
THIRD QUARTER REPORT FINANCIAL YEAR 2006



FONDIARIA-SAI S.p.A.

FONDIARIA-SAI S.P.A. – HEAD OFFICE IN FLORENCE - PIAZZA DELLA LIBERTÀ 6 – HEAD OFFICE IN TURIN - CORSO G. GALILEI, 12 – SHARE CAPITAL € 177,680,822 FULLY PAID-UP – TAX CODE, VAT REGISTRATION NUMBER AND NUMBER UNDER WHICH THE COMPANY IS REGISTERED IN THE COMPANIES REGISTER OF FLORENCE 00818570012 – AUTHORISED TO OPERATE AS AN INSURANCE COMPANY BY ARTICLE 65 OF ROYAL DECREE LAW NO. 966 OF 29 APRIL 1923, CONVERTED INTO LAW NO. 473 OF 17 APRIL 1925.

BOARD OF DIRECTORS

Salvatore Ligresti	Honorary Chairman
Jonella Ligresti*	Chairman
Giulia Maria Ligresti*	Vice Chairman
Massimo Pini*	Vice Chairman
Antonio Talarico*	Vice Chairman
Fausto Marchionni*	Managing Director and Chief Executive Officer
Andrea Brogginì	
Mariella Cerutti Marocco	
Maurizio Comoli	
Francesco Corsi	
Carlo d'Urso	
Vincenzo La Russa*	
Gioacchino Paolo Ligresti*	
Lia Lo Vecchio	
Enzo Mei	
Giuseppe Morbidelli	
Cosimo Rucellai	
Salvatore Spiniello	
Ezio Toselli	
Oscar Zannoni	
Alberto Marras	Secretary to the Board and to the Executive Committee

BOARD OF AUDITORS

Benito Giovanni Marino	Chairman
Giancarlo Mantovani	Regular Auditor
Marco Spadacini	Regular Auditor
Alessandro Malerba	Alternate Auditor
Maria Luisa Mosconi	Alternate Auditor
Pierino Rosati	Alternate Auditor

INDEPENDENT AUDITORS

DELOITTE & TOUCHE S.p.A.

REPRESENTATIVE OF THE SAVINGS SHAREHOLDERS

Sandro Quagliotti

GENERAL MANAGEMENT

Fausto Marchionni

* Members of the Executive Committee

The Chairman, Mrs Jonella Ligresti, and the Managing Director, Prof. Fausto Marchionni in addition to representing the company as stated in article 21 of the Company's by-laws, shall be vested with all the poerts of ordinary and extraordinary administration, to be used with a single signature and with the possibility of conferring mandates and powers of attorney, with the exception of the following exclusively:

- transfer and/or purchase of immovables with a value greater than € 10m for each transaction;
- transfer and/or purchase of shareholdings with a value greater than € 25m for each transaction and controlling shareholdings;
- taking on financing at a sum greater than € 50m for each transaction;
- issuing non-insurance guarantees in favour of third parties.

All the powers not already vested in the Chairman and Managing Director are conferred upon the Executive Committee, with the exception of those expressly reserved for the said Board by law or by-law and without prejudice to the Board's exclusive competence for each resolution concerning transactions with related parties as identified by the Board.

The Board of Directors was appointed by the general meeting on 28 April 2006. The Board's term will end at the same time as that of the Board of Statutory Auditors, with the meeting to approve the accounts for 2008.

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INTRODUCTION

The quarterly report as at 30 September 2006, produced on a consolidated basis, complies with the provisions of regulation no. 11971 of 14 May 1999, as amended and supplemented by CONSOB resolution no. 14990 of 14 April 2005.

Specifically:

- this quarterly report was produced in accordance with the IAS/IFRS international accounting principles issued by the IASB (International Accounting Standard Board) and approved to date by the European Union, as already used in the consolidated accounts for the year to 31 December 2005;
- the information supplied is as stipulated in annex 3D of the stated regulation no. 11971;
- the profit and loss account and the statement of the net financial position were prepared taking into account the instructions for drawing up consolidated accounts contained in ISVAP Measure 2404 of 22/12/2005. Consequently, some of the data relating to 30 September 2005 has been restated;
- all the accounting information and statements are prepared on a consolidated basis. The economic data are compared to the data for the same period of the previous financial year; the asset and financial data are compared with the situation existing at the close of the previous quarter and the previous financial year. For ease of comparison, the valuation criteria used to draw up the consolidated accounts (to which the reader is referred) have been used, which comply with the IAS/IFRS international accounting principles issued the IASB, approved by the EU, and with their interpretation by the official bodies. It has therefore been necessary to carry out a restatement of the data for 2005, as already explained in the accounts and in the half-year accounts, following the changes made to IAS 19 and IAS 39 accounting principles and the different interpretation regarding the credit for advance tax on the return on mathematical reserves contained in Decree Law 209/02.

The quarterly asset and liability statement and profit and loss account are not audited by the independent auditor.

All the amounts are expressed in millions or thousands of Euro and are rounded up or down in the customary way.

MACROECONOMIC SCENARIO AND INSURANCE MARKET

The international economic situation

The international context remains favourable, although forecasts of a slowdown in growth in the United States have intensified recently. The latest macroeconomic data available in fact seem to show a greater deceleration in the US market than was expected, resulting partly from the delayed effect of the restrictive measures taken by the Fed (which left rates unchanged at 5.25% for the second consecutive time, after 17 uninterrupted rises of 25 basis points) and partly from the fall in property investments, with prices stabilising in this sector and showing the first signs of a fall. The sector is in fact experiencing a slowdown: during the first half of 2006, a drop was recorded in property investments (from -9.8% to -11.1%) and in August, the number of new building sites opened fell by a further 6% compared to the previous summer month of July (during which a fall of 3.3% had been recorded on a monthly basis).

Estimated US GDP for the first half of 2006 led to growth being revised downwards (from +2.9% to +2.6%). This is set against an increase of 5.6% during the first quarter of 2006 which, at this point, can be considered the peak for the current year's growth phase. Despite the increasing risk of a sudden slowdown in the international economic scenario, the fall in oil prices compared to the first half of 2006 and the positive performance of the US equity market are stimulating factors and contribute to maintaining the probability of any recessionary scenarios low.

Production activity in Japan continues to point decisively towards significant growth being achieved in 2006 as well, following the leap forward in the fourth quarter of 2005, when the country's GDP grew by 5.4% on an annual basis. GDP growth is expected to slow down during the second half of 2006 to around 3%. However, the good labour market climate and the increase in available income continue to sustain internal consumption.

In Europe, the acceleration seems destined to continue, with conditions for sustained growth remaining strong. The recovery in the Euro area, which began in 2005, showed signs of strengthening during the first half of 2006, thus allowing positive forecasts to be made. Economic growth accelerated at an annual rate of 3.4% during the first half of 2006, well above expectations and at the highest level for the past six years. Internal demand has grown and has become the main driver of growth, with the recovery being no longer driven only by exports. The labour market has improved as well, allowing an improvement in consumer demand, which has been particularly weak and penalised in recent years. The European Commission expects growth in the Euro Zone to slow down over the next few months, but with indicators remaining well above the long term levels, at around +0.4%-+0.8% during the third quarter of 2006, compared to +0.9% recorded in the previous six months.

The direction taken by the ECB's monetary policy continues to be accommodating, even after the latest increase on 5th October, which brought rates up by 0.25% to 3.25%. European interest rates therefore remain low and the Euro area continues to benefit from abundant liquidity and a strong expansion in money and credit.

Retail sales in the Euro area increased by 2.4% in August, on an annual basis, and by 0.7% on a monthly basis. Among the largest European economies, Spain recorded a growth of 4.1%, France 3.6% and Germany 0.5%.

The European vehicle registrations market recorded a fall in sales however during the month of September, down to 1,406,515 units sold from 1,444,088 units sold in the same month of 2005 (-2.6%). Among the main countries of the European Union, only Germany is experiencing growth (+4.5%), while the trend has reversed in France (-13.3%), Spain (-7.2%), the UK (-0.7%) and Italy (-3.2%).

However, during the first nine months of 2006, the data recorded by the EU and EFTA show a stable trend, with 11,848,112 units sold compared to 11,841,225 in the same period of 2005 (+0.1%). Between January and September 2006, among the main markets, Germany grew by 1%, Italy by 4%, while France, Spain and the UK suffered a trend reversal, with values of -3.1%, -2.5% and -3.5% respectively.

For further details, refer to the attached table.

VEHICLE REGISTRATIONS IN EUROPE						
	September 2006	September 2005	% var. 2006/2005	Jan.-Sept. 2006	Jan.-Sept. 2005	% var. 2006/2005
FRANCE	143,634	165,698	(13.3)	1,518,367	1,566,749	(3.1)
GERMANY	298,179	285,328	4.5	2,544,675	2,518,564	1.0
ITALY	182,315	188,417	(3.2)	1,798,391	1,728,451	4.0
SPAIN	95,421	102,854	(7.2)	1,143,188	1,172,355	(2.5)
UNITED KINGDOM	413,991	417,052	(0.7)	1,901,888	1,971,880	(3.5)
OTHER COUNTRIES	187,040	197,234	(5.2)	2,097,499	2,036,695	3.0
EUROPEAN UNION (EU15)	1,320,580	1,356,583	(2.7)	11,004,008	10,994,694	0.1
EFTA*	29,489	31,688	(6.9)	298,648	298,190	0.2
EU (New Members)**	56,446	55,817	1.1	545,456	548,341	(0.5)
TOTAL FOR EUROPE (EU+EFTA)***	1,406,515	1,444,088	(2.6)	11,848,112	11,841,225	0.1

Source: reprocessing based on estimates from ACEA – Association des Constructeurs Européens d'Automobiles

(*) European Free Trade Association: Iceland, Norway, Switzerland.

(**) Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, Slovenia.

(***) EU23 – The data for Malta and Cyprus are not currently available.

Eurostat figures also show a fall in consumer prices, at an annual +1.7% in September. Decreased tension about oil prices is reflected in retail prices: fuels and other energy products are the main items where falls have been recorded.

As for the future, uncertainty remains about the extent of the slowdown in the US economic cycle, and therefore about whether its repercussions on the Euro zone will be manageable or might lead to a more significant deceleration.

The Italian market

In Italy, as elsewhere in the Euro area, evolution in the first half of the year was more intense than expected, thanks to the recovery of manufacturing activity and exports, and to a revival in internal demand.

In particular, indications for the third quarter are for an even more favourable dynamic, driven essentially by industrial production. The results of the economic survey carried out by Confindustria therefore show an improvement in prospects for the Italian economy, driven by an acceleration in international demand. An increase in industrial production of 0.5% was recorded in September, stationary compared to the previous month of August: in overall terms, Italian production activity had grown by 0.8% by the end of the third quarter of 2006.

The first few months of 2006 were the first time for five years that all the indicators for Italian manufacturing production showed a positive trend. In particular, GDP growth during the first six months was 1.6%, compared to the same period of 2005. This is expected to be confirmed in the second half of the year, when growth is expected to be approximately 2%. In 2006, company confidence, which has been recovering almost uninterruptedly for over a year, reached its highest level since the end of 2000. The growth trend is associated both with the favourable prospects for production in the short term and with growth in the orders portfolio, particularly orders from abroad.

In September, the Italian provisional index of consumer prices remained unchanged compared to the previous month of August at +2.2% (unchanged compared to the same month of 2005) and returned to significantly exceed the European average (+1.8%), mainly as a result of increases of oil and energy prices during the first half of 2006.

The data analysed show that annual growth in consumption among Italian families is still modest (currently estimated at around +1% to +1.5%), confirming the general phase of weakness in internal demand that has characterised the whole period between 2001 and 2005. Inflation, which is nevertheless expected to exceed 2%, and fiscal pressure, which remains high, will limit the purchasing power of households, reducing the actual available income.

Finally, we should point out that, at the time of writing, both Fitch Ratings and Standard & Poor's have reduced their rating in respect of Italy's debt in local and foreign currency from "AA" to "AA-" and "AA-" to "A+" respectively. According to the rating companies, this reduction reflects the worsening situation regarding the country's public finances, with public debt on the increase since 2004, a significant fall in the primary GDP surplus and weak prospects for a sustained recovery in the national budget in the short to medium term.

The Non-Life insurance sector

Total premium income in the Non-Life and Life classes of both national companies and representative offices in Italy of companies from outside the European Economic Area amounted to approximately € 55bn at the end of the first half of 2006, down by 1.7% compared to 30/06/2005.

The slowdown occurred in the second quarter of 2006. In fact during the first three months of the year premium income had increased by 1.6% (+2.8% in Non-Life classes, +1% in Life classes). The deceleration is attributable to the fall in the Life sector, which recorded a loss of 3.7% to € 36.42 billion (compared to +19.2% during the first half of 2005), while the Non-Life portfolio grew by 2.3% to € 18.56bn (+2% as at 30/06/2005).

The premiums portfolio of the Motor Vehicle TPL and Marine, Lake and River Vehicle TPL amounts to approximately € 9,614m in total (+1.8% compared to 30/06/2005), with an incidence of 51.8% on the total Non-Life premiums (52.1% in the first half of 2005) and of 17.5% on the total premium income (16.9% in the first half of 2005).

The analysis by distribution channel shows a prevalence of income through agencies operating by mandate and intermediary, which accounted for 85.3% of the total Non-Life portfolio (84.6% as at 30/6/2005) and 91.1% of the portfolio relating to the Motor Vehicle TPL alone (91.2% at the end of the first half of 2005).

In the other distribution channels, there was a fall in market share, except for bank and post office branches, where there was an increase from 1.49% in the first half of 2005 to 1.64% in the same period of 2005.

Among the other Non-Life branches, the ones with the highest premium income were: Land Vehicle Hulls, with an incidence on the total Non-Life portfolio of 8.7% (8.8% as at 30/6/2005), General TPL with 8.1% (8% as at 30/6/2005), Accidents with 7.9% (7.8% as at 30/6/2005), Other Damage to property with 6.2% (6.1% as at 30/6/2005). There was no change in premium income in the Fire and natural elements class (with 5.7%) and in the Health class (with 4.7%).

According the annual report of Prometeia, the Italian insurance market (which achieved an ROE of 13.4% in 2005) will provide further satisfaction over the next three years 2006-2008, albeit selectively over the various classes. A potential slowdown in growth in the Life sector is in fact foreseen, although profitability will be maintained. In the Non-Life sector, however, premium income is expected to be particularly buoyant. With premium income of approximately € 15bn in 2005, estimates point to premium income growing by 6.7% in 2006, 7.6% in 2007 and 8.6% in 2008.

We would remind you in this respect that other sectors of the Non-Life sector, such as health policies, continue to be of little appeal in Italy and still present great scope for growth. This is partly due to a structural problem affecting Italy, in which, for social and cultural reasons, the demand for these products is low compared to the rest of Europe.

The Life insurance sector

As regards total premium income in the Life classes, which fell by 3.7% compared to 30/06/2005 to € 36,426m, we should point out the following in particular: class I (whole of life insurance) with an incidence on total life premiums of 44.9% and amount of approximately € 16,355m (-3.9% compared to the same period of 2005); class III (individual insurance) which, at approximately € 14,001m and an incidence of 38.4%, recorded a growth of 3.4% compared to 30/06/2005; premium income in class V (capitalisation operations) which, with an incidence of 16.1% and amount of € 5,856m, recorded a decrease of 14.3% compared to the first half of 2005.

In total, from the beginning of the year to the end of August 2006, new premium income was € 36.7bn, 9.9% down on the same period of the previous year.

The following table shows the national Life premium income levels in detail.

Total Life premium income in Italy

(€bn)	January - August	% var. 2006/2005
Class I (Whole of life insurance)	13.8	(7.5)
Class III (Life insurance associated with investment funds or indexes)	18.9	(5.8)
Class IV (Long-term sickness insurance)	-	(97.7)
Class V (Capitalisation operations)	3.9	(30.8)
Class VI (Pension fund management)	0.1	32.6
Total	36.7	(9.9)

Source: Ania

As the above table shows, premium income has fallen for all product types except for classic unit-linked products, the performance of which is associated with underlying managed savings products (investment funds), and pension fund management.

This development can be explained by the fact that in Italy, which is under-insured by European standards, although it has significantly closed the gap in recent years (at the end of 2005 in fact new premium income had grown by 12%), there has been a natural slowdown in the rate of growth. Legislative uncertainties regarding the insurance sector over recent months have not helped the situation but the increasing need for long-term saving, thanks to the expected launch of complementary welfare, means that there are positive prospects for the future.

Welfare in Italy

Italy is incurring costs amounting to 16% of its GDP in order to cover its pension requirements. This is three percentage points higher than the average in European countries. Estimates produced by ISTAT show that there is a pension deficit of approximately € 860 a year per inhabitant (including newborn babies and immigrants). It is therefore clear that the welfare system will become unsustainable in the medium to long term because of demographic developments and past management of the system.

The European Central Bank has recently announced that public pension systems need to be reformed in a way that takes into account both the higher retirement age, considering that the length of human life is increasing, and reductions in the level of coverage. The alarm has been raised by the fact that “in the absence of reforms, the percentage contributions to pensions will virtually have to double in some Euro area countries to over 40% of salaries, in order to maintain the balance in welfare systems”, in spite of growth and employment.

It is therefore increasingly necessary for our country to establish a welfare policy that will allow complementary pensions to take off. Even though they now stand at around € 200bn, complementary pensions still lag far behind other countries in international rankings for the sector.

Life policies and pension funds only represent 26% of the national GDP, compared to 91% in the USA, 145% in the UK, 55% in France and 47% in Germany. At the moment, only Spain is lower than Italy in the ranking, with an amount of investment in complementary pension products representing 22% of GDP.

As repeatedly mentioned, the Italian government has brought forward the reform of complementary welfare, which will come into force on 1 January 2007 instead of 2008. The measure will affect 0.5% of Italian companies (around 23,000 companies) and the workers concerned by complementary welfare have been estimated at around 16 million, with an annual flow of severance pay amounting to € 13bn (for further details in this respect, see the section on “Legislative developments”).

To date, Italian complementary insurance, in terms of closed pension funds, both restricted to individual companies and sector wide, has yielded a 2.5% return on average, compared to severance pay, which has remained stationary at 2.2% for the first nine months of 2006. Of the sixty investment lines relating to the thirty funds currently operating, the monetary ones were the most penalised, while more aggressive funds achieved better returns on average. According to Covip (the Italian pension fund regulator), between the beginning of 2003 and September 2006, closed funds provided an average return of 20.7%, compared to the 10.5% offered in the same period by severance pay.

Managed savings

Current estimates show that, as at the end of September, the system was managing a total of € 604bn. Income during the month was negative in the amount of € 43bn, while an analysis of the amounts managed on an annual basis shows a growth of 4.6%.

As a demonstration of how subscribers continue to place their trust in more aggressive financial instruments, which are potentially able to provide a better return, the types of managed funds which gained significant strength during the month are flexible ones (+154.4% with deposits of € 530m), hedge funds (+40.8% with deposits of € 229m) and equities (+12.8%, with products that primarily invest in the Euro area and received deposits of € 129m), while bond-related products and liquidity funds weakened further (-8.6% and - 5% respectively).

We should point out that during the first nine months of this year the returns on assets managed in funds and securities have been particularly small, the average return being just under 2% (1.98%), with a market benchmark that produced 1.74%. 43% of managed funds failed to exceed the respective benchmark, while 57% produced a greater return. In the third quarter alone, the average return was 2.67%, compared to the benchmark of 2.97%.

Investment management

After a particularly turbulent first half-year, the US equity markets maintained a favourable trend during the month of September, ensuring the positive performance of the Dow Jones index and reaching historic highs that had not been recorded since January 2000 (+0.6%). The sectors preferred by investors were the mass consumption and industrial sectors: the decisive boost in this upward direction came in recent months with the fall in crude oil prices, which now stand at below 58 dollars a barrel, the lowest level for seven months, thanks to reduced market tension about global supplies, which has therefore lessened speculative fears. Over the last two months, oil prices have fallen by around 25%. The positive performance of the Dow Jones is however set against the weakness of the Nasdaq index, which has halved from its level six years ago.

During the third quarter of 2006, the leading central banks continued to implement monetary tightening measures in order to redefine the level of liquidity in the system and stay in control of inflation, the rates of which have been rising constantly in recent months because of the rising cost of raw materials.

We would remind you that at the time of writing the Board of the Central European Bank has decided to increase rates by one quarter of a percent, from 3% to 3.25%, the fifth increased in the last eleven months. Despite the recent fall in the cost of oil, the Central European Bank expects inflation to grow to around 2.4%, where it will remain at the end of 2006 and in 2007, higher than the medium-term objective (the reference threshold being 2%). Over the coming year, we could see monetary policy

taking a less accommodating direction in order to ensure price stability in the medium to long term.

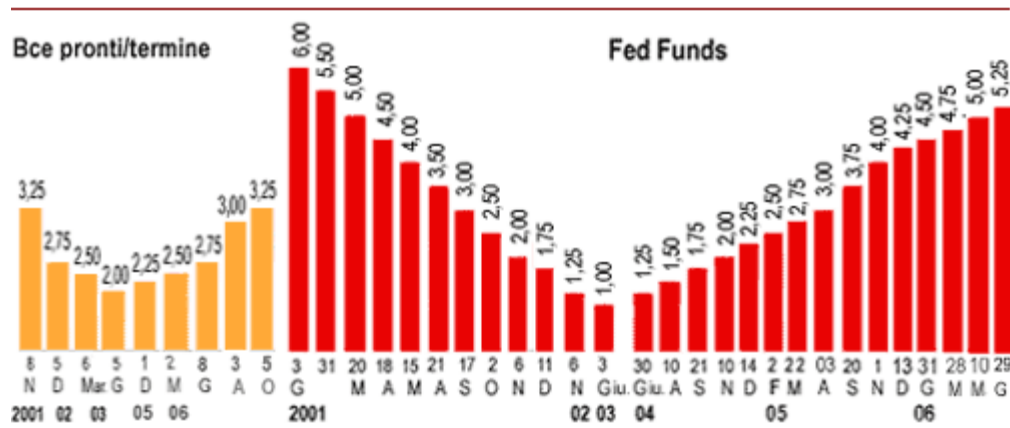
The official rates currently used and comparison with US data are summarised in the following table and graph.

	Official rates (in %)		Latest change
USA	Fed Funds	5.25	29/06/2006
EURO ZONE	Swaps	3.25	05/10/2006
UNITED KINGDOM	Intervention rate	4.75	03/08/2006
	Fluctuation band of the 3-month		
SWITZERLAND	Libor	1.25 – 2.25	14/09/2006
JAPAN	Discount rate	0.25	14/07/2006

Europe and USA: rate comparison (values in percentages)

ECB swaps

Fed Funds



Source: IISole24Ore

Property management

The construction sector continues to be one of the driving forces of the Italian economy, with the ability to contribute significantly to production and to the country's economic system. Between the first half of 1998 and the first half of 2006, workers in the industry increased by 29.4%, compared to a national increase in employment of 12.5% overall. Investments in the construction industry increased considerably between 1999 and 2002 (+2.6% in 1999, +6.4% in 2000, +4.1% in 2001 and +4.8% in 2002), and then continued to rise at a gradually slower rate in subsequent years (+1.4% in 2003, +0.9% in 2004 and +0.5% in 2005). The speed of growth in the sector in recent years has therefore fallen, but growth has not ceased altogether. Growth in 2006 and 2007 is estimated to be 1.1% and 0.9% respectively.

Between 1998 and 2006 investments in the sector, which at € 138bn at the end of 2005 represent 9.7% of national GDP, increased by 21.8% in real terms, compared to an increase in GDP of 10.3%, as shown in the following table:

Investments in construction and Italian GDP

Years	% variation compared to the previous year	
	Investments in construction	GDP
1999	2.6	1.9
2000	6.4	3.6
2001	4.1	1.8
2002	4.8	0.3
2003	1.4	-
2004	0.9	1.1
2005	0.5	-
2006	*1.1	**1.6
Total	21.8	10.3

Source: processed data from Istat

(*) estimate provided by ANCE (Associazione Nazionale Costruttori Edili)

(**) as at 30/06/2006 and assumed to be stable until the end of 2006

Assessments made by leading research centres in the industry indicate that the situation will remain positive overall for 2006, with prices and sales remaining stable. An analysis of the performance of house prices, compared to European and international markets, shows that, unlike the US market, Italy is not in a situation that suggests a likely fall in house prices, although it seems likely that property values will stabilise.

Estimates from the European Central Bank show that during 2005 house prices in Italy have been higher (+9.9%) than anywhere in the Euro zone (+7.6%). Despite this, the price increase that took place in Italy between 1997 and 2005, albeit quite significant, remains lower compared to international markets. In particular, house prices in Italy increased by 81% compared to 112% in France, 167% in the UK and 156% in Spain.

During the first six months of 2006, the assets of property funds increased further, reaching almost € 17bn, around 15% more than the end of December 2005. Despite the fact that performance is on average around 8.3% (average ROE of listed funds) and is among the highest in the world (equal to the Australian market and lower only than the top ten British funds, which recorded a performance of 10.2%), just 1% of Italian households have approached this sector. At the end of 2005, in fact, Italy only accounted for 5% of the European market, although there had been an increase from the figure of 3.6% in 2004.

The demand for loans for the purchase of first homes has also increased. Since 2005, Italian households have made increasing recourse to mortgage loans to finance house purchases. In recent months in particular the share of the purchase price of properties covered by mortgages has increased from 51.2% to 62.2%.

Studies carried out by the *Osservatorio di Banca per la Casa* predict that the mortgage market will have grown by between 15% and 17% by the end of 2006, a rate of increase that is just above the rate recorded over the last three years, during which there has been an increasing demand from new types of customers, such as single people, immigrants and workers on fixed term contracts. Existing mortgages recorded at the end of the first half of 2006 amounted to approximately € 195bn, up by 2.32% compared to the first quarter of 2006.

LEGISLATIVE DEVELOPMENTS

Implementing the provisions of the *Codice delle Assicurazioni Private* (private insurance code) (Legislative Decree 209/2005), which came into force on 1 January 2006, a *Regolamento sull'intermediazione assicurativa* (insurance brokerage regulation) has been created which governs the business of insurance and reinsurance brokerage, regardless of the provider. In particular, the regulation creates order among the various providers of brokerage services, with the primary intention of protecting the consumer, identifying brokers and governing aspects such as:

- requirements for being included in the *Registro Unico degli Intermediari* (single register of brokers);
- rules of conduct, inspired by principles of fairness and transparency, with which brokers must comply in their relations with customers;
- the civil liability policy for professional risks resulting from performance of the activity (bad management, disloyalty of employees and other risks that might impact negatively on the end consumer);
- professional training to guarantee the constant updating of operators.

The *Registro Unico degli Intermediari* (RUI) will come into force on 1 January 2007, while the other provisions will come into force on different dates to take into account the organisational requirements to be fulfilled by brokers. As of this date, only brokers who are registered on the RUI, which is administered by ISVAP, will be able to operate. It is estimated that, compared to the current size of the registers of agents and brokers, the number of registered brokers will increase from 40,000 to 350,000, to include other agents and brokers, sub-agents, employees, banks, financial advisers, the Italian Post Office: essentially everyone who acts as a broker in the insurance business.

At the time of writing, ISVAP has also issued a measure (Regulation no. 5, published in the *Gazzetta Ufficiale* [official journal of the Italian State] no. 247 of 23/10/2006) which, with reference to article 183 of the *Codice delle assicurazioni private*, establishes specific provisions relating to the conduct of companies and their employees with regard to the appropriateness of the insurance products sold, based on the risk profile of customers.

We should point out that the financial reform has brought forward the Maroni reform by one year, ensuring that from 1 January 2007 all new severance pay maturing in respect of workers in medium to large sized companies (with over 50 employees) which do not subscribe to complementary welfare will be paid into a Treasury fund set up by INPS and destined to fund the State budget.

As of 1 January of next year, all employees will therefore have six months time to decide where their severance pay should be directed. Based on the principle of taking silence as an agreement, the severance pay of anyone who fails to make that

choice will be paid into sector-wide funds (or company funds, if they exist), or into an alternative complementary fund managed by INPS.

The above provisions are expected to be reviewed by the Government during 2008 in the light of future developments stemming from this reform.

As repeatedly pointed out by the trade association (ANIA) amongst others, the problems arising from this early launch are the following:

- the definitive rules to be issued by COVIP (Italian pension fund regulator) are still incomplete, which means that the time available to operators to adapt to the new requirements is too short;
- workers may be deprived of their opportunity to compare the alternatives available based on supervisory and transparency rules which have not yet been defined. Speeding up the launch of the reform means that, in the first instance, only products that are currently ready and have been used for a long time will be facilitated (e.g. closed occupational pension funds);
- in terms of complementary welfare in general, the Government is not particularly interested in promoting pension funds. In fact, what people often forget when analysing the Italian welfare system is that the reform now planned does not make it easier to pass from the current “*pay as you go*” system, in which people who work pay for the pensions of people who have already retired from the labour market, to the “*fully funded*” system, in which workers set aside a fund by means of direct withholdings from their salary, a fund which can be used when they retire from the labour force. Any forced transfer of severance pay to INPS does not assist with the launch of complementary welfare because it takes precious funds away from the construction of the first pillar, with which to then continue developing the “*fully funded*” system.

Finally, among the other innovations introduced in the insurance sector, we would remind you that as of 1 January 2007, direct compensation will be introduced for insurance losses incurred after 1 February 2007 which are considered to be limited in size (i.e. involving only two vehicles, with limited injuries sustained by drivers, with no more than nine invalidity points and no damage to third parties, including passengers). According to legislators, consumers will benefit both from the improvement in terms of the claim settlement process and from a reduction in tariffs.

As of 1 January 2007, the Bersani decree will also introduce a cancellation of the exclusive relationship between agents and insurance companies (for the Motor Vehicle TPL sector only), with an exception being made for existing exclusivity clauses, which will remain valid until 1 January 2008. Insurance agents who so wish may offer clients policies issued by more than one insurance company, independently determining the discount to be applied to the tariff.

The resulting savings remain to be demonstrated, however, particularly in the short term. Unless they are accompanied by measures to significantly reduce cost barriers, the new rules will only have a marginal effect on competition between companies, because of the scarcity of incentives for agents and companies to change the current situation.

Initially there may actually be a tendency for costs to increase. As regards direct compensation, the reform will certainly improve the quality of relations between companies and customers, but is unlikely to allow the cost of policies to be reduced, because operational difficulties would be created with regard to determining annual

tariffs, because of the ban placed by the Antitrust authority on allowing companies in the sector to exchange information.

CONSOLIDATION SCOPE

As at 30/09/2006, the Fondiaria-SAI Group, including the parent company, consists of 119 companies, 21 of which operate in the insurance sector; 1 in the banking sector; 45 in the property and agricultural sector; 19 in the financial sector; 3 in the property broking and savings management sector, with the rest providing various different services.

There are 83 fully consolidated companies, 11 companies consolidated by the net equity method and 1 company (Po Vita S.p.A.) consolidated by the line by line method, while the remaining companies are maintained at their book value in view of their irrelevance to the economy of the Group.

The Group has 95 subsidiaries, 38 of which are controlled directly by the parent company. The companies based abroad are 14.

Note that as a result of the introduction of IAS/IFRS standards, the Group fully consolidates all the subsidiaries, even if they are involved in different areas of business, as well as the Tikal R.E. Closed Property Fund, given that it is controlled by the Group, which also determines the strategies and directions of its management policy.

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

- acquisition by Fondiaria-SAI S.p.A., on 7th September, of a 51% shareholding in the share capital of FINECO ASSICURAZIONI S.p.A.;
- acquisition by Fondiaria-SAI S.p.A. of 100% of the share capital of MANTEGNA SRL from Immobiliare Lombarda S.p.A.;
- zeroing, by conversion into cash, of the shareholding held by Effe Finanziaria S.p.A. in MILANO ASSICURAZIONI S.p.A.; the Group's stake is therefore reduced from 60.63% to 60.10%;
- increase of the shareholding of Immobiliare Lombarda S.p.A. in the property company BORSETTO S.r.l. from 31% to 44.93%; the Group's stake therefore increases from 16.82% to 24.36%.

VALUATION CRITERIA

The quarterly report has been drawn up in accordance with the valuation criteria and the IAS/IFRS international accounting principles used to draw up the consolidated accounts as at 31/12/2005.

For a detailed explanation of these valuation criteria please refer therefore to the information published in the consolidated accounts as at 31/12/2005.

The quarterly report is influenced by the greater use of estimates and simplifications. Methods have therefore been used which, although they make greater use of estimates, are nonetheless suited to substantially representing the end of year principles.

As regards the direct business technical reserves in particular, we would point out the following:

- **Premium Reserve for Non-Life classes**
In the context of this reserve, any component of the reserve set aside for current risks is prudently maintained unchanged, in the event that the claim ratio should remain stable in relation to the previous accounting period.
If a worsening of this ratio is noted, the data as at 30 September is included in the calculation required by ISVAP circular no. 360/D. In the event of an abnormal production performance, prudential appropriations are made based on the expected level of claims.
- **Claims reserve for Non-Life classes**
The multi-stage technical valuation process has been amended in some respects in order to simplify certain procedures, essentially because it is impossible to carry out an analytical review of residual charges, as is customary practice at the end of the year.
In the land Motor Vehicle TPL class, current business and that of previous financial years have been determined using the operational indicators for the whole of 30/09/2006.
In particular, considering that the initial reserve was set up on an ultimate cost basis, and taking into account the sufficiency parameters noted on claims paid during the period, it was considered appropriate and sufficient to increase the cost of claims in the reserve applying percentages that were higher than the percentage increase in payments.
In calculating the amounts in the reserve, account was also taken of other indicators, such as the speed with which claims were dealt with and paid during the period. In the other Non-Life classes, for both current and past business, the technical estimates were carried out using the parameters used in the accounts for the 2005 financial year, unless substantial variations were found compared to the consolidated trends used as a statistical basis.

ASSET AND FINANCIAL MANAGEMENT

Investments and available cash

The following table shows the investments and available cash as at 30/09/2006, compared to the corresponding amounts as at 31/12/2005 and 30/06/2006.

(€K)	30/09/2006	30/06/2006	% var.	31/12/2005
INVESTMENTS				
Property investments	2,094,748	2,050,590	2.15	2,041,721
Shareholdings in subsidiaries, associated companies and joint ventures	247,248	224,178	10.29	71,675
Investments held to maturity	-	-	-	-
Loans and credits	1,220,335	1,367,070	(10.73)	1,408,658
Financial assets available for sale	22,579,311	21,420,615	5.41	20,972,111
Financial assets at fair value through profit or loss	5,650,481	5,314,572	6.32	5,570,855
Total Investments	31,792,123	30,377,025	4.66	30,065,020
Tangible assets: Property and other tangible assets	1,130,150	1,124,423	0.51	1,086,135
Total non-current assets	32,922,273	31,501,448	4.51	31,151,155
Available cash and cash equivalents	478,586	539,667	(11.32)	526,505
Total non-current assets and available cash	33,400,859	32,041,115	4.24	31,677,660

Note that as a result of the acquisitions that took place in 2006, the investments also include the assets of Liguria Assicurazioni and Liguria Vita, which amount in total to € 238m, and the assets of Fineco Assicurazioni of € 30m.

The financial assets available for sale and the financial assets at fair value through profit or loss consist of the following:

(€K)	30/09/2006	30/06/2006	% var.	31/12/2005
Financial assets available for sale	22,579,311	21,420,615	5.41	20,972,111
Capital securities and shares in collective investment undertakings	3,753,059	3,638,478	3.15	3,767,474
Debt securities	18,823,963	17,779,863	5.87	17,200,376
Other financial investments	2,289	2,274	0.66	4,261
Financial assets at fair value through profit or loss	5,650,481	5,314,572	6.32	5,570,855
Capital securities and shares in collective investment undertakings	791,808	732,876	8.04	739,663
Debt securities	4,621,171	4,326,754	6.80	4,661,888
Other financial investments	237,502	254,942	(6.84)	169,304

The **Property Investments** item includes the property owned by the Group for the purpose of investment, and therefore intended to be leased to third parties or held for the purpose of investment. Their book value amounts to € 2,314,752K, which includes € 515,885K relating to land, while the value of the depreciation fund is € 220,004K. The increase that took place in the third quarter, amounting to € 44,158K, is almost exclusively due to the purchase of a building in Milan (known as Torre Galfa), by the subsidiary Mantegna S.r.l.. This property is primarily to be used for office and residential purposes. The price paid for the purchase, which took place in September, was € 48m, in respect of which a deposit of € 4.8m had been paid and recorded as at 30/06/2006 among current fixed assets.

The **Shareholdings in Subsidiaries, Associated Companies and Joint Ventures** includes shareholdings in associated companies, which are valued by the net equity method, in addition to the book value of a number of shareholdings in subsidiaries which are not fully consolidated, both because of their irrelevance for the purposes of providing a truthful and accurate representation, and because they are in the process of being restructured or are non-operational. The most significant shareholdings are the ones held by the Parent Company in the associated company Fin.Priv. S.r.l., valued at € 66m, and by the subsidiary Saifin-Saifinanziaria in the associated company Finadin S.p.A., valued at € 22m, as well as the one held by the subsidiary Milano in Bipiemme Vita S.p.A. valued at € 92m.

The **Loans and Credits** include debt securities of € 110,401K (€ 111,963K as at 31/12/2005), spot against forward transactions of € 51,221K (€ 109,630K as at 31/12/2005) and loans on life policies of € 71,875K (€ 71,291K as at 31/12/2005). Also included are the deposit accounts of reinsurers with the ceding companies of € 35,724K (€ 36,835K as at 31/12/2005) and the credits towards new agents for repayment of compensation paid to ceased agents of € 205,651K (€ 192,701K as at 31/12/2005).

The item also includes the loans disbursed by Finitalia to its customers of € 144,673K (€ 155,036K as at 31/12/2005), receivables of the consolidated company BancaSAI from other banks for interbank deposits of € 219,130K (€ 411,992K as at 31/12/2005) and from banking customers of € 87,442K (€ 56,637K as at 31/12/2005) and the “mezzanine” loan relating to the transfer of part of the property portfolio in the 2003 financial year of € 68,844K (€ 69,907K as at 31/12/2005). This loan, which expires in 2010, provides for partial early repayments to be made in accordance with the plan for divestment, by the debtor, of the properties concerned by the operation. The debtor is furthermore entitled at any time to make an early repayment of some or all of the loan.

Finally, the item also includes the credit of € 157.5m (€ 153.6m as at 31/12/2005) recorded in respect of the forward sale of Banca Intesa shares owned by the Parent Company through the mandatory convertible exclusively into Banca Intesa shares and issued by the subsidiary SAINTERNATIONAL in September 2004. This credit has been updated considering the period of time remaining until the date of forward sale underlying the mandatory. The effect on the profit and loss account is positive by € 3.9m.

As regards **Investments held to maturity**, in accordance with the portfolio management strategy, the Group did not consider it appropriate to record any financial instruments under this heading.

The **Financial assets available for sale** include bonds and shares not classified elsewhere. Even though this is a residual category, it is the largest financial instrument category, which is consistent with the characteristics and purposes of the insurance business. In particular, the item includes debt securities of € 18,823,963 (€ 17,200,376K as at 31/12/2005), shares of € 3,210,846K (€ 3,275,067K as at 31/12/2005) and shares in collective investment undertakings of € 542,213K (€ 492,407K as at 31/12/2005).

The **Financial assets at fair value through profit or loss** include securities held for trading and the ones designated by the group companies in this category. This item includes the investments and financial instruments relating to insurance and investment contracts issued by insurance companies in respect of which the investment risk is borne by the insured. The item therefore includes debt securities of € 4,621,171K (€ 4,661,888K as at 31/12/2005), capital securities of € 229,434K (€ 145,912K as at 31/12/2005), shares in collective investment undertakings of € 562,374K (€ 593,751K as at 31/12/2005) and other financial investments of € 237,502K (€ 169,304K as at 31/12/2005).

According to international accounting principles, properties that are used directly by the entity drawing up the consolidated accounts are not considered to be investments. Therefore, these assets have been included under **Tangible assets**, which also includes the property-related inventories to which the criteria of IAS 2 have been applied. In particular, this item includes over € 759m (€ 749m as at 31/12/2005) relating to the property assets of the subsidiary Immobiliare Lombarda S.p.A..

Property intended for direct use by the group is recorded at cost and is subject to depreciation in accordance with their residual useful life. Vice versa, property-related inventories are valued at cost or market value, whichever is the lowest. The other tangible assets include furniture, plant, machinery and motor vehicles used by the group in carrying out its activities.

Net technical reserves

(€K)	30/09/2006	30/06/2006	31/12/2005
Non-Life Technical Reserves			
Premiums reserve	2,121,112	2,466,216	2,361,753
Claims reserve	8,285,290	8,427,322	8,381,043
Other reserves	4,423	11,118	9,935
Total Non-Life reserves	10,410,825	10,904,656	10,752,731
Life Technical Reserves			
Actuarial reserves	12,878,925	12,652,602	12,314,965
Reserves for amounts payable	203,656	203,681	102,806
Technical reserves with investment risk borne by the insured	866,258	857,369	950,944
Other reserves	258,490	35,238	341,209
Total Life Reserves	14,207,329	13,748,890	13,709,924
Total	24,618,154	24,653,546	24,462,655

The non-life classes technical reserves as at 30/09/2006 include the premiums reserve of € 2,121m, calculated by the pro-rata temporis method, and the claims reserve of € 8,285m. As a result of the introduction of IAS/IFRS accounting principles, as of the 2005 financial year, this item no longer includes the equalisation reserves and the reserves intended to cover disasters, determined on a fixed amount basis according to the specific provisions contained in national legislation. These reserves, which are still compulsory in the drafting of statutory accounts, are no longer earmarked in consolidated accounts.

The other non-life classes technical reserves include the health class ageing reserve, calculated according to national legislative provisions. It is intended to cope with the worsening of the insurance risk resulting from the increasing age of policyholders.

The life classes technical reserves are the ones that relate to insurance and investment contracts with elements of discretionary participation governed by IFRS 4. This item does not include liabilities relating to the policies (primarily of the index and unit linked type) which, since they are contracts with no significant insurance risk, are governed by IAS 39 (Financial instruments) and recorded among financial liabilities.

We should point out furthermore that the life classes technical reserves have been increase, compared to the value determined according to national accounting principles, by € 171m, as a result of the recording of deferred liabilities towards policyholders, resulting from the application of the accounting method of shadow accounting under the terms of IFRS 4.

Financial Liabilities

The application of international accounting principles has brought about significant changes in the presentation of the Group's financial liabilities. In particular, both the enlargement of the consolidation scope and the different classification of a number of insurance contracts into investment contracts, have led to postings being made which have no equivalent in balance sheets presented in accordance with Italian criteria.

It is worth noting, however, that the greater size of the financial debts has no impact in terms of the onerousness of provisions, given that it is simply an accounting representation in accordance with international standards which has no effect on the financial leverage of the group.

The following table shows how the financial liabilities are subdivided:

(€K)	30/09/2006	30/06/2006	31/12/2005
Financial Liabilities			
Subordinate liabilities	792,209	487,247	483,888
Financial liabilities at fair value through profit or loss	3,522,677	3,239,701	3,231,858
Other financial liabilities	1,410,623	1,524,557	1,456,632
Total financial liabilities	5,725,509	5,251,505	5,172,378

For details of the item **Subordinate liabilities** see the section regarding Debts.

The item **Financial liabilities at fair value through profit or loss** includes € 3,410m as at 30/09/2006 of liabilities on financial contracts issued by insurance companies, treated with the deposit accounting method which, essentially, provides for only the profit margins to be posted to the profit and loss account, with the premiums being recorded under financial liabilities.

The item also includes approximately € 112m relating to hedging derivative transactions by the Parent Company and the subsidiary Milano, in respect of which the financial instruments owned by the group, consisting of capital securities, recorded the same positive variation with an effect on the profit and loss account.

The **Other financial liabilities** include € 104.3m (€ 115.8m as at 31/12/2005) relating to the bank debts of the subsidiary Finitalia, € 192.2m (€ 302.8m as at 31/12/2005) relating to deposits placed by customers with the subsidiary BancaSAI, € 177.9m (€ 176.8m as at 31/12/2005) relating to the debt amounting to a nominal amount of € 180.4m, taken out by the subsidiary Sainternational and repayable exclusively in shares in the fully-owned Banca Intesa.

The item also includes € 21.6m (€ 60.7m as at 31/12/2005) relating to investment contracts entered into by life policy holders and valued according to the depreciated cost method. The fall is due to the payment of some of the positions by the Parent Company to its policyholders. Also included are € 24.2m (€ 89.8m as at 31/12/2005) relating to spot against forward financing transactions with the subsidiary SAI Mercati Mobiliari. The rest relates primarily to deposits placed with reinsurers.

We consider it appropriate to show separately below only the postings relating to the financial, which is understood to be the total amount of financial liabilities for which no specific correlation with the items under assets can be established. The situation is summarised in the following table.

Group Debts

The financial debt situation of the Fondiaria-SAI Group as at 30/09/2006 is the following:

(€m)	30/09/2006	30/06/2006	31/12/2005	Variation
Subordinate loans	792.2	487.2	483.9	308.3
Sainternational Mandatory	177.9	177.7	176.8	1.1
Debts owed to banks and other loans	499.8	501.1	518.0	(18.2)
Total Debt	1,469.9	1,166.0	1,178.7	291.2

The **Subordinate loans** item includes the loan contracted by the Parent Company with Mediobanca in July 2003 with simultaneous early repayment of the loan previously taken out on 12/12/2002.

The loan, amounting to a nominal € 400m, had been taken out in order to increase the elements constituting the solvency margin.

As regards the subordinate loan of € 400m already existing with Mediobanca, the Parent Company agreed the following with the latter, with the authorisation of ISVAP:

- a number of contractual amendments to the subordinate loan itself, relating inter alia to a reduction in the interest rate from the 6-month Euribor + 265 basis points to the 6-month Euribor + 180 basis points;
- the signing of a new subordinate loan contract for twenty years, with a fixed expiry date, for a total of € 100m at an interest rate equivalent to the 6-month Euribor + 180 basis points, with the same subordination characteristics as the previous one. This loan contributes, subject to the restrictions imposed by current legislation, to further improving the available solvency margin, in the amount of 25% of the available margin or the solvency margin required, whichever is the smallest;
- the signing, on 14 July 2006, of a further subordinate financing contract for a total of € 300m, half subscribed by Fondiaria-SAI and half subscribed by Milano Assicurazioni. This cost of this loan is also equivalent to the 6-month Euribor +180 basis points and the amount is repayable in five equal annual instalments starting on the 16th anniversary of its disbursement. In particular, this latest contract contributes to further improving the Group's available solvency margin for the part disbursed to Milano Assicurazioni.

On 27/09/2004, the Luxembourg subsidiary Saintinternational S.A. launched a Bonded Loan Convertible and Repayable exclusively in ordinary shares in Banca Intesa, fully-owned by Fondiaria-SAI, maturing on 29/09/2010 and listed on the Luxembourg Stock Exchange.

The bonds, which have a nominal value of € 180,400K, will be repayable at maturity by delivering 44,000,000 ordinary shares in Banca Intesa, formally owned by Fondiaria-SAI, at a swap price of € 4.10 per share, and therefore a premium of

35.13% compared to the quotation of ordinary Banca Intesa shares at the time the bid price was established. The annual coupon on the bonds and the return at maturity are equal to 6.10%.

As regards the **Debts owed to banks and other loans** we hereby report that as at the end of the third quarter of 2006, the exposure of the Immobiliare Lombarda Group had fallen by approximately € 3,994K from € 228,215K as at 31/12/2005 to € 224,221K. The reduction in the debt is primarily due to the following operations:

- as a result of the contracts of sale signed during the half-year, the subsidiary Progetto Bicocca La Piazza S.r.l., the debt of which consists of property financing strictly connected to the construction and marketing of buildings that are currently being built, repaid approximately € 2,217K; furthermore, during the third quarter of this year, a new loan of € 10,600K was taken out;
- the subsidiary Immobiliare Lombarda repaid the first instalment of the property loan of € 14,571K and settled charges relating to the third quarter of € 2,194K.

Note that with regard to the amount of the property loan taken out by the subsidiary Progetto Bicocca La Piazza S.r.l., which expires on 30/09/2009 under the terms of the contract, a long-term posting is maintained because the amount of the repayment tranches cannot be quantified, since they are associated with deeds that are expected to be signed over the next 12 months.

The shareholder loan amounting to € 6,440K refers to the debts, non-interest bearing from 01/10/1998, granted to Progetto Bicocca la Piazza S.r.l. by Pirelli & C. Real Estate S.p.A., minority shareholder with a 26% stake.

The above loans, both repaid at the Euribor plus a spread of 0.9%, are guaranteed by mortgages on Group properties, particularly by first and second degree mortgages on the complex being build by Progetto Bicocca La Piazza S.r.l. and first degree mortgages for € 408m on properties owned by the Parent Company.

Also in the context of the debts owed to banks, € 167m relate to the loan taken by the Tikal R.E. Closed Property Fund with Banca Intesa, the latter in its capacity as the Organising, Agent and Financing Bank. The purpose of the loan is to improve the return on the fund's shareholders' equity and therefore on the capital invested by participants. The amount disbursed, which does not exhaust the line of credit granted, amounting in total to a nominal € 280m, will be used both to make investments in new initiatives and to carry out improvements in view of future conversions into cash or income increases. The cost of the finance is equal to the Euribor plus a variable credit spread of between 70 and 110 b.p..

The rest refers to the bank loan of the subsidiary Finitalia (€ 104m) and to other items of irrelevant amounts.

Management of investments

At operational level, activities carried out by the Group during the third quarter in the fixed income sector underwent a further reduction in duration in the non-life classes, at the same time as extra returns were being sought thanks to trading activities. The variable component of treasury bonds increased slightly in the area of financial management and, as a result of the constant increases in short-term rates, it brought benefits in terms of the definition of current and future coupons.

Looking at the activities in detail, the Non-Life classes present an asset allocation which is by its very nature more prudent, with a fixed rate component of 70.7% and a duration of 2.59. The variable rate component accounts for 27.6% with a duration of 0.18. Spot against forward transactions account for 1.7%. The total duration of the Non-Life portfolio is 1.88. Ordinary incomes stand at around 3.5%.

In the Life sector, faced by a substantially unaltered exposure in terms of duration, attempts were made to make targeted purchases in terms of immediate and forward profitability in order to increase the return on separate management products, maintaining the share of ownership of assets in the corporate sector substantially unchanged.

In detail, the Life classes present an overall duration of 5.48 years. The mix of investments subdivides into a fixed rate component of 79.8% with a duration of 6.81 and a variable rate component of 20.2% with a duration of 0.19. Ordinary income stands at around 4%.

Activities on the share markets are also aimed at modulating and optimising the portfolio with sectorial rotations and primarily trading-related activities, without any substantial changes to asset allocation in the the life and non-life classes.

The sectorial choices were aimed at achieving a more prudent portfolio that is more guided by dividend yield, particularly for special management products.

Capital Shareholders' Agreement

In a letter dated 11/01/2006, the Parent Company declared that it was willing to increase the total shareholding in Capitalia contributed to the Shareholders' Agreement, both directly and through Milano Assicurazioni, from the current 2.57% to 3.50%.

The possibility had in fact arisen for interested shareholders to modify their share of participation in the Agreement, which had fallen as a result, on the one hand of the entry to the Agreement of a number of new MCC shareholders, following the demerger of the latter (the beneficiary of which was Capitalia itself) and, on the other hand, of the contribution to the Agreement of further Capitalia shares by a number of shareholders who already held shares in MCC and/or Fineco, considering the further extraordinary operation of merger by incorporation of Fineco into Capitalia.

The purchase of new shares to be contributed to the Agreement by the interested shareholders was in fact made possible, on the one hand, by the fact that Toro

Assicurazioni had expressed its intention to sell its shareholding (of 0.83%) and, on the other hand, by the fact that, since the shareholding currently held by the subscribers to the agreement exceeds 30% (30.54%), the consolidation of the shareholding itself is now possible, with an exemption from the duty to launch a public purchase offer, to the maximum extent of 3% per year under the terms of art. 46 of the CONSOB Regulations for Issuers.

In particular, Fondiaria-SAI and Milano purchased part of the shareholding put on sale by Toro, for a share of just over 0.5% of the share capital of Capitalia. The operation required the disbursement of approximately € 48m in total. Furthermore, measures are being taken to ensure the gradual purchase on the market of further Capitalia shares until 3.12% of the latter's share capital is reached.

For further information on the events relating to the Shareholder's Agreement, see the section dedicated to significant events after the end of the quarter.

Agreement for the purchase of a controlling share in the capital of Banca Gesfid S.A.

On 22/09/2006, Fondiaria-SAI reached an agreement with Meliorbanca S.p.A. regarding the sale to Fondiaria-SAI of 60% of the capital of Banca Gesfid S.A. ("GESFID" or the "Bank"), a Swiss bank fully owned by Rinascita Holding S.A., a holding company of shareholdings owned entirely by Meliorbanca.

In particular, the agreement provides for an undertaking by Meliorbanca to ensure that Rinascita Holding signs a contract with Fondiaria-SAI, or a company directly or indirectly controlled by the latter, for the sale and purchase of 60% of the capital of the Bank for 54 million Swiss Francs, to be paid on the date of closing of the operation, which – subject to the necessary authorisations being obtained from the relevant Italian and Swiss authorities – should take place by the end of the current year.

The agreement also provides for a reciprocal option relating, respectively, to the purchase and sale of the remaining 40% of the capital of the Bank, to be exercised between 1 November and 31 December 2008 at a price that will primarily take into account the evolution of the assets of Gesfid.

Gesfid is based in Lugano and is specialised in private banking, offering its clients highly specialised and personalised asset management. The total amount under management as at 31 December 2005 was 3.2bn Swiss Francs. The Bank closed the 2005 financial year with a net profit of 8.6 million Swiss Francs.

The operation for Fondiaria-SAI is part of the reorganisation of its asset management activities in Switzerland and is a further contribution to the development of the group's managed savings business which, with the acquisition of Gesfid, would triple its managed assets to approximately 40% of the growth objectives stated in the business plan for 2008.

The operation confirms the wisdom of the growth model based on internal lines and external lines, even in the managed savings business, and the willingness, demonstrated in the various acquisition operations carried out in recent years, to make the most of this new company as well, while respecting the individual autonomy and professional skills of the people who will be joining the group.

Own shares, shares in the parent company and shares in its subsidiaries

Ast at 30/09/2006 and as at 31/12/2005, the Parent Company directly and indirectly owned its own shares and shares in the parent company Premafin Finanziaria as shown in the following table:

(€K)	30/09/2006		31/12/2005	
	Number	Book value	Number	Book value
Own shares held by:				
Fondiarìa-SAI	9,490,212	182,201	8,075,212	138,079
Milano Assicurazioni	6,442,557	136,879	5,362,557	103,672
Sai Holding	1,200,000	28,285	1,200,000	28,285
Grand total	17,132,769	347,365	14,637,769	270,036
Shares in the parent company owned by:				
Fondiarìa-SAI	18,340,027	42,806	18,340,027	36,203
Milano Assicurazioni	9,157,710	21,374	9,157,710	18,077
Saifin – Saifinanziaria	66,588	155	66,588	132
Grand total	27,564,325	64,335	27,564,325	54,412

Further to the announcement made at the time when the business plan was presented last April, the reader is referred to the information provided under significant events since the end of the quarter for details of the buy-back of own shares and the consequent reduction in the share capital.

ECONOMIC PERFORMANCE

The profit and loss account as at 30 September 2006 closed with a net profit in the period of € 452m, an increase compared with the profit of € 412m reported in the corresponding period the previous year.

In order to guarantee a correct comparison, all the figures for the third quarter 2005 were stated by applying the IAS/IFRS international accounting principles used at the time the report for the third quarter 2006 was produced. A negative effect was reported on the result for the period 1/1/2005-30/9/2005 of approximately € 36m, compared with the figures published in the third quarter 2005, which was mainly due to the reclassification of some financial instruments held by the Group due to the amendments made to IAS 39 which limited the possibility of using the Fair Value Option. There were also other less significant changes to the regulations relating to IAS 19, and IAS 12, already fully illustrated in the accounts to 31/12/2005.

The economic situation for the quarter and the first nine months are set out below, compared with the same periods last year:

(€K)	3rd quarter 2006	3rd quarter 2005	Jan.- Sept. 2006	Jan.- Sept. 2005
Net premiums	2,201,323	2,229,264	6,930,187	6,801,506
Commission received	16,938	23,155	52,442	51,164
Net income from financial instruments, recorded at fair value in the profit and loss account	64,177	40,935	42,197	142,344
Income from investments in subsidiaries, associated companies and joint ventures	11,779	14,085	38,149	30,141
Income from other financial instruments and investments in property	275,531	201,394	899,392	741,924
- Interest received	184,771	178,013	526,780	488,427
- Other income	82,268	1,753	209,970	82,696
- Profits realised	8,426	20,654	162,175	161,969
- Valuation profits	66	974	467	8,832
Other revenue	80,696	63,685	260,019	191,565
TOTAL REVENUE	2,650,444	2,572,518	8,222,386	7,958,644
Net charges on claims	1,858,390	1,868,322	5,637,429	5,676,567
Commission paid	9,633	23,644	30,418	30,990
Charges of investments in subsidiaries, associated companies and joint ventures	(2,559)	-	1	-
Charges on other financial instruments and investments in property	82,973	39,725	200,353	115,834
- Interest paid	20,694	20,979	63,043	40,597
- Other charges	40,283	(1,352)	75,938	34,053
- Losses realised	12,111	11,737	32,342	24,052
- Valuation losses	9,885	8,361	29,030	17,132
Operating expenses	375,319	321,477	1,202,537	1,110,073
- Commission and other acquisition expenses on insurance policies	276,770	238,749	902,301	842,521
- Investment management charges	17,972	11,542	61,106	39,803
- Other administration expenses	80,577	71,186	239,130	227,749

Other costs	110,898	133,710	472,735	402,732
TOTAL COSTS	2,434,654	2,386,878	7,543,473	7,336,196
PRE-TAX PROFITS (LOSSES) IN THE YEAR	215,790	185,640	678,913	622,448
Tax	83,844	63,221	226,949	210,292
PROFITS (LOSSES) IN THE YEAR NET OF TAX	131,946	122,419	451,964	412,156
PROFITS (LOSSES) ON CEASED OPERATIONS	-	-	-	-
CONSOLIDATED PROFITS (LOSSES)	131,946	122,419	451,964	412,156
PROFITS (LOSSES) IN THE YEAR – GROUP	101,464	91,192	359,573	325,157
PROFITS (LOSSES) IN THE YEAR – THIRD PARTIES	30,482	31,227	92,391	86,999

In the first nine months of the 2006 financial year, the business of the Fondiaria-SAI Group is reporting results substantially consistent with the industrial plan presented to the financial community last April. That consistency can be seen in the substantial stability in the main performance indicators and the income trends in the period.

The high level of efficiency achieved in the technical management, now characterised by a wide customer base, the Group's very competitive product portfolio, unambiguous underwriting policies and the optimisation of claims management through a widespread and well-connected claims settlement network all Contributed to the good results.

With reference to the essential management aspects, as at 30/09/2006, we would highlight:

- the **consolidated result** was € 452m compared with € 412m for the first nine months of the 2005 financial year;
- the **non-life insurance** sector is showing a 1.7% increase in premiums and a pre-tax result of € 505m.

The technical account for the segment recorded in the traditional forms of representation is showing a result of approximately € 293m, a fall compared with the same figure as at 30/09/2005 (€ 325m) mainly due to the effect of the greater weight of the technical charges. In that context the motor classes are showing excellent economic signs, whereas in the non-marine classes the results, although positive, are still experiencing the effects of the reorganisation and selection actions;

- the **life insurance** sector is showing signs of a 2.5% fall in premiums linked mainly to the temporary decline in some commercial initiatives in the bancassurance sector.

Moreover, the application of the international accounting principle IFRS 4 involved writing off approximately € 800m for premiums for financial type policies, relating mainly to index- and unit-linked policies for which no significant insurance risk was identified. The pre-tax result for the life sector as at 30/09/2006, totalled more than € 141m;

- the **property** sector is reporting a pre-tax profit of € 16m compared with the loss recorded at the end of the previous financial year. The sector experienced the extraordinary effects of the acquisition of the Immobiliare Lombarda Group. In the first nine months of the year, the property business maintained moderate levels of operations with regard to profitability and the increase in the value of the equity;
- the **Other Activities** sector, which includes companies active in the financial and managed savings sector, is showing a pre-tax profit of € 17m. Companies in the banking and asset management sectors continue to experience some difficulties linked to the high incidence of costs on revenue. This contrasts with the good performance of the financial companies, some of which realised attractive capital gains from trading during the period;
- **operating expenses** totalled € 1,203m (€ 1,110m as at 30/09/2005) an increase of 8.4%;
- excluding the contribution of financial instruments recorded at fair value in the profit and loss account, the **total gross income from investments** achieved a

quota of € 899m (€ 742m as at 30/09/2005). € 162m was contributed to that by the net profits on the realisation of movables and immovables and € 527m from interest received. The balance of profits and losses from the valuation was negative by approximately € 29m;

- **interest paid**, of approximately € 63m, is virtually all chargeable to financial indebtedness;
- the contribution of the **financial instruments** recorded **at fair value** in the profit and loss account totalled € 42m (€142m as at 30/09/2005);
- **income from investments in subsidiaries, associated companies and joint ventures** refer to the capital gain realised by the parent company and the subsidiary Effe Finanziaria on the sale of shares in the subsidiary Milano Assicurazioni S.p.A.;
- the balance of **other revenue and other costs** is negative by € 213m (as at 30/09/2005 € 211m). These residual type headings include the technical and non-technical income and charges not classified elsewhere, and the depreciation, extraordinary income and losses and the net change in the provisions for risks and charges. Within the heading shares of depreciation of tangible and intangible assets of € 35m were deducted;
- the **tax burden in the period** is reducing slightly compared with September 2005 due to the effect of the realisation of some investments under the exemption rules and due to the higher contribution of the dividends of the participating interests.

The table below shows the pre-tax results achieved sector by sector. The property sector includes the results achieved by the property subsidiaries Immobiliare Lombarda and Nit, and the result in the period of Tikal R.E. Closed Property Fund, whereas the Other Activities sector summarises the performance of subsidiaries operating in the financial sector and the diversified services sector, including BancaSAI, SAI Mercati Mobiliari, Saifin-Saifinanziaria and Effe Finanziaria.

(€K)	Non-life	Life	Property	Other Activiti es	IC Extra secto r	Total
Net premiums	5,244,979	1,685,208				6,930,187
Net charges on claims	(3,742,462)	(1,895,306)			339	(5,637,429)
Net commission		11,527		10,497		22,024
Net income from subsidiaries and associated companies	(428)	16,972	3,986	17,618		38,148
Net investment income	235,389	422,811	14,030	26,890	(81)	699,039
Net income from financial instruments recorded at fair value in the profit and loss account	17,078	23,055	28	2,375	(339)	42,197
Operating expenses	(1,008,955)	(95,956)	(53,230)	(44,396)		(1,202,537)
Other net income and charges	(241,060)	(26,799)	50,852	4,291		(212,716)
Pre-tax profits (losses) in the year	504,541	141,512	15,666	17,275	(81)	678,913
Corporation tax						(226,949)

Profits (losses) in the year net of tax	451,964
Profits (losses) on ceased operations	
Consolidated profits (losses)	451,964
Profits (losses) in the year - third parties	92,391
Profits (losses) in the year - Group	359,573

NON-LIFE INSURANCE SECTOR

At the end of September, the premium income of the Fondiaria-SAI Group totalled € 5,271m (+1.74% compared with 30/09/05), sub-divided into categories of activities set out in detail in the table below:

NON-LIFE BUSINESS (€K)	30/09/2006	30/09/2005	Change %	30/06/2006
Accident and health	456,542	450,542	1.33	333,704
Marine, aviation and transport insurance	147,428	151,542	(2.71)	104,292
Fire and other property damage	467,908	455,890	2.64	338,389
General TPL	320,177	307,630	4.08	238,570
Credit and bonds	53,606	51,228	4.64	35,968
Pecuniary losses	18,211	20,285	(10.22)	12,563
Legal protection	10,987	10,788	1.84	7,747
Assistance	25,827	22,822	13.17	16,897
TOTAL NON-MOTOR CLASSES	1,500,686	1,470,727	2.04	1,088,130
Land vehicles TPL	3,229,224	3,172,052	1.80	2,257,411
Motor vehicle insurance Other classes	534,976	528,949	1.14	380,710
TOTAL MOTOR CLASSES	3,764,200	3,701,001	1.71	2,638,121
TOTAL DIRECT BUSINESS	5,264,886	5,171,728	1.80	3,726,251
INDIRECT BUSINESS	6,170	9,013	(31.54)	4,572
TOTAL NON-LIFE BUSINESS	5,271,056	5,180,741	1.74	3,730,823

Premiums earned in the quarter totalled € 1,540,233K and represent 29.2% of total income as at 30/09/2006.

By September, the parent company's premium income from the direct business totalled € 2,818,093K, of which approximately € 2,022,139K was produced by the motor vehicle classes.

The subsidiary Milano Assicurazioni S.p.A. contributed income of € 2,007m (38.3%) to the Group result, due to a 0.15% increase of the motor classes and 4.26% of the other non-life classes.

The trend in premiums in the motor classes is experiencing the effects of the programmed actions on reorganisation in the geographical areas and in the tariff sectors which are showing unsatisfactory technical performance: that policy was implemented with the restructuring of the fleet portfolio.

The trend in claims paid and reported in the different classes is set out below:

	Claims paid (€ million)			Claims reported (number)		
	09/2006	09/2005	Change %	09/2006	09/2005	Change %
ITALIAN DIRECT						
BUSINESS						
Non-life business						
Accident and health	276.7	257.2	7.58	212,286	206,978	2.56
Marine, aviation and transport insurance	25.0	47.7	(47.59)	3,578	4,296	(16.71)
Fire and other property damage	285.5	266.2	7.25	154,925	152,798	1.39
General TPL	239.5	227.1	5.46	81,196	78,361	3.62
Credit and bonds	70.7	32.2	119.57	852	858	(0.70)
Pecuniary losses	3.6	3.9	(7.69)	3,566	9,004	(60.40)
Legal protection	1.1	1.1	-	1,471	2,373	(38.01)
Assistance	9.9	7.6	30.26	59,831	53,862	11.08
TOTAL NON-MOTOR CLASSES	912.0	843.0	8.19	517,705	508,530	1.80
Land vehicles TPL	2,490.1	2,519.5	(1.17)	751,600	748,178	0.46
Motor vehicle insurance – other classes	249.9	232.5	7.48	198,033	185,992	6.47
TOTAL MOTOR CLASSES	2,740.0	2,752.0	(0.44)	949,633	934,170	1.66
TOTAL NON-LIFE BUSINESS	3,652.0	3,595.0	1.59	1,467,338	1,442,700	1.71

The claims paid in the Italian direct business, up to 30/09/2006, totalled € 3,652m (+1.59%), including € 1,980m for the parent company (€ 2,041m as at 30/09/2005).

The loss ratio in the period was approximately 71.4%, an improvement compared with the figure for September 2005. The ratio of operating expenses to premiums (19.2%) remained stable.

The combined ratio shows a ratio of approximately 94.4% (93.6% as at 30/09/2005): substantially stable although mainly influenced by the weight of the other technical charges.

With reference to the parent company, the claims reported in the Motor TPL class are showing a slight fall of 0.2%. The average cost of claims paid in the year increased slightly (1.1%), the corresponding speed of settlement is 58.6%. The average costs of claims paid from previous years increased by 5.6%.

The gross premiums for land vehicles – own damage class are showing a slight increase of 0.9%. Claims increased by 6.7% and claims paid increased by 6.3%.

With reference to the parent company's non-motor classes, the premiums written in the Italian direct business totalled € 792.8m, in line with the premiums written in the corresponding period of 2005. The number of claims increased by 3.9% and claims paid by 3.6%.

For the subsidiary **Milano Assicurazioni**, the third quarter of the 2006 financial year closed with a pre-tax profit of € 244m. In particular, the technical performance of the Motor TPL class is showing a moderate fall compared with that recorded in the same period the previous year, however, with performance improving significantly. The overall technical performance of the other non-life classes is also very positive, even if it is positioned at lower levels than those of the corresponding period the previous year, due to the effect of poorer performance in the General TPL class. In relation to that class, currently a systematic analysis of policies in the companies sector which are showing a negative performance in progress, with the objective of amending policies or cancelling policies which are more critical. The land vehicles - own damage class continues to report extremely satisfactory results substantially in line with those recorded as at 30/09/2005.

In the non-life business, premiums written amounted to € 2,007m, of which € 1,500m relate to premiums in the motor classes (+ 0.2% compared with 30/09/2005) and € 507m in other classes, where a development of 4.3% was achieved. The performance of premiums in the motor classes is experiencing the effects of programmed actions of reorganisation in the geographical areas and in the tariff sectors which are showing unsatisfactory technical performance and the restructuring of the fleet portfolio.

The claims reported by the Milano Group, as at 30/09/2006, are showing an increase of 1.8%, whereas Motor TPL claims remain substantially unchanged compared with the first nine months of the previous year. During the third quarter 2006, the total number of claims is falling in any case: this confirms the trend of improvements already observed for some months, a result of targeted reorganisation actions, more particularly the restructuring of the fleet portfolio already referred to.

The subsidiary **Sasa** recorded profits of € 9,197K, calculated on the basis of international accounting principles. Premium income in the direct business is showing a moderate increase (+3,2%) compared with the corresponding period in 2005: the marine sector is recording a strong fall in premiums attributable to the gradual focussing of the company on business from the Agencies sector, whereas the other sectors are showing a strong increase (+8.4%) which can be attributed to the increase in commercial operations acquired by the agencies opened in recent years.

The number of claims made in the current year reported and followed up, calculated on the basis of the coinsurance quota fell 6.8%; the fall in the number of claims reported, in the current year, was 3.2%. However, the Motor TPL class is showing an increase in the number of claims reported of more than 11%, following the acceleration of flows of claims which occurred following the introduction of the new "IES" claims management system into the agencies with effect from the month of June.

By the third quarter 2006, premium income of the direct business of the subsidiary **Liguria Assicurazioni** reported a very large increase compared with the corresponding period last year (+8.6%) reaching approximately € 124m: the large

increases of the Motor TPL class (+ 5,3%) and the bonds class (+7%) should be highlighted.

23,716 claims were received, an increase of approximately 8% compared with the third quarter 2005.

Overall the technical result, net of reinsurance, is positive at € 11m, improving compared with the first half of 2006 (€ 8m): that increase is mainly due to the satisfactory performance of the Motor TPL class, in which the loss ratio for the year was around 73%, and to a positive trend in the main non-marine classes.

It should be recalled that the acquisition of the Liguria Assicurazioni Group by Fondiaria-SAI was completed on 30/05/2006: consequently, the economic data for Liguria Assicurazioni and its subsidiaries were incorporated into the consolidated accounts of the Fondiaria-SAI Group with effect from that date.

With reference to the subsidiary **Siat S.p.A.**, management performance as at 30/09/2006 continues to show positive results in the technical sector, in particular in the “Transport” sector. The transport insurance market was characterised mainly by substantially stable premium rates and a constant trend in losses. With regard to reinsurance, professional reinsurers still impose conditions of selectivity and continue to pay increasing attention to the technical and statistical performance.

Premiums totalled approximately € 139m and are increasing compared with those in the same period last year (approximately € 120m). That increase was derived essentially from the implications connected with the “transport pole” being set up. In fact, production in 2006 benefited from the actions taken, with effect from the start of the year, through the gradual concentration of the Group’s “Transport” sector business into that company. On the other hand, the premiums for the “non-transport” business were falling, being gradually transferred to other companies in the Group. With regard to the “Transport” sector (in particular for the “Marine hull” class), production was experiencing the negative effects of the trend of parity of the US Dollar (its rate against the Euro as at 30/09/2006 was 1.2660, compared with 1.2042 as at 30/09/2005).

No particularly serious claims were reported, with the exception of one large damage claim in the “Marine hull” class, for which the high reinsurance cover strongly mitigated the impact on the quota withheld. At the same time, the dismantling of the provision for incoming claims continued to show the usual sufficiency.

Purchase of 51% of the capital of Fineco Assicurazioni S.p.A.

As a result of the multi-year agreement reached between the Capitalia Group and the Fondiaria-SAI Group on the development of bancassurance in the non-life business for the non-marine classes, on 07/09/2006 Fondiaria-SAI completed the purchase from Capitalia of a 51% stake in the capital of Fineco Assicurazioni S.p.A. for a total amount of € 56m, corresponding to a total valuation of Fineco Assicurazioni of approximately € 110m.

Capitalia and Fondiaria-SAI also signed an agreement containing the corporate governance rules of Fineco Assicurazioni, and the industrial aspects of the partnership, which stipulates, inter alia, that Fineco Assicurazioni continues to have access to the distribution networks of Capitalia up to 2016, with the possibility of renewal at maturity by mutual agreement between the Parties.

Price adjustment mechanisms are stipulated in relation to whether or not certain volumes of gross premiums written are achieved in the period between 01/01/2007 and 31/12/2011.

The transaction has been authorised by ISVAP.

Fineco Assicurazioni is the non-life insurance company operating through the distribution network (approximately 2,000 branches and 1,300 financial advisers, for a potential total of more than 4 million customers) of Banca di Roma, Banco di Sicilia, Bipop Carire and FinecoBank, the Capitalia Group's 4 retail banks. The company closed the 2005 financial year with premium income of € 28.5m (+ 285% compared with 2004). The industrial plan produced by the parties provides for significant growth in the company's premium income in the next five year period (CAGR 40% approximately) with net returns on the scheme of more than 10% of the premiums.

In the current market context, the partnership will enable Capitalia to benefit from the technical and commercial know-how of the Fondiaria-SAI Group, the Italian leader in the non-life insurance sector, encouraging the development of new products and improving the penetration into the Group's more than 4 million customers. That agreement will also allow Capitalia to have access to the Fondiaria-SAI Group's widespread claims settlement network, which is a decisive factor for offering customers an efficient service.

For Fondiaria-SAI, the agreement represents another opportunity to develop in the non-life sector and confirmation of the strategy to extend the range of products offered through the additional distribution channels of the agency network, benefiting from the distribution strength of the fourth largest banking group in Italy. From the industrial point of view, the transaction fits in perfectly with the Fondiaria-SAI Group's current bancassurance agreements, which will continue to be strategic within the scope of its growth policies.

LIFE INSURANCE SECTOR

Premiums written in the life business totalled € 1,702,110K, a fall of 2,6% compared with the figure as at 30/09/2005. The reasons for the fall can be found in the seasonal component which characterised the development of the sector during the quarter and the correlated decline in some commercial initiatives.

With reference to the sector's total income, also including that of financial and investment policies, the percentage increase would rise to 11%. By 30/09/2006, income only from investment policies totalled approximately € 800m.

The sub-division by categories of activity is set out below:

(€K)	30/09/2006	30/09/2005	Change %	30/06/2006
LIFE BUSINESS				
I - Life insurance	882,739	886,517	(0.43)	572,033
III - Insurance in points I and II related to investment funds	16,675	60,079	(72.24)	10,538
IV - Health insurance pursuant to art. 1 d) EEC Dir. 79/267	237	87	172.41	217
V - Capitalisation operations in art. 40 of Legislative Decree 17/3/95 no. 174	794,979	793,176	0.23	622,160
TOTAL	1,694,630	1,739,859	(2.60)	1,204,948
INDIRECT BUSINESS	7,480	6,485	15.34	5,038
OVERALL TOTAL	1,702,110	1,746,344	(2.53)	1,209,986

The parent company reported premium income of € 974m, substantially in line with the final figure as at 30/09/2005 (€980m). With reference to the income performance in the main classes, it is reported that the agency networks of the parent company and of Milano Assicurazioni significantly increased class I income (respectively +4.1% and +12,8%), consistent with targeted commercial initiatives to provide incentives for the distribution of products mainly with an insurance content.

On the other hand, at consolidated level, class I income is in line with the previous period, essentially due to the fall in the contribution of the bancassurance channel.

Operating expenses totalled € 94m, a substantial fall compared with 30/09/2005 (€ 114m) with an incidence of 5.5% on retained premiums.

Similar to the whole of the previous financial year, in the first nine months of 2006 the production of individual life policies by the distribution networks was mainly directed towards products linked to the segregated businesses, as they are characterised by a guaranteed minimum return and protection of the investment,

with particular attention to protection for the important segment of capital maturing on life and capitalisation policies.

With the aim of increasing the distribution of periodic premium products, a new product called “DEDICATA LIGHT” was marketed, within the scope of term life insurance, known for its specific sales methods and “simplified” underwriting formalities.

During the period, work was completed on the development of standardised procedures for the management of settlements on Life policies, centralised at BancaSAI.

With reference to the segment of supplementary pensions, implemented through individual forms of pensions, similar to the previous financial year, the whole market was characterised by demand which was still below expectations.

During the first nine months, the “corporate” segment is confirming the distribution trend characterising this sector for some years now with reference to demand from “institutional” customers (such as, for example, credit and financial institutions and co-operatives) for capitalisation products with consequent large volumes of premium income with the dedicated product called “CONTO APERTO CORPORATE”.

For this target, some distribution difficulties connected essentially with the changes already made and expected in the reference economic scenario are confirmed, together with increasing interest of customers already acquired in early disinvestments aimed at different investments. In this situation, there is an objective need to increase efforts not only on after-sales management extended to the whole portfolio, but also through actions aimed at protecting individual customers in order to maintain their position.

The current positive trend in the distribution of the new products “VALORE TFR” and “VALORE TFM” is confirmed. However, the reasoned concern about the potential capacity of this specific segment of the portfolio should not be underestimated which, in the light of recent events with the contents of the reform of additional forms of pensions, may require strategies aimed not only at protecting the segment itself, but also a partial differentiation of the sector, using collateral instruments or instruments to replace the current ones.

The market for risk cover continued to record dynamism and has provided an increase in premium income: therefore, the commercial survey on our product list to customers is continuing.

A further commercial initiative aimed at entering into specific agreements with credit and financial institutions for term life insurance combined with borrowing and loans in general is in the start-up phase. In the last quarter examined, for this specific customer target, we are preparing for the launch of the product PLURAL VITA MUTUI which should be in a position to increase the already interesting level of competitiveness currently shown by the products on the “corporate” list.

With regard to the three Open Pension Funds set up by the Company, in the first nine months of the year, as there continued to be a lull situation due to modest demand on the market, the number of members joining slowed down. Notwithstanding that, the company recorded an increase in the flows of contributions compared with those realised in the same period in 2005.

The life business of the subsidiary **Milano Assicurazioni** is reporting a 1.1% increase in premiums written as at 30/09/2006 compared with 30/09/2005, reaching € 413m compared with € 408m. The development is essentially due to traditional type products (+12.8%), whereas index type products with an insurance content have not been the subject of commercial initiatives in the quarter in question. The profit and loss account for the sector is showing a pre-tax result of € 63m, a significant increase compared with the last financial year.

Regarding **Novara Vita**, the third quarter 2006 closed with a net result for the period of € 10,755K (€ 8,697K as at 30/09/2005).

Premium income of € 57m was reported, a significant fall of 62.9% compared with the figure as at 30/09/2005.

On the other hand, total income of € 608m was reported, including income from investment policies in the life business, an increase of more than 25%. Individual insurance linked to index-linked share indices and, in particular, the new Index: Calliope issued in January 2006, Topazio issued in April 2006 and Ambra issued in July 2006 contributed significantly to that result.

With reference to **Po Vita**, the performance of the sales activity as at 30 September is reporting premium income of € 345m, a significant increase compared with the figure for September 2005 (€ 273m).

Total income, including the sector's investment policies totalled € 765m (+36.1%), recording a strong increase in operations linked to the share indices (+71.41%) and the individual capitalisation operations (+41.76%).

The new production can be broken down into: € 401m - Index products, € 18m - Unit products and € 346m - products in the segregated businesses, the latter include € 150m taken out by the Cassa di Risparmio of Parma and Piacenza.

With reference to **Sasa Vita**, the positive trend already shown in previous months is continuing. Premium income of € 58m is showing an increase of approximately 39% compared with the corresponding period in the previous year.

The percentage increase of the income is clearly higher than the target expected for the current year, thanks also to some high premium policies. Income from risk premiums is continuing on a positive note, especially to cover borrowing and small loans.

Alliance and co-operation with Banca Popolare of Milano in the Bancassurance sector

On 14/06/2006, Banca Popolare of Milano (BPM) and Milano Assicurazioni completed the agreement for the joint and exclusive development of the bancassurance business of the Bipiemme Group in the life business, signed on 24/12/2005. That agreement stipulates the realisation of a wider industrial alliance and co-operation with BPM in the bancassurance sector, to be implemented in the non-life business and in the banking and financial services, in addition in the life business.

Pursuant to the agreement, Milano initially purchased from BPM and from the subsidiary Banca di Legnano, a quota of 46% of the share capital of Bipiemme Vita S.p.A., with the possibility of control of the latter passing from the BPM Group to Milano, through the sale of a further two quotas equal respectively to 4% and 1%, in two subsequent transactions, respectively by 31/12/2006 and by 30/06/2007, exercising put and call options, in two tranches, which the parties granted each other on specific conditions.

BPM and Milano have signed a cross-company agreement containing the rules on corporate governance of Bipiemme Vita, and the industrial aspects of the partnership, stipulating that Bipiemme Vita continues to have access to the distribution networks of the BPM Group for a period of 5 years from the closing, with the possibility of renewal on expiry by mutual agreement between the parties for a further 5 years.

The transaction has received the authorisation of the Competition and Marketing Supervisory Authority and was authorised by ISVAP.

The purchase price of 46% of BIPIEMME VITA, initially agreed at € 94.3m, was reduced to € 90.5m in accordance with the stipulations of the contract of sale, mainly according to the changes in the assets (distribution of dividends and capital increase) which have taken place since the date the agreement was entered into (December 2005).

Bipiemme Vita is the insurance company of the BPM Group which operates through approximately 700 of the Group's branches. The accounts to 31/12/2005 (produced in accordance with Italian principles) report premium income of € 632.3m and a net profit of € 23.8m; net equity totalled € 67m whereas the total technical provisions were € 3,255.1m. The company closed the first half of 2006 with premium income of € 319m and a net profit of € 5.2m.

The purchase price for the subsequent 1% of the capital of Bipiemme Vita (as already for the purchase of the quota of 4%) was agreed to be the final price paid for the 46% revalued on the date of settlement in the year of the options at the reference rate, net of any dividends distributed and increased by any increases of the paid-up capital, both pro-quota, from the closing date to the date of settlement of the price for the exercise of the option.

The call option on the remaining 1% of Bipiemme Vita, consequently acquiring control and full consolidation by Milano, will be capable of being exercised in the period March-June 2007.

The exercise of Milano's call option shall be dependent on the positive opinion of a joint committee consisting of four members (two per party) called on to assess the performance and the results of the agreement from time to time, and on the authorisation of ISVAP.

In the current market context, characterised by re-focussing customers towards traditional insurance products, the partnership will allow Bipiemme Vita to benefit from the technical and commercial know-how of a leading insurance operator, favouring the development of new products and improving the penetration of the customers of BPM and Milano Assicurazioni to benefit from the BPM Group's commercial banking expertise.

For the BPM Group, the agreement will allow it to have wider technical and management support for the insurance services, through a range of products which best meet its own customers' requirements, required to aim for significant growth targets for the volumes of production. That is also with reference to the role the banks and insurance companies may play for families and small- and medium-sized undertakings in the prediction of the future development of supplementary pensions.

For the Company and for the Fondiaria-SAI Group, the agreement represents a further opportunity for development in the life sector. From the industrial point of view, the transaction fits in perfectly with the Company's and the Fondiaria-SAI Group's bancassurance agreements, which will continue to be strategic within the scope of the Company's and of the Group's growth policies.

PROPERTY SECTOR

In order to seize the opportunities on the property market, in the 2006-2008 Industrial Plan, the Group presented three forms of investment, classified according to the different level of risks:

- investments in properties already developed and producing significant returns (excluding joint ventures), to be made using the Group's reserves;
- investments in property to be renovated or in new developments (wholly owned), using the Tikal R.E. Fund, the closed property fund with private contribution, as the Group vehicle;
- investments in properties and/or in property initiatives in joint ventures (excluding the new developments), through companies in the Immobiliare Lombarda Group.

The results of the property sector include the operations of the Immobiliare Lombarda Group, the subsidiary Nit and other smaller companies, and the Tikal R.E. Closed Property Fund.

The pre-tax economic result in the sector is positive at € 15.7m and was influenced by the depreciation of property in the Tikal Fund and limited operations in the period. In particular, concerning the Immobiliare Lombarda Group, activity continued on the redevelopment of the properties owned, support for current initiatives and seeking to meet targets to increase profitability.

In particular, some properties owned for use as offices were being redeveloped with the aim of leasing reasonable sizes of surface areas: this initiative is planned to be completed in the next two months. Revenue in the quarter was approximately € 8.6m, whereas the result in the period totalled € 1.8m.

It is reported that, by the third quarter 2006, the Tikal R.E. Closed Property Fund, recorded a result in the period equal to more than € 16m: typical management revenue totalled approximately € 26m.

The Group's Property

We would highlight the main transactions relating to property in the third quarter 2006:

- on 5 September, the subsidiary Mantegna S.r.l. purchased the building located in Milan, Via Fara 41, called "Grattacielo Galfa" (the Galfa skyscraper), for the price of € 48,000K. The building has two underground floors intended mainly for storage, archives and garages and thirty floors above ground and a floor under the roof used as offices;
- with reference to the Tikal R.E closed property fund, launched in 2004 by SGR operating within the insurance Group, during the quarter arrangements were made to sell the building for commercial use located in Florence, via S. Egidio, 14 for the price of € 4,330K.

The Group's property investments

On 28 September, the subsidiary Immobiliare Lombarda S.p.A. arranged to purchase a further quota of the share capital of the associated company Borsetto S.r.l. and therefore from that date the shareholding held is equal to 44.93% of the share capital.

On 4 September, the parent company Fondiaria-SAI S.p.A. purchased from the subsidiary Immobiliare Lombarda S.p.A. 100% of the capital of Mantegna S.r.l.: the latter had not operated since its incorporation and was used as a vehicle for the purchase of the building in Milan called Torre Galfa. Immobiliare Lombarda is responsible for its technical and rental management.

OTHER ACTIVITIES SECTOR

That sector includes Group companies operating within the scope of managed savings, financial companies, and the subsidiary Banca Sai.

The sector's pre-tax result is positive by more than € 17m thanks to the positive contribution of the financial companies which reported lively trading activity in the period and the realisation of attractive capital gains. On the other hand, the subsidiaries Banca Sai and SAI Mercati Mobiliari are still experiencing negative results in the period, confirming a flow of revenue not yet capable of absorbing the correlated structural costs.

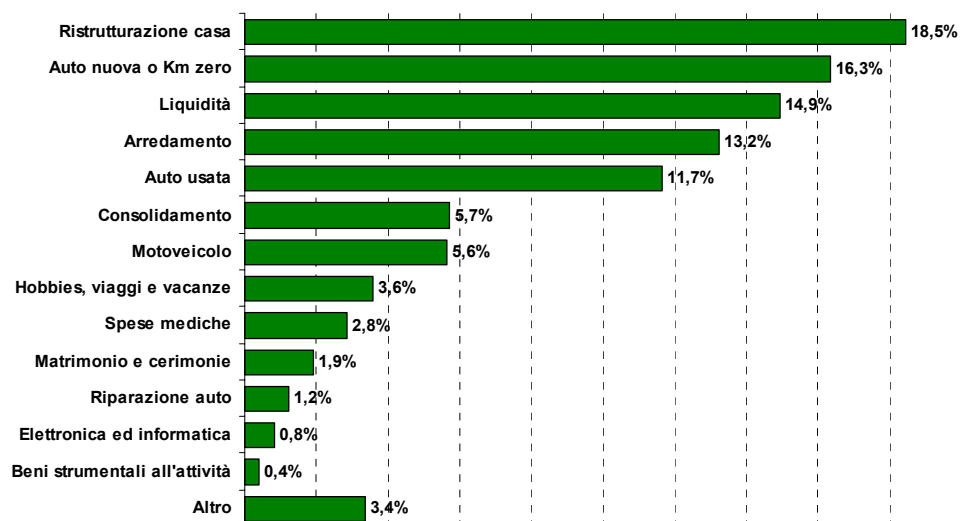
The sector also includes the activity of the subsidiary Finitalia S.p.A., active in the field of consumer credit.

Developments in the social-demographic structure of families, with an increase of new demand from residents from outside the EU, atypical workers and the elderly, and changes in the financial culture with regard to the approach to credit, the choice of allocation of the portfolio, are phenomena which, in recent years, increased Italian families' recourse to consumer credit.

During 2005, consumer credit in Italy grew at a rate of 20.8%, with a rate of penetration of the Italian GDP still amongst the lowest of all European countries at 5%, compared with 7% in France, 9% in Spain and 15% in the United Kingdom. It can, therefore, be seen that the Italian market is showing strong development potential for the future.

In the last "Osservatorio sul Credito al Consumo" (the Observatory for Consumer Credit), presented in June by Assofin-Crif-Prometeia, which in fact forecasts that the consumer credit market will increase at a sustained rate in the three year period 2006-2008: the increase expected for the end of the current year is 17.6%.

Consumer credit – lending in the first half of 2006



Source: Prestitutionline.it

Key to diagram, from top: House renovation; New or zero km car; Liquidity; Furniture; Second-hand car; Consolidation; Motor vehicle; Hobbies, travel and

holidays; Medical expenses; Wedding and ceremonies; Car repair; Electronics and computers; Capital goods for business; Other.

In that context, in the third quarter, Finitalia S.p.A., the Group company operating in consumer credit, continued the re-organisation, which became necessary after the merger through incorporation of the subsidiary My-Fin S.p.A., in order to speed up and improve the main operating processes, increasing both the quality of the service offered to customers and the number of reference users. New application and support procedures were developed, also entering into new commercial agreements with the Group structures. All the activities necessary for achieving the objective involved management development and structural costs.

During the third quarter 2006, the company reported a net profit in the period of € 490K, compared with a profit of € 449K as at 30/09/2005 (solely from Finitalia, as My-Fin was incorporated on 01/12/2005). For the brokerage margin, € 10,163K was reported as at 30/09/2006, compared with € 8,078K at the end of the same period last year. As at 30/09/2006, € 103m of financing was granted compared with € 100m at the end of the same period in 2005, an increase of 3% (Finitalia and My-Fin).

With reference to the subsidiary Banca-SAI, the result for the quarter is showing a loss of € 6,066K, compared with the loss of € 5,750K as at 30/09/2005.

During the period, work continued on completing the services offered by the Bank to customers on current accounts, payment services, credit and debit cards, home banking and lending.

Loans to customers, net of bad debts, totalled € 102,096K, of which € 48,084K related mainly to mortgage and unsecured loans, € 42,811K to current accounts opened, € 9,529K for financing and “cessioni del quinto” (loans to employees of up to one-fifth of their salary).

The financial services' investment business is reporting gross income of € 200,151K and net income of € 13,813K. An important contribution to achieving the total result on net income from managed savings products was derived from the activity carried out by the Florence subsidiaries (of € 4,446K), whereas the contribution of the insurance sales networks was € 9,367K.

The managed savings products portfolio (unit trust holdings, SICAV and asset management) held by customers was valued at € 676,671K, whereas investments in stocks and shares totalled € 162,994K. An improvement was reported in the margin of interest (+58.19% compared with 30/09/2005) which can be attributed to the increase in the volume of net loans to customers and to the trend in market rates, increased due to the effect of rate rises. The improvement of the brokerage margin is 44.41% compared with the previous year, in fact in September 2006 it was reported as € 9,186K; that was obtained thanks to the increase in lending activity and investment in financial products and services.

There are already plans to increase lending activity by the end of the year, which is why the Bank recently extended the range of residential mortgage loans (variable rate, fixed rate) and will make available a new range of EasyBusiness and EasyCorporate current accounts for Small Businesses and companies. A web platform (called BancaSai.NET) for displaying integrated customer positions and for Personal Financial Planning will be made available gradually to the Bank's and the Group's Agencies' network of financial advisers.

At the end of the third quarter, SAI Mercati Mobiliari Sim S.p.A. brought to a successful conclusion most of the company plans approved at the time to improve profitability, organisational efficiency and the extension of the range of products.

The third quarter in fact is sending out encouraging signals. On the one hand, from analysing the costs, to date there continues to be a structural containment (€ 5,38K as at 30/9/2006 compared with € 5,783K as at 30/9/2005) although with important investments, in technological terms and of human resources. On the other hand, income from the core business, in the quarter just ended, is showing an encouraging trend also thanks to qualified staff being brought into the production sector and to the diversification of the business and the re-distribution of profitability in the segments from the its own account to the third parties' account.

From the organisational point of view, during the quarter, the company produced up-to-date procedures to be adopted after the integration of innovative desk operatives. Sim is also finalising the wording of the new negotiation policies for qualified operators and for retail customers.

Finally, we would state that the work on the restyling of the organisational procedures in the light of the new operational and regulatory up-dates is nearly complete.

Purchase of 100% of the capital of FINITALIA S.p.A. by BancaSAI

With the authorisation of the Banca d'Italia, on 24/07/2006 the subsidiary BancaSAI purchased 100% of the capital of FINITALIA S.p.A., already owned by SAIFIN-Saifinanziaria S.p.A., a wholly-owned subsidiary of Fondiaria-SAI, for the price of approximately € 52.5m, determined on the basis of an expert report of an independent expert appointed for that purpose.

Banca d'Italia also issued its authorisation for the increase of the share capital of BancaSAI by € 60m, which was implemented on 20/06/2006 and BancaSAI became the parent company of the banking Group, of which FINITALIA is a part.

Although neutral from the point of view of representation in the accounts, as it does not change the structure of the Group, the transaction represents an interesting management initiative aimed at achieving greater co-ordination of the Group's non-insurance business.

OTHER INFORMATION

Sales organisation and staff

It is reported that, as at 30/09/2006, the Fondiaria-SAI Group has 6,103 employees (5,852 as at 31/12/2005), of which 2,690 are employees of the parent company (2,673 as at 31/12/2005) and 3,413 employees of subsidiaries (3,179 as at 31/12/2005). As already recorded in the half year, the increase in the number of employees is due to the acquisition in the half year of Dianos S.p.A., Liguria Società di Assicurazioni S.p.A. and Liguria Vita S.p.A., which have a total number of approximately 200 employees.

With reference to the third quarter 2006, the territorial distribution of the Fondiaria-SAI Agencies is as follows:

	SAI Authority	Fondiaria Authority	Total as at 30/09/2006	Total as at 31/12/2005
North	423	247	670	693
Centre	191	155	346	361
South	189	143	332	329
TOTAL	803	545	1,348	1,383

As at 30/09/2006, the Group's income was produced mainly by 3,515 agencies (3,555 as at 31/12/2005), which operate through 2,807 points of sale (2,858 as at 31/12/2005) representing the traditional sales channel.

Steps taken in the cultural and social arena to maintain the Company's image

External communications

During the third quarter, with reference to the main initiatives developed by the business centres and the Group companies, the marketing activities were supported by communication projects on the positioning and launch of products:

- "La Mia Assicurazione Basic", directed at the parent company and its networks;
- "La Mia Assicurazione Multirischi", developed in particular for the company Milano Assicurazioni and its Divisions.

Both products were designed for the customers of the Motor TPL classes who have a low propensity for taking out insurance and aim to start a process of greater commercial penetration in line with the 2006-2008 Industrial Plan.

Within the scope of brand identity, work continued on extending the consolidated visual identity criteria to the Group companies (and in particular to the company Siat) in order to strengthen further the perception of how the Fondiaria Sai Group fits into its different areas of business.

With reference to corporate activity, we would highlight the communication initiatives developed for the publication of the Group's positioning-statement: "Libera la Vita" ("Free to be Free"). The Group's new concept places the person and their plans at the centre, making clear the Group's positioning and spending promises on insurance and financial matters, sustained by a mixed range characterised on the market by product customisation according to the customer's requirements, the quality of the service offered, capable of guaranteeing the right level of protection, security and of peace of mind for policyholders.

The work of the Press Office has guaranteed a constant flow of information about the Group companies, at institutional level and with regard to the products offered and, in particular, supported the publication of the results achieved in the first half of the year.

Finally, work continued on supporting the Agencies, as stipulated in ISVAP circular 533/D, in most cases providing the communication tools produced ad hoc on the basis of the specific requirements of territorial marketing.

Internal Communications

In order to consolidate the integration of the different company cultures present within the Group, in the period in question, numerous internal communication activities continued to be planned and looked at which, through the production of paper and on-line tools and internal events, concerned and will concern the Group in the months ahead.

We would like to highlight some of the most significant activities:

- sharing information through the newsletter "NEWS" and the in-house journal "TEAM" (planning a "special" edition), for all the Group's employees and all the distribution networks;
- the production of ad hoc Communication Plans (in particular for Milano Assicurazioni with which it is also co-operating on the design of a new letterhead) and the production of communication plans for the different Group companies;
- increasing the loyalty of the best customers (Policyholders Club) by producing the quarterly magazine "LINEA DIRETTA CLUB";
- the distribution of the 2006/2007 Corporate Gifts Catalogue, for all the employees and all the distribution networks, for management of the Group's promotional gifts;
- continuing to integrate the Intranet;
- management of the main signage (with particular reference with the new Fondiaria-SAI headquarters in Rome) and the agency signage for the whole Group (in particular for Liguria Assicurazioni, signage is being designed in line with the new logo);
- planning events for employees and the agency networks.

Customer relations

With reference to ISVAP circular no. 518/D/03 in force with effect from 01/04/2006, on claims management, a substantial containment of claims was reported (0.2 %) compared with the first nine months of 2005.

That reduction reaffirms the special attention the Company is paying to users, where possible, anticipating requests.

With regard to penalty measures, ISVAP reported 31 in total, including 19 under the new provisions derived from the application of the Codice di Assicurazioni Private (Private Insurance Code) on the basis of which the Supervisory Authority will arrange to send the final report only subsequently. Considering that only the minimum and maximum amounts which could be charged are shown in the notification documents, at the moment it is not possible to specify the exact amount of the penalties.

Concerning activities to increase customer loyalty, the new version of the Policyholders Club valid for the 2006-2007 two year period is operational. The specific nature of the Club is based on the "Last Minute" offers which are accessible through the company website and through an insert in the "Linea Diretta Club" magazine. The best customers notified by the agencies of the Sai Division and employees of Fondiaria-SAI who have been invited to join in the initiative, those belonging to the Sai Seniores Group and customers of Fondiaria-Sai involved in the Private Insurance initiative are invited to join the Club.

The flexibility of the initiative allows new members to join at the request of the Agencies as notified by other offices of the headquarters and of making proposals on co-operation to other companies in the Group to offer their best customers the possibility of joining the Club.

Social, cultural and sports interventions

In order to consolidate the Group's institutional role and visibility nationally, during the third quarter, support for and co-operation with cultural and social institutions continued.

These are some of the most important initiatives developed in Turin and Piedmont:

- the Fondazione Teatro Regio of Turin, of which Fondiaria-SAI is a founder member;
- the National Museum of the Cinema, of which Fondiaria-SAI is a board member;
- the consultation on the improvement of the Artistic and Cultural Assets of Turin;
- the International Book Fair: it should be remembered that Turin was chosen to be the World Book Capital in 2006/2007 at the same time as the city of Rome;
- the Turin Industrial Union's Conference Centre

Of the events occurring at the end of the quarter in question, we would recall the very successful inaugural opening of the Teatro Regio in Turin held on 10 October with the performance of Giacomo Puccini's opera "Turandot", directed by Luca Ronconi, which received media coverage. This is continuing evidence of the Group's

willingness to promote a very high level artistic and cultural scenario and further confirmation that it is always prepared to create a solid link with the city of Turin.

In the third quarter of 2006, the social and humanitarian initiatives which reflect the Group's attention to the values of solidarity and the principles of Corporate Social Responsibility included a significant intervention in favour of the Opera Cardinal Ferrari of Milano, a day centre to assist the poor and marginalised, to which Fondiaria-SAI donated funds for the restoration of the roof of the main room of the Istituto, where approximately 500 people are accommodated each day.

Again in the social arena, we would highlight the sponsorship, together with Amsa S.p.A. and Corriere della Sera, of the "I LAV MILAN" initiative, promoted by the Commune of Milan for the purposes of making citizens aware of the problems with urban decoration, involving them together with schoolchildren, in cleaning the city and, in particular, the graffiti which deface the walls of buildings. On 30 September, graffiti was removed from 288 properties, a total area of approximately 32,500 m².

In the social and cultural arena, support was renewed for the XXVIIth Meeting in Rimini, with the central theme of the relationship between reason and infinity. Once again, large numbers were confirmed at the meeting: more than 700,000 attending, 120 meetings, 18 shows, 12 exhibitions, approximately 400 speakers, including the Managing Director of Fondiaria-SAI, 800 press accreditations, with considerable feedback in terms of image.

Within the scope of sports sponsorship, the women's athletics team, Fondiaria-SAI Atletica di Roma, wearing the Fondiaria-SAI logo on their shirts, once again achieved important results, winning the "tricolore" championship for the fifth consecutive year and a silver medal in the European Championships and gaining much attention from the media in the sector.

Foreseeable development of these activities in the current year

We would like to highlight the main commitments planned in the months ahead:

- the consolidation of the Group's visual identity system, by gradually extending its codes to all the Group's on-line and off-line institutional and product communication;
- new initiatives on Internal Communications for Group companies;
- social events for the end of the year;
- proposals for operating solutions to reduce the number of claims;
- identification of actions aimed at containing the number of disputes;
- greater involvement of the Group's Private Insurance customers in the "Policyholders' Club" initiative.

Social Report 2005

The “Social Report 2005” was presented in Turin in September. For the second consecutive year, this was produced by the Fondiaria SAI Group in collaboration with a team of students of the Economics Faculty of the University of Turin. The objective of the contribution by some of the trainees of the Piedmont University is to bridge the gap which sometimes exists between the university world and the world of business, making the most of the synergies and encouraging the integration of students into the Group’s internal structures. The University’s involvement was facilitated by the dual role of top managers and teaching staff of Prof. Fausto Marchionni, Managing Director and Chief Executive Officer of the parent company.

Fondiaria-SAI, always sensitive to the requirements of the territory in which it operates, therefore stresses its role as a “responsible” company which, as it is to make a profit, backs actions aimed at creating social value for all stakeholders of the Group’s operations: often with conflicting interests, but which find its own balance in satisfying customers. It should be stressed, in that light, the presence within the document of an indicator of the “adjusted social added value”, defined to measure the social value created by the Group in favour of customers.

This is tangible evidence of the Group’s desire to be as “transparent” as possible and to contribute towards spreading the culture of corporate social responsibility in the new generations, the leaders of tomorrow.

Rating

It is reported that, during the month of September, the rating agency Standard & Poor’s improved the outlook for the Fondiaria-SAI Group and the subsidiary Milano Assicurazioni, from “stable” to “positive”. The rating “BBB” for financial and insurance solidity was re-confirmed for both companies.

The revised view reflects a more prudential investment strategy and improved capitalisation, and the strong competitive position on the market and the Group’s operating performance.

Stock option plans

On 14/07/2006, the Board of Directors of Fondiaria-SAI resolved to award options under the Fondiaria-SAI 2006-2011 Stock Option Plans to the executive directors and the management of Fondiaria-SAI, its subsidiaries and the holding company to purchase Fondiaria-SAI savings shares.

The Board’s award took place to implement the resolution of the extraordinary general meeting of Fondiaria-SAI on 28/04/2006.

A total of 8,700,000 options were awarded to the executive directors according to the quantities decided by the stated meeting.

For the management, the stock option plan related to 75% of the managers employed by the Group. The number of options to be awarded to individual

beneficiaries takes account of their level of responsibility and the impact of their role on the business. The total number of options to be awarded is 6,300,000 shares decided by the meeting.

For both Plans, the share subscription price was decided by the Board, applying the criterion for determining the subscription price decided by the meeting, at € 21.546 per share, the arithmetic mean of the reference prices of the Fondiaria-SAI savings share recorded on the market in the thirty days preceding the date of award of the rights.

In accordance with the resolution of the meeting, the Board acquired the report produced by the auditors Deloitte & Touche S.p.A. pursuant to art. 2441, fourth paragraph, second period of the Civil Code, which confirmed the adequacy of the criterion used.

The options may not be exercised before a vesting period has run, from the date of the award, in accordance with the following:

- 40% of the options may not be exercised before 24 months from the date of the award;
- 30% of the options may not be exercised before 36 months from the date of the award;
- 30% of the options may not be exercised before 48 months from the date of the award.

At the end of the vesting period, the beneficiaries may alternatively:

- Keep the options up to their maturity;
- Exercise the options, by subscribing the shares and keeping them in the portfolio;
- Exercise the options, by subscribing the shares and selling them on the market.

In any case, any options not exercised within 5 years from the date of the meeting shall automatically lapse.

The option to exercise the option right is suspended in the period between the 10 days preceding the date of the Board of Directors which approved the accounts and the date of detachment of the dividend.

The Regulations also stipulate limits on the exercise of the options, specifically:

- Following the exercise of the options and the subscription of the shares, a total number greater than 10% or 15% of the daily average volumes reported in the thirty days prior to that chosen for the sale may not be sold daily on the market (in the cases respectively of the plan for the management and the plan for the executive directors).
- Shares from the exercise of the options may not be traded in the month in which the Board of Directors is convened to approve the accounts and the half year report.

If the implementation of the Plan contains significant welfare, tax or other charges for the Company due to changes made to the current social security and tax regulations and any other regulation applicable or their interpretation and application, the latter

shall have the option to amend the Plan or to withdraw from the Plan without the beneficiaries having any entitlement to compensation or indemnification.

The Board of Directors finally resolved to make the exercise of the options conditional on the achievement of the main objectives of the Group's 2006-2008 Industrial Plan, already publicised on the market.

Consequently, pursuant to IFRS 2 "Payments based on shares", the implicit costs linked to the stated stock option plan were decisive. Appropriate valuation models were used to determine the fair value of the options, consequently increasing the employment cost in the period by € 2.9m, offset against the equity reserve.

Since the plan also involves some executive directors and management of the subsidiaries Milano Assicurazioni and Immobiliare Lombarda, the economic effects of the stock option plan are also recorded in the accounts of those companies for the share relating to them. On the other hand, the consolidated accounts of Fondiaria-SAI do not include the cost of the options awarded to the executive directors and management of the holding company. The total cost of the plan for the Fondiaria-SAI Group can be estimated at a total of € 36m.

The Fondiaria-SAI Group's Industrial Plan for the three year period 2006-2008

The new 2006-2008 Industrial Plan of the Fondiaria-SAI Group S.p.A. was presented to the financial community in April 2006.

The objective of the new plan is to increase value for shareholders, to be achieved through the levers of increasing diversification of the business to reduce the risk, the creation of new options for development, increasing profitability, acting on the platform through which the Group currently operates, and on the new growth scenarios which are being produced, including optimisation of the management of excess capital.

With regard to the current platform, the targets are as follows:

- to achieve a positive growth rate close to 15% in the retail non-motor market, through an intense programme of sales campaigns, the integration of new sales staff and the launch of differentiated development programmes which will involve more than 5,000 agents;
- to maintain leadership in the motor sector, preserving the current level of profitability with the extension of the new product "Nuova Prima Global" to the whole Group
- to maintain a substantially unchanged combined ratio level but with a more balanced portfolio mix and with satisfactory long-term results;
- to achieve growth in the life business by developing the new production of annual premiums, increasing the involvement of the agency networks through new management methods and by increasing bancassurance;
- to develop the Managed Savings sector through the acquisition of networks of financial advisers and the re-launch of Banca Sai with campaigns aimed at the current financial advisers.

The Group's new target growth options are:

- to bring in 170,000 policies through the direct channel by developing the subsidiary Dialogo Assicurazioni, through targeted investments, to acquire new customers who will be targeted for cross-selling of non-motor products, through the traditional networks;
- to develop the bancassurance channel in the non-life business through 2,700 branches, through commercial agreements and joint ventures with bank partners, using the Group's know-how with a dedicated structure and operating on products with a low level of claims;
- to extend its presence abroad in markets in the Mediterranean and Eastern Europe, by incorporating holding companies dedicated together with partners with in-depth knowledge of the countries where they will operate.

The optimisation of capital management will allow the growth lever to be developed for all shareholders, compatible with the minimum capitalisation levels required by the Supervisory Authority. This will enable the Group to achieve the following targets during the three year period of the plan:

- to offer attractive dividend programmes (with a pay out increasing up to 60% for the parent company);
- to continue to strengthen the equity, with the prospect of improving the rating.

Current disputes

Writs by shareholders

In relation to the proceedings brought against the parent company by shareholders of the incorporated entity La Fondiaria Assicurazioni S.p.A. for the fulfilment of the stated obligations to make an offer to purchase, derived from the well-known Consob instruction of December 2002, it is stated that eight proceedings are pending at the first instance, three of which led to statements of claim being filed and are at the decision stage whereas the investigation stage still has to be completed for the others.

The proceedings brought by Fondiaria-SAI to amend judgments no. 6688 of 26/5/2005 and no. 5259 of 8/5/2006 issued by the Milan Court in the cases brought respectively by Promofinan S.p.A. and Messrs Marcegaglia are still pending before the Milan Appeal Court, whereas the appeal against judgment no. 10987/2006 pronounced again by the Milan Court in the case brought by the trust company Promofinan s.r.l. and other shareholders is still being prepared.

In order to avoid any enforcement actions and the consequent increase in expenditure, the Company fully implemented the above-mentioned two judgments, without prejudice to any right of recovery against the plaintiffs and of recovery against the debtor jointly and severally liable.

The provision for risks and charges was also made to meet the charges consequent on the current litigation.

SIGNIFICANT EVENTS OCCURRING AFTER THE CLOSE OF THE QUARTER

Convening the Meeting

On 16/10/2006, the Board of Directors of Fondiaria-SAI, resolved to convene the extraordinary shareholders' meeting on 01/12/2006, on a first call and, if necessary, on 04/12/2006, on a second call, to decide on the proposal to reduce the share capital from € 177,680,822.00 to € 168,190,610.00 by cancelling all the 9,490,212 own ordinary shares held by the Company.

The transaction is part of the measures planned in the Fondiaria-SAI Group's 2006-2008 Industrial Plan presented to the financial community last April, which – as it will be recalled – stipulated, amongst the methods to reduce the so-called excess capital, a new plan to buy back own shares for a total amount of approximately € 400m to be realised in two stages by 2008.

The first stage, to be realised in the current year, stipulated in turn:

- the completion of the current programme to buy back own shares until the legal threshold of 10% of the total share capital is reached (compared with 8.5% at that time);
- the cancellation of own shares in the portfolio.

The second stage, to be carried out in 2007 and 2008, stipulates a new programme to buy back own shares up to a total 6-7% of the share capital.

The proposal to reduce the share capital by cancelling all the own shares in the portfolio aims to complete the first stage of the process described, after which – also taking account of the Fondiaria-SAI shares held by the subsidiaries – the programme to buy back own shares, to date authorised by the meeting, was nearly completed.

The transaction in question is thus a preparation for the completion of the second stage of the process, for which the Board will apply for the appropriate authorisation of the meeting pursuant to the law in April 2007.

Capitalia Shareholders' Agreement

Following the preferential offer to members of the Capitalia Agreement for a total of 49,689,476 Capitalia shares (equal to 1.92% of the share capital) put on sale by Pirelli & C. S.p.A., Fondiaria-SAI and Milano Assicurazioni purchased 5,335,132 Capitalia shares due, pro-quota, to the two companies and a further 4,706,783 shares due to the companies including those shares which have not been released by other members of the Agreement.

Fondiaria-SAI and Milano Assicurazioni therefore purchased a total of 10,041,915 Capitalia shares, contributed to the Agreement, at the gross price of € 6.6993 per

share and, for a total of approximately € 67.3m, including approximately € 50.3m Fondiaria-SAI and approximately € 17m Milano Assicurazioni.

The total shareholding held by Fondiaria-SAI and Milano due to the effect of that purchase is 3.51% of the share capital of Capitalia and 11,32% of the shares in the syndicate.

Alliance and co-operation with Banca Popolare of Milano in the Bancassurance sector

On 18/10/2006, Milano Assicurazioni exercised the first tranche of its call option, purchasing 4% of the capital of Bipiemme Vita, increasing its total holding to 50%. The purchase price, in accordance with the contractual stipulations, was set at € 7.9m.

Following the exercise of that option, there was joint governance of Bipiemme Vita. That further acquisition will allow the Fondiaria-SAI Group to consolidate proportionally the assets and economic components of the participating interests.

BUSINESS OUTLOOK

During the second half of the current financial year, the activities of the Company and of the Group were directed at implementing the management initiatives to achieve the objectives of the strategic plan for the 2006-2008 three year period presented to the financial community last April.

The Group's objective will be to maintain its leadership in the motor classes in Italy, to consolidate its position of excellence in the non-motor classes, with high levels of profitability and an attractive risk-return profile for shareholders.

In particular, activities will be aimed at increasing growth in the non-motor retail classes through interventions aimed at providing incentives and training the agency networks, consolidating income from the motor classes which will definitely contribute towards extending the new Auto 1a Global product to the whole Group, developing alternative sales channels, such as direct sales or by developing bancassurance in the non-life business.

In the life business, the objective will be to increase income in order to rebalance the portfolio mix: to that end, sales initiatives are already in progress involving the traditional networks aimed at significantly increasing new production of annual premiums and recovering capital accruing. This is all in order to achieve a further increase in the value of the portfolio in the long term.

The action aimed at strengthening the bank owned and managed savings will also continue.

With reference to assets and financial management, the management structuring will continue to be based on the criteria of prudence, with the objective of limiting the rate risks, of fair value, also seizing the opportunities the financial market may offer at the time from short-term developments.

In that context, measures have already been taken to improve the asset allocation with the target of strengthening capitalisation, to which the sale of the shareholding in Swiss Life Holding and the hedging operations on part of the share portfolio have contributed.

In the property sector, the development guidelines were based on investment methods classified according to the level of risk. With reference to the Group's insurance companies, investment will be concentrated on properties already developed and with high returns; through the subsidiary Immobiliare Lombarda and the Tikal R.E. Fund the initiatives to develop joint ventures will continue as will the positioning on properties to be renovated to provide good returns in the medium term.

The ultimate aim, therefore, will be to guarantee attractive capital management policies for shareholders with growth initiatives aimed at creating value: higher returns on the capital invested and also by increasing the pay-out, action to strengthen the equity will continue with a view to improving the rating and reducing the cost of debts.

With reference to the current year, it is considered that the objectives set out in the Company's and the Group's new industrial plan will definitely be achieved, although in a technical context which, in the current year, is showing slightly opposing trends compared with what was reported in the previous three year period. Currently, therefore, and subject to any extraordinary and unforeseeable events which may have a negative influence on the prices of stocks and shares, the result for the current year is forecast to be very satisfactory and in line with the targets in the plan.

Milan, 08/11/2006

*On behalf of
The Board of Directors
The Chairman*

JONELLA LIGRESTI