-368
2. For sundry taxes	16,260	5,444	-10,816
3. Loans to welfare and pension bodies	10,106	5,610	4,496
4. Sundry creditors	185,198	205,090	-19,892
<b>Total, as above</b>	<b>374,898</b>	<b>365,520</b>	<b>9,378</b>

The item "Sundry creditors" includes the following principal amounts:

IRES on the income for the year, to be paid to the parent company Fondiaria-Sai as a result of Milano Assicurazioni joining the fiscal consolidation of the Fondiaria-Sai Group.	96,777
Due to Fondiaria-Sai Group companies for shares of the costs relating to unified functions at group level	54,951
Due to suppliers for purchases of goods and services	30,402

In annex 15 we also give a table showing the changes in severance indemnity for subordinated employment during the year.

**Other liabilities**

	2005	2004	Change
	<b>242,309</b>	<b>189,821</b>	<b>52,488</b>

Comprising:

1. Deferred reinsurance accounts payable	24	28	-4
2. Commissions for premiums currently being collected	42,228	41,459	769
3. Sundry liabilities	200,057	148,334	51,723
<b>Total, as above</b>	<b>242,309</b>	<b>189,821</b>	<b>52,488</b>

The item "Deferred reinsurance accounts receivable" includes positive income values of a technical nature relating to indirect business and retroceded, offsetting operations entered in the accounts in the name of the insurance companies. whose entries in the technical account are deferred to the following year, as the information received from the ceding companies is insufficient to calculate the economical result of the individual acceptances in full.

The item "Sundry liabilities" includes the following principal amounts:

Cheques issued to pay losses and due dates for life business, collected by the beneficiaries after 31 December 2005	102,003
Liaison account between Non-life and Life sections	36,945
Reinstatement of premiums on reinsurance treaties	10,990
Overcommissions to be paid	9,400

## Section 14

**Accruals and deferred income (item H)**

	2005	2004	Change
	<b>14</b>	<b>25</b>	<b>-11</b>

## Comprising:

## ACCRUALS

For interest	-	1	-1
Others	-	-	-

## DEFERRED INCOME

For interest	-	-	-
For rents	-	-	-
Others	14	24	-10

<b>Total, as above</b>	<b>14</b>	<b>25</b>	<b>-11</b>
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## Section 15

### **Assets and liabilities relating to group undertakings and other participating interests**

Annex 16 gives the detailed table of the assets and liabilities relating to group undertakings and other participating interests.

## Section 16

### **Debtors and Creditors**

All payments from debtors and creditors are due by the end of the following year with the exception of the items stated below.

Item C.4 of the assets, "loans", includes:

€ 40,449K for the residual loan secured by a lien on mezzanine property granted to Ganimede S.r.l. for the improvement of part of the company's property assets carried out during 2003, with a term of seven years from the date it was granted and therefore falling due in December 2010, also provides for partial advances in relation to the plan for the disposal of the property by the debtor; the debtor also has the right to repay the loan early, fully or partially, at any time.

€ 24,224K of loans on life policies, generally linked to the remaining duration of the policies and with the right of the policyholders to make early repayments.

Item E of the assets, "debtors", includes € 50,195K of receivables from insurance brokers mainly relating to agency severance payments recoverable by recourse action, due by the following year, of which € 22,016K is due within more than five years.

## Section 17

**Guarantees, commitments and other memorandum accounts**

	2005	2004	Change
<b>Comprising:</b>			
<b>I. GUARANTEES PROVIDED</b>			
1. Sureties	-	-	-
2. Endorsements	-	-	-
3. Other personal guarantees	-	-	-
4. Liens on property	15,369	11,070	4,299
<b>Total</b>	<b>15,369</b>	<b>11,070</b>	<b>4,299</b>
<b>II. GUARANTEES RECEIVED</b>			
1. Sureties	197,226	150,408	46,818
2. Endorsements	-	-	-
3. Other personal guarantees	140	140	-
4. Liens on property	46,575	46,714	-139
<b>Total</b>	<b>243,941</b>	<b>197,262</b>	<b>46,679</b>
<b>III. GUARANTEES PROVIDED BY THIRD PARTIES IN THE INTERESTS OF THE COMPANY</b>			
	16,955	14,155	2,800
<b>IV. COMMITMENTS</b>	<b>275,231</b>	<b>1,019,626</b>	<b>-744,395</b>
<b>V. THIRD PARTY GOODS</b>		-	-
<b>VI. ASSETS RELATING TO PENSION FUNDS MANAGED FOR AND ON BEHALF OF THIRD PARTIES</b>		-	-
<b>VII. SECURITIES DEPOSITED WITH THIRD PARTIES</b>	<b>8,010,596</b>	<b>7,419,691</b>	<b>590,905</b>
<b>VIII. OTHER MEMORANDUM ACCOUNTS</b>		-	-

### **Guarantees received**

The item "Sureties" includes:

- the guarantees issued by the agents to fulfil their mandates, equal to € 193,490K;
- the guarantees released by the tenants of the properties, equal to € 1,095K;
- sundry guarantees, equal to € 2,641K

The "other liens on property" concern, for € 46,376K, the mortgage guarantee received for the "mezzanine" loan granted to Ganimede S.r.l. for the improvements to part of the company's property assets carried out during 2003.

### **Commitments**

These include:

- € 142,593K for securities to be delivered and € 110,782 for securities to be received, entered for purchases carried out in 2005 but settled in the first few days of 2006;
- € 17,320K entered for repo contract operations on bonded securities.

### **Securities deposited with third parties**

The item includes essentially the securities owned by the company in deposit with banks or other institutions; the detail, given by category of place of deposit, is as follows:

Banks	7,213,080
Companies in the group	797,516
<b>Total</b>	<b>8,010,596</b>



## **PROFIT AND LOSS ACCOUNT**

### Section 18

#### **Information concerning the technical account for non-life business (I)**

Annex 19 gives a table of the summarised information concerning the technical account for non-life business – Italian and foreign.

The share of the profits from investments transferred from the non-technical account arises from the need to show the result of the technical account in a way that takes into account the income from the use of technical reserves; the amount transferred has been determined by applying the provisions of ISVAP instruction no. 01140-G of 8 March 1999 – section I – which provide for the following:

1. Identification of the technical reserves required by law and consisting of premium reserves, loss reserves, reserves for bonuses and rebates, reserve for increasing age in health insurance, reserve for offsetting credits class and the equilibrium reserve for risks of natural disasters required by Art. 12 of Law no. 35 of 16 February 1995.
2. Identification of the aforesaid technical reserves for direct business and indirect business, net of reinsurance cessions, at the end of the previous year and at the end of the year.
3. Identification of the half sum of the net equity and subordinate liabilities at the end of the previous financial year and at the end of the financial year.
4. Calculation of the ratio between the amount stated in point 2 and the sum of the amounts stated in points 2 and 3.
5. The value resulting from the ratio in point 4 was applied to the net profit of the investments. The result obtained is the share of profit on the investments transferred to the technical account.

For direct business, the loss reserve in existence at the beginning of the financial year showed overall a positive dismantling of € 2,809K, as shown in the following calculation:

Loss reserve in existence at the beginning of the financial year	3,212,698
Indemnities paid during the year, net of recoveries	- 1,210,411
Loss reserve at the end of the financial year	- 2,029,719
Recoveries and change in the amounts to be recovered	30,241
Difference	2,809

The item “Reinsurance commissions and profit-sharing” includes € 1,651K of profit-sharing matured in favour of the reinsurers, applied in relation to the specific contractual clauses.

Item I.8 “Other technical charges” includes mainly the cancellations and analytical write-downs relating to premiums for previous years entered under this item, for the sum of € 56,961K, by the application of paragraph 3 of Art. 45 of Legislative Decree 173/97 and ISVAP instruction no. 00735 of 1 December 1997 concerning the charts of accounts for insurance and reinsurance companies.

Concerning the “Change to the equalization provisions” (Cl.9), equal to € 913K we give below the detail by type of reserve and the provisions and uses which occurred during the financial year:

	Reserve at start of year	Provisions	Withdrawals	Reserve at year end
Reserve for natural disasters	4,403	930	-	5,333
Reserve for offsetting credits class	17	-	17	-7
<b>Total</b>	<b>4,420</b>	<b>930</b>	<b>17</b>	<b>5,333</b>

The appropriation to the equilibrium reserve for risks of natural disasters was done in accordance with the provisions laid down by Decree Law no. 691 of 19 December 1994, converted with amendments by law no. 35 of 16 February 1995, concerning the premiums relating to those risks, written during the course of the financial year. The appropriation to the reserve for offsetting credits class was done in accordance with Art. 24 of Legislative Decree no. 175 of 17 March 1995, as amended by Art. 80 of Legislative Decree no. 173 of 26 May 1997.

## Section 19

### **Information concerning the technical account for life business (II)**

Item II. 4 “Other technical income” the posting to the profit and loss account of the technical reserves relating to policies whose benefits in respect of the insured are barred by statute, management commissions relating to internal funds associated with unit-linked life policies and the write-back of commissions relating to premiums from previous financial years cancelled or written-off during the financial year.

The item “Reinsurance commission and profit-sharing” includes € 705K of commission and € 655K of profit-sharing matured in relation to the specific conditions of the reinsurance treaties.

As stated for the technical account for non-life business above, item II.11 “Other technical charges” includes mainly the cancellations and analytical write-downs relating to premiums for previous years entered under that item, for a sum of € 4,567K, by the application of paragraph 3 of Art. 45 of Legislative Decree 173/97 and ISVAP instruction no. 00735 of 1 December 1997 concerning the chart of accounts for insurance and reinsurance companies.

The profits on investments transferred to the non-technical account relate to investments other than the ones intended to cover the technical reserves connected with the net equity. The amount transferred was determined by applying the provisions of ISVAP instruction no. 01140-G of 8 March 1999 – section II, which provides for the following procedures:

1. Identification of the mandatory technical reserves in accordance with the law, consisting of the actuarial reserves, premium reserves for complementary insurance, reserve for amounts payable, reserves for bonuses and rebates and other technical reserves (technical reserves are however excluded if the investment risk is borne by policyholders and the reserves arising from the management of pension funds).
2. Identification of the half sum of the net equity and subordinate liabilities at the end of the previous financial year and at the end of the financial year.
3. Identification of the half sum, at the end of the previous financial year and at the end of the financial year, of the mandatory technical reserves defined in point 1, with regard to direct business and indirect business and net of reinsurance cessations.

4. calculation of the ratio between the amount stated in point 2 and the sum of the amounts stated in points 2 and 3.
5. The value resulting from the ratio in point 4 is applied to the net profit from investments and determined the share of profit from investments transferred to the non-technical account.

We also attach:

Summary information concerning life business relating to premiums and the reinsurance balance (annex 20);

The detail of the income from investments – item II.2 (annex 21);

The detail of the income and capital gains not realised for investments for the benefit of policyholders who bear the risk thereof and investments arising out of pension fund management - item II. 3 (annex 22);

The detail of the investment charges - item II. 9 (annex 23);

The detail of the investment charges and capital losses not realised relating to investments for the benefit of policyholders who bear the risk thereof and investments arising out of pension fund management - item II.10 (annex 24).

## Section 20

### **Segmental information on technical items**

#### **Non-life insurance**

Annex 25 gives the table summarising the technical accounts by individual class of insurance – Italian portfolio.

All the costs and income directly linked to the cycle of the acquisition of premiums and settlement of losses have been allocated, from the outset, to the class of insurance to which they belong; entries common to more than one class are allocated to the individual classes as follows:

- on the basis of premiums written, the costs falling under “other acquisition expenses” and “other administration expenses”;
- on the basis of indemnities paid, the claims handling expenses which cannot be directly allocated to the individual losses and are common to more than one class of insurance.

Annex 26 gives the table summarising the technical account by individual class of insurance – Italian portfolio.

#### **Life assurance**

Annex 27 gives the table summarising the technical accounts by individual class of insurance – Italian portfolio.

All the costs and income directly linked to the cycle of the acquisition of premiums and settlement of losses have been allocated, from the outset, to the class of insurance to which they belong; entries common to more than one class are allocated to the individual classes based on the distribution criteria already specified for non-life classes.

Annex 28 gives the table summarising the technical account for all life business – Italian portfolio.

#### **Non-life and life insurance**

Annex 29 gives the tables summarising the technical accounts for all non-life and life business – foreign business.

## Section 21

### Information concerning the non-technical account (III)

We attach:

- The detail of income from investments – item III.3 (annex 21);
- The detail of investment charges - item III. 5 (annex 23);

We give below the detail of the most significant items:

Other income (item III.7):

Interest on bank deposits	2,254
Interest on receivables	5,165
Recoveries of administrative costs and charges	38,271
Drawings from provisions for risks and charges	24,524
Income from conversion of items in foreign currency	5,844
Sundry income	1,386
<b>Total</b>	<b>77,444</b>

Interest on receivables concerns interest on amounts due from the Treasury of € 1,709K.

Recoveries of administrative costs and charges, which have their counterparts in the other charges, concern mainly the charges to Companies in the group for the distribution, on the basis of objective criteria, of the costs of unified functions and are mainly represented by staff costs; also for those unified functions charges have already been received from Companies in the group of € 31,388K, entered in the specific items in the profit and loss account on the basis of their nature.

The drawings from the provisions for risks and charges concern charges incurred during the year or more up-to-date assessments of current risks. In particular, € 20,700K relate to a withdrawal from the risk fund of the amount set aside in previous financial years in relation to the dispute with CONSAP relating to the abolished system of legal cessions. This withdrawal completely neutralised the negative financial impact of the settlement with CONSAP signed in March of this financial year. As a result of the settlement, in fact, the Company received € 83,500K against receivables from CONSAP of € 71,110K and reserves chargeable to the latter of € 32,837K, with a charge of € 20,447K, of which € 6,459 had a negative effect on the technical account, while € 13,988K was entered in the non-technical account under losses on receivables.

The income from the conversion of items in foreign currency concerns the exchange differences occurring during the course of the year, and the adjustments, to the exchange rates of the end of the year, of the items in the accounts expressed in foreign currency. We should point out that the overall net economic impact of the exchange differences, taking account, therefore, of the item “Charges from conversion of items in foreign currency” entered amongst the other charges, amounts to income of € 4,914K.

**Other charges (item III.8)**

Administrative charges and expenses on behalf of third parties	38,271
Appropriations to the provisions for risks and charges	24,086
Depreciation of goodwill	23,992
Depreciation allowances for other multi-year costs	771
Charges for conversion of items in foreign currency	930
Losses on receivables	28,680
Interest on debit loans	1,169
Other taxes	469
Sundry charges	3,269
<b>Total</b>	<b>121,637</b>

The appropriations to the provisions for risks and charges relate mainly to ongoing disputes at the end of the year.

As regards the depreciation of goodwill, see the comments regarding the item “Intangible Assets”.

The losses on credits include € 13,988K of losses on receivables from CONSAP, entered following the settlement of the dispute relating to legal cessions, already described in detail in the comment on other income. They also include write-downs of receivables from agents, carried out according to particularly prudential criteria.

The “Other taxes” item essentially includes the ICI payable on property income and the charges arising from remissions.

**Extraordinary income (item III.10)**

Profits from trading in stocks and shares	6,229
Capital gains from disposal of property	24,169
Profits from trading in bonds	2,878
Income from the sale of other assets	26
Contingent profits	5,640
Sundry income	-
<b>Total</b>	<b>38,942</b>

The capital gains from disposals on property relate to:

- the land at Via Gonfalonieri-Via Castillia (Lunetta dell’Isola), sold to IM.CO. S.p.A. for € 28,800K, achieving a net capital gain of € 13,121K. Furthermore, as described in detail in the management report, Milano Assicurazioni will purchase from IM.CO., once the building permits have been issued, a property for service sector use to be built on the land by IM.CO. itself for € 93,700K.
- the property in Assago, which was the former registered office of Milano Assicurazioni and is currently undergoing renovation work, sold real estate subsidiary Meridiano Eur for € 34,000K, with a net capital gain of € 8,565K.
- parts of the property owned in San Donà di Piave, Via del Veronese and Milan, Piazza Caneva, which resulted in capital gains of € 2,483.

**Extraordinary charges (item III.11)**

Losses from trading in stocks and shares	-
Losses from trading in bonds	1,158
Contingent losses	10,333
Sundries	460
<b>Total</b>	<b>11,951</b>

The contingent losses mainly include costs connected with the settlement of claims, essentially relating to the incorporated companies SIS, as well as extraordinary costs relating to a property that was sold.

### Income tax for the year (item III.14)

The composition is as follows:

Current taxes:	
IRES	96,777
IRAP	22,530
Deferred taxes arising during the year and advance taxes cancelled during the year	
IRES	67,454
IRAP	5,403
Reduction in advance taxes arising during the year and deferred taxes cancelled during the year:	
IRES	96,127
IRAP	5,850
<b>Final balance</b>	<b>90,187</b>

The tax burden was calculated based on the current taxes applicable to taxable income and on the change in the advance and deferred taxes for the period, recorded following the temporary differences between book values and fiscal values that arose or cancelled themselves out during the financial year in question. The incidence of the tax burden for the financial year is lower than the one for the previous financial year, mainly as a result of the greater dividends received, almost all of which are tax free, and to the withdrawal from the deferred tax fund of the tax charge on the no longer taxable part of the value adjustment carried out during 2004 on the Generali shares in the portfolio. In this respect, we should point out that:

- during 2003, Milano Assicurazioni carried out a value adjustment, purely for tax purposes, on the General shares in the portfolio amounting to € 113,664K;
- during 2004, this value adjustment was eliminated, following the reform of company law which, among other things, abrogated paragraph 2 of article 2426 of the Civil Code, which allowed value adjustments and appropriations to be made exclusively under the terms of tax law. The elimination therefore gave rise to a temporary difference between the book value and tax value of the said Generali shares, in respect of which an associated deferred tax fund of € 37,509K was set up in 2004;
- during the current financial year, € 31,508K were withdrawn from the said fund following changes made to tax legislation which made 84% of this temporary difference no longer taxable.



## Section 22

### **Various information relating to the profit and loss account**

We attach:

- Table concerning operations with group undertakings and other participating interests (annex 30);
- Table summarising the premiums entered for direct business (annex 31);
- Table of charges relating to staff, directors, and auditors (annex 32);

In accordance with Art. 78 of CONSOB regulation no. 11.971 of 14 May 1999, we attach the detail of the remuneration paid to the directors and auditors in any capacity and in any form, including those of subsidiary companies.

**PART C**  
**OTHER INFORMATION****Solvency margins**

The solvency margins required by Legislative Decree 175/1995 (non-life business) and by Legislative Decree 174/1995 (life business), as amended by Legislative Decree no. 307 of 3 November 2003, which implemented Directives 2002/12/EC and 2002/13/EC, are covered by a total surplus of € 509,354K as shown in the following table:

	<b>Non-life</b>	<b>Life</b>	<b>Total</b>
Margins to be set up	432,207	160,954	593,161
Items comprising the margins	803,436	299,079	1,102,515
<b>Surplus</b>	<b>371,229</b>	<b>138,125</b>	<b>509,354</b>

**Cover for technical provisions**

In accordance with Art. 31 of Legislative Decree 174/95 (life business) e 175/95 (non-life business), we attach to these Notes to the Accounts the tables relating to the cover for the technical provisions.

**Financial statement**

We attach the financial statement for the 2005 financial year showing the cash flow generated during the financial year as well as the cash investments.

Milan, 27 March 2006

MILANO ASSICURAZIONI S.p.A.  
the Board of Directors

## **Overview of 2005 accounts**

**Overview of accounts** for 2005 financial year**BALANCE SHEET**

	(€K)			
	2005		2004	
<b>Intangible assets</b>				
Deferred acquisition commission	3,302		5,104	
Set-up and enlargement costs	412		618	
Goodwill	149,330		173,322	
Other multi-year costs	531	<b>153,575</b>	1,096	<b>180,140</b>
<b>Investments</b>				
Land and buildings	404,735		415,716	
Stocks and shares of group undertakings	425,591		271,765	
Bonds issued by group undertakings	3,984		4,000	
Loans to group undertakings	29,530		0	
Share investments and minority stakes	870,095		798,091	
Holdings in unit trusts	267,118		185,162	
Bonds and other fixed income securities	6,156,210		6,033,328	
Loans to third parties	65,999		68,012	
Deposits with credit institutions	2,141		2,482	
Sundry financial investments	21,984		19,318	
Deposits with ceding undertakings	4,111	<b>8,251,498</b>	6,450	<b>7,804,324</b>
<b>Investments for the benefit of policyholders in life assurance who bear the risk thereof and arising out of pension fund management</b>				
Investments relating to services associated with investment funds and market indices	358,253		352,394	
Investments arising out of pension fund management	0	<b>358,253</b>	0	<b>1,116,307</b>
<b>Receivables</b>				
from policyholders for premiums	325,234		307,320	
from insurance brokers	325,042		296,355	
other receivables arising from direct insurance operations	58,474		88,621	
receivables arising from reinsurance operations	68,112		131,933	
sundry receivables	374,624	<b>1,151,486</b>	292,078	<b>1,116,307</b>
<b>Other items in the assets</b>				
tangible assets and stocks	2,524		3,526	
cash at bank and in hand	148,002		137,240	
other assets	217,333	<b>367,859</b>	195,835	<b>336,601</b>

<b>Accrued income and prepayments</b>		<b>90,742</b>		<b>77,007</b>
<b>Total assets (a)</b>		<b>10,373,413</b>		<b>9,866,773</b>
<b>Technical provisions, net of reinsurance</b>				
premium reserve	963,222		919,692	
loss reserve	3,119,270		3,010,821	
other technical provisions non-life business	7,417		7,701	
technical provisions life business	3,897,474	<b>7,987,383</b>	3,648,356	<b>7,586,570</b>
<b>Provisions for risks and charges</b>				
provisions for retirement pay and similar obligations	0		0	
provisions for taxes	86,107		133,831	
other provisions	63,355	<b>149,462</b>	63,793	<b>197,624</b>
<b>Deposits received from reinsurance</b>		<b>153,778</b>		<b>166,415</b>
<b>Debts and other liabilities</b>				
arising from direct insurance operations	88,665		79,211	
arising from reinsurance operations	13,260		13,368	
sundry loans and other creditors	4,190		317	
severance indemnity	29,098		27,993	
for taxes payable by policyholders	28,120		28,488	
for sundry taxes	16,260		5,444	
sundry creditors	195,304		210,700	
other liabilities	205,364	<b>580,261</b>	161,546	<b>527,067</b>
<b>Accruals and deferred income</b>		<b>14</b>		<b>25</b>
<b>Total liabilities (b)</b>		<b>8,870,898</b>		<b>8,477,701</b>
<b>Net equity (a - b)</b>		<b>1,502,515</b>		<b>1,389,072</b>
represented by:				
Share capital		238,575		238,569
Equity reserves		1,030,834		844,277
Profit for the year		233,106		306,226

**Overview of accounts** for 2005 financial year**PROFIT AND LOSS ACCOUNT**

(€K)

	Life business	Non-life business	Total 2005	Total 2004
<b>Technical accounts</b>				
Premiums written	583,452	2,647,798	3,231,250	3,066,943
Change in premium reserves and technical provisions in life business	-248,152	-37,952	-286,104	-124,395
Net investment income, life business, net of quota transferred to non-technical account:				
Income from investments	138,406		138,406	128,527
Value adjustments	-12,795		-12,795	6,019
Gains on investments realised	27,631		27,631	21,890
Income linked to investments with risk borne by policy holders	22,773		22,773	16,010
Income transferred to non-technical account	-13,787		-13,787	-12,655
Other technical income and charges	11,354	-52,244	-40,890	-66,604
Charges relating to losses	-455,270	-1,888,290	-2,343,560	-2,263,654
Bonuses and profit-sharing and other technical provisions	29	1,198	1,227	-56
Operating costs:				
Commission and other acquisition costs	-18,401	-429,762	-448,163	-455,715
Administration expenses	-10,485	-58,477	-68,962	-68,731
Technical balance	24,755	182,271	207,026	247,579
Change in equalisation provision		-913	-913	-745
Quota of profit from investments in non-life business		94,509	94,509	89,504
<b>Result of technical accounts</b>	<b>24,755</b>	<b>275,867</b>	<b>300,622</b>	<b>336,338</b>
<b>Non-technical account</b>				
Net investment income, non-life business, net of quota transferred to technical account:				
Income from investments			149,444	115,425
Value adjustments			-13,799	-15,336
Income from investments			-15,050	12,615
Income transferred to non-life business technical account			-94,509	-89,504
Quota of profit from investments in life business transferred from the life technical account			13,787	12,655
Other income and charges:				
Depreciation allowances for goodwill			-23,991	-24,144
Sundry income and charges			-20,202	-21,004
Extraordinary income and charges				
Net gains on long-term investments realised			32,119	50,343
Tax purging (reclassification)				113,664
Other extraordinary income and charges			-5,128	4,444
<b>Result before tax</b>			<b>323,293</b>	<b>495,496</b>
Taxes for the year			-90,187	-189,270
<b>Profit for the year</b>			<b>233,106</b>	<b>306,226</b>
All items of a technical nature are net of reinsurance				



# **Financial statement 2005**



**Financial Statement** for financial year 2005

## SOURCES OF FINANCE

	( €K)	
	2005	2004
<b>Profit for the year</b>	<b>233,106</b>	<b>306,226</b>
<b>Adjustments for items which influenced the profit, but which have had no effect on liquidity:</b>		
<b>- Net increase in provisions</b>		
premium reserve and other technical provisions non-life business	43,246	26,587
loss reserve non-life business	108,449	170,912
technical provisions Life business	249,116	121,743
	<b>400,811</b>	<b>319,242</b>
<b>- Depreciation for the year</b>	<b>29,102</b>	<b>43,252</b>
<b>- Increase/decrease in provisions for risks and charges</b>		
provisions for retirement pay and similar obligations	-	-
provisions for taxes	-47,724	58,640
other amounts set aside	-437	-3,498
	<b>-48,161</b>	<b>55,142</b>
<b>- Value adjustments and exchange adjustments for securities and shareholdings</b>	<b>2,522</b>	<b>-8,946</b>
<b>Change in deposits received from reinsurers</b>	<b>-12,636</b>	<b>-15,523</b>
<b>Change in debtors/creditors and sundry assets/liabilities</b>		
receivables from policyholders for premiums	-17,913	17,084
receivables from insurance brokers	-36,739	-9,843
receivables from reinsurance companies	84,285	-14,908
sundry debtors	-92,794	3,041
sundry assets	42,056	52,390
	<b>-21,105</b>	<b>47,764</b>
<b>Change in financial creditors</b>	<b>3,873</b>	<b>-10,715</b>
<b>Change in Net Equity</b>	<b>202</b>	<b>-</b>
<b>Total</b>	<b>587,714</b>	<b>736,442</b>

## LIQUIDITY INVESTMENTS

	(€K)	
	2005	2004
<b>Investments</b>		
Land and buildings	-9,681	-14,103
Stocks and shares of group undertakings	154,452	68,713
Bonds issued by group undertakings	-16	-
Loans to group undertakings	-29,530	-26,520
Share investments and minority stakes	71,527	145,908
Holdings in unit trusts	79,884	107,426
Bonds and other fixed income securities	150,028	388,175
Loans to third parties	-2,012	2,409
Sundry financial investments	2,396	-30,735
Deposits with ceding undertakings	-2,340	-1,103
	<b>473,768</b>	<b>640,170</b>
<b>Investments for the benefit of policyholders in life assurance who bear the risk thereof and arising out of pension fund management</b>	<b>-16,919</b>	<b>33,986</b>
Tangible assets, stocks and multi-annual costs	<b>234</b>	<b>500</b>
Dividends distributed	<b>119,870</b>	<b>92,372</b>
<b>Change in available funds</b>	<b>10,761</b>	<b>-30,586</b>
<b>Total</b>	<b>587,714</b>	<b>736,442</b>
Bank accounts at end of year	148,001	137,240
Bank accounts at end of previous year	137,240	167,826
Change in available funds	10,761	-30,586