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**COMPAGNIA  
ASSICURATRICE  
UNIPOL**  
Stock Company

Head offices  
Via Stalingrado 45 - 40128 Bologna  
Share Capital ITL 257,794,433,000 fully paid  
Company's Register no. 14602/BO - R.E.A. no. 160304  
Authorized to provide insurance services by  
M.D. 28.12.62 (O.J. 18.1.63 no. 15)  
and M.D. 29.4.81 (O.J. 19.5.81 no. 135)

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**1998 CONSOLIDATED  
ANNUAL ACCOUNTS**

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According to Article 14 of the Company bylaws, the **Chairman** is the legal representative of the Company. The **Vice-Chairman** becomes the Company's legal representative only in the event of absence or impediment of the Chairman.

The **Board of Directors**, according to Article 13 of the Company bylaws, has conferred on each of the Managing Directors powers for the management of the Company's business - in particular for the implementation of the decisions taken by the Board of Directors and the Shareholders' Meeting, as well as for the co-ordination of activities aimed at the achievement of the Company's goals.

**HONORARY CHAIRMAN:** MAZZOLI Enea

**BOARD OF DIRECTORS (\*)**

**CHAIRMAN AND MANAGING DIRECTOR:** CONSORTE Giovanni  
**VICE CHAIRMAN AND MANAGING DIRECTOR:** SACCHETTI Ivano

**BOARD MEMBERS:**

BELOT Roger  
BOCETTI Francesco  
CASINI Claudio  
COLLINA Piero  
FOREST Jacques  
FRANCIOSI Giulia  
GALANTI Vanes  
GHEZZI Carlo  
GILLONE Fabrizio  
GIULIANI Franco  
LEVORATO Claudio  
LORENZANI Ermanno  
MIGLIAVACCA Enrico  
ORTOLANI Fabio  
PETRONI Mario  
ROSSI Piero  
SIBANI Leone  
SIMONNET Jean  
SOLDI Aldo  
SOLINAS Giuseppe  
TRERE' Graziano  
VENTURI Marco Giuseppe  
ZUCHELLI Mario

**BOARD OF STATUTORY AUDITORS**

**CHAIRMAN:** MELLONI Umberto

**MEMBERS:**

BASSINI Diego  
CONTI Mauro  
COSTA Severino  
ROFFINELLA Lorenzo

**SUBSTITUTES:**

RAGGI Giorgio

**GENERAL MANAGEMENT**

***JOINT GENERAL MANAGERS:***

BETTAZZONI Maria  
CACCIARI Valter  
MIGLIORINI Franco

***CENTRAL MANAGERS:***

BERTI Giancarlo  
BRUNELLO Giancarlo  
CUPPINI Lucio  
DE MARCO Carmelo  
LAURORA Riccardo  
ROSSI Gian Franco

(At the date of the General Shareholders' Meeting)

(\*) As regards responsibilities and nature of the powers attributed to each member of the Board, please refer to the notes on page 4

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BRUNELLO Giancarlo

CUPPINI Lucio

DE MARCO Carmelo

LAURORA Riccardo

**(After the General Shareholders' Meeting)**

## GROUP HIGHLIGHTS

	(in ITL billion)		(in EURO million)	
	1998	1997	1998	1997
<b>Premiums</b>	<b>3,061.9</b>	<b>2,436.9</b>	<b>1,581.3</b>	<b>1,258.6</b>
<i>% increase</i>	<i>25.6</i>		<i>25.6</i>	
<b>Technical provisions</b>	<b>7,884.9</b>	<b>6,422.6</b>	<b>4,072.2</b>	<b>3,317.0</b>
<i>% increase</i>	<i>22.8</i>		<i>22.8</i>	
<b>Technical provisions-to-premiums ratio</b>	<b>257.5</b>	<b>263.6</b>	<b>257.5</b>	<b>263.6</b>
<b>Investments, cash and cash equivalents</b>	<b>8,258.8</b>	<b>6,774.5</b>	<b>4,265.3</b>	<b>3,498.7</b>
<i>% increase</i>	<i>21.9</i>		<i>21.9</i>	
<b>Net investment income and capital gains</b>	<b>530.8</b>	<b>482.6</b>	<b>274.1</b>	<b>249.2</b>
<i>% increase</i>	<i>10.0</i>		<i>10.0</i>	
<b>Payments (claims, amounts due out of maturity, redemption and annuity)</b>	<b>1,741.9</b>	<b>1,535.4</b>	<b>899.6</b>	<b>793.0</b>
<i>% increase</i>	<i>13.5</i>		<i>13.5</i>	
<b>Operating expenses</b>	<b>508.3</b>	<b>488.4</b>	<b>262.5</b>	<b>252.2</b>
<i>% increase</i>	<i>4.1</i>		<i>4.1</i>	
<b>Group's equity</b>	<b>1,148.5</b>	<b>1,118.3</b>	<b>593.2</b>	<b>577.6</b>
<i>% increase</i>	<i>2.7</i>		<i>2.7</i>	
<b>Profit before taxation</b>	<b>118.6</b>	<b>104.2</b>	<b>61.3</b>	<b>53.8</b>
<i>% increase</i>	<i>13.9</i>		<i>13.9</i>	
<b>Group's net profit</b>	<b>62.2</b>	<b>48.2</b>	<b>32.1</b>	<b>24.9</b>
<i>% increase</i>	<i>29.2</i>		<i>29.2</i>	
<b>Net profit-to-premiums ratio</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>
<b>Staff number at 31 December</b>	<b>1,574</b>	<b>1,520</b>		

# **BOARD REPORT**

As described in the attached table and diagrams, the consolidated accounts for the Unipol Assicurazioni Group adopt the line-by-line method to aggregate the asset and liability accounts and profit and loss accounts of five insurance companies, six property companies and one service company. Twenty companies have been valued using the equity method. The accounts have been drafted in accordance with the provisions and formats described in Legislative Decree 173 of 26/5/1997, in force in 1998.

During 1998 the Group has made significant progress in terms of developing its activity. The insurance activities in particular, a key sector for the Parent undertaking and for four subsidiary insurance companies which operate as specialists and with diversified networks, has experienced sustained growth in turnover, especially in Life

business.

Following the Parent undertaking's disposal of shares in subsidiary companies to the Banca Agricola Mantovana Group and the Caer Group, the operation intended to strengthen the Group's distribution network in the bancassurance sector is complete.

Also, during the month of September 1998, Unipol acquired control of the company Unipol Banca spa. These operations are part of the strategy which the Group has followed for some time, to strengthen and broaden insurance activity as well as develop the area of managed savings.

For the proportion appertaining to the Group, the consolidated balance sheet for 1998 shows a profit of ITL62.2bn against ITL48.2bn in 1997, a result which shows the success of these activities and the good progress made.

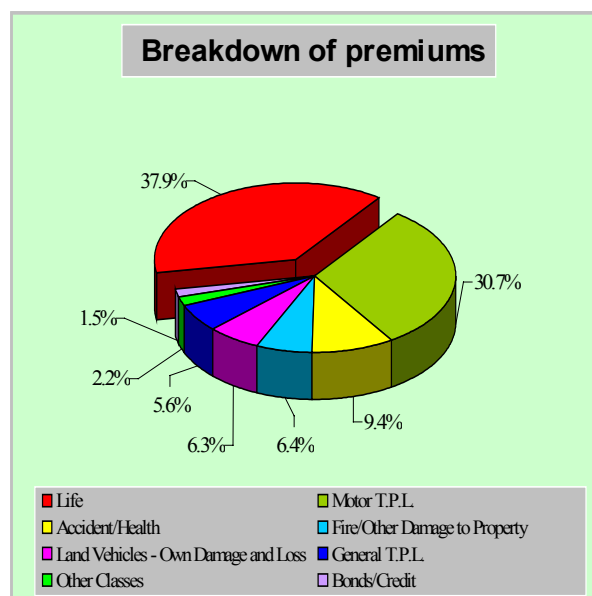
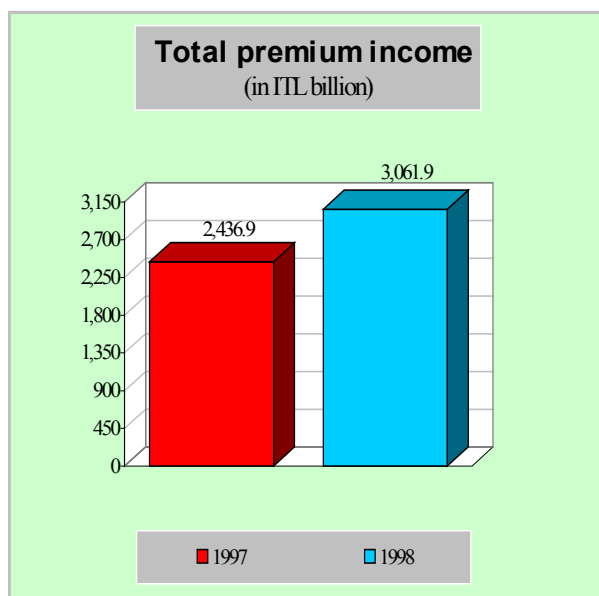
## KEY DATA FROM THE CONSOLIDATED ACCOUNTS

The most significant items in the consolidated accounts are as follows (in ITLbn):

	1998	1997	% var. 98/97
Gross premiums	3,061.9	2,436.9	+25.6
Net premiums	2,867.4	2,242.0	+27.9
Investment income (net of related expenses)	414.1	432.2	-4.2
Net capital gains	116.7	50.4	+131.4
Gross technical provisions	7,884.9	6,422.6	+22.8
Net technical provisions	7,427.9	5,970.2	+24.4
Claims paid	1,741.9	1,535.4	+13.5
Operating expenses	508.3	488.4	+4.1
Depr'n of consolidation diff's (goodwill)	2.8	1.7	+65.1
Investments and liquid assets	8,258.8	6,774.5	+21.9
Group's equity	1,148.5	1,118.3	+2.7
<b>Results:</b>			
Balance on the technical account	-80.7	-62.9	
Pre-tax profit	118.6	104.2	+13.9
Profit for the financial year	62.2	48.2	+29.2

With regard to the balance on the technical account, the new figure for which also includes operating expenses, note that Legislative Decree 173/97 did not provide for allocation of a share of the investment returns to the technical account for non-life business.

Overall, the technical balance is a negative amount of ITL80.7bn (+ITL35.2bn for Life business, -ITL115.9bn for non-life business) compared to a negative amount of ITL62.9bn in 1997, due to a deterioration in the loss ratio in the third party liability branches (Motor T.P.L. and General T.P.L.) together with substantial prudential transfers to provisions for outstanding claims.



## INSURANCE ACTIVITIES

Gross premiums amount to ITL3,061.9bn and are broken down as follows (in ITLbn):

	1998	Comp. %	% var'n to 1997
Direct business:			
-Non-life business	1,855.6	62.1	+10.6
-Life business	1,133.0	37.9	+65.5
	<b>2,988.6</b>	<b>100.0</b>	<b>+26.5</b>
Indirect business:			
-Non-life business	64.3	87.7	-3.7
-Life business	9.0	12.3	+7.3
	<b>73.3</b>	<b>100.0</b>	<b>-2.5</b>
<b>Overall total</b>	<b>3,061.9</b>		<b>+25.6</b>

In 1998 too, the growth rate was decidedly stronger in Life business (+64.8%), thanks to the steady flow of income arriving via bank counters, compared to Non-life business as a whole (+10.1%). This was positively reflected in the breakdown of premium income.

The foreign portfolio is extremely limited (ITL52.6bn), deriving from inward reinsurance.

The net retention of premiums written has risen to 93.6% (92% in 1997).

During the financial year, the average loss rate for all Non-life business, inclusive of settlement expenses and net of outward reinsurance, has been 85.2% (82.4% in 1997).

The amount of technical provisions, including the reinsurers' share, reached ITL2,760.2bn for Non-life business, ITL5,124.7bn for Life business and ITL7,884.9bn (+22.8%) in total.

The ratio of technical provisions to premiums has been calculated at 257.5%.

Operating expenses, which include acquisition and renewal commissions and the other expenses relating to acquisition and administration, amount to ITL508.3bn (+4.1%) in total. Their incidence on premiums has fallen to 16.6% (20% in 1997).

### Products and commercial activity

During 1998, new products offered related mainly to the Life sector, in which the Parent undertaking and the other two companies specialising in bancassurance have launched new index-linked policies with a high savings content. These supplement the traditional guaranteed minimum return with an income linked to a basket of share indexes relating to the principal world markets.

For the Parent undertaking product innovation has continued, with the launch in October of unit-linked type policies, with four product lines having a return linked to the value of shares in four insurance funds, one of which is purely debt-based (Uninvest Risparmio) and the other three are balanced (*Uninvest Crescita*, *Equilibrio* and *Valore*) each featuring a different structure of share-holdings.

For the Non-life sector and with regard to the Parent undertaking, the main innovations have concerned the multi-risk policy for the Professional, the Industrial Fire Risk policy and the VAT recovery policy (Bonds).

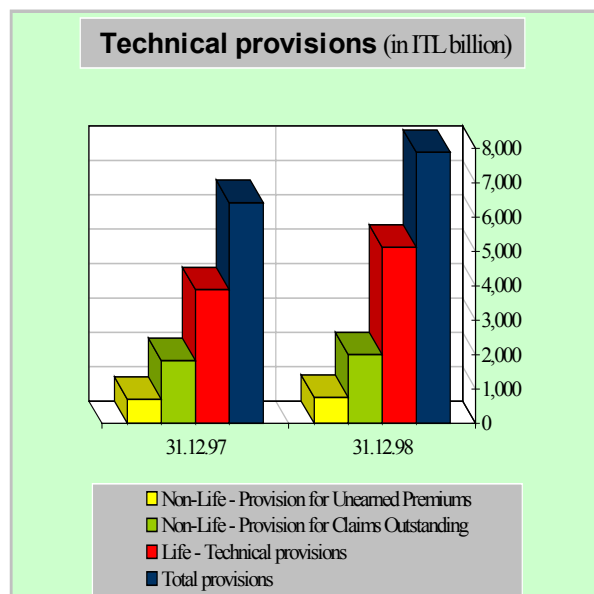
With regard to the company Unisalute, a specialist in the Health Care area, 1998 growth has confirmed the popularity of the “managed-care” product, which represents the cornerstone of the Company's growth and constitutes 94% of total production for the Health business.

In the context of an increasingly competitive market, Unisalute has new health-insurance products on the drawing-board, in the area of health and “long term care” cover; also in the experimental phase is the collaboration agreement with professionals who conduct their activity in top quality public hospitals.

Lastly, the company Linear, a specialist in tele-sales of non-life products (especially Motor third party liability), has tried new marketing methods, such as the banking channel and the tele-computing channel (via the Internet), in the aim of meeting the needs of customers in an increasingly complete and integrated fashion.

At the level of commercial structure, alongside the traditional network of Agents and sub-agents, which for the Parent undertaking totalled 764 and

1,065 units respectively at year end, there are 283 outlets of the BAM Group operating, through which Quadrifoglio places its own products, and 311 outlets of the Caer Group, which distribute Noricum Life products.



## PROPERTY AND FINANCIAL ACTIVITIES

By the end of the financial year the volume of investments and liquid assets reached ITL8,258.8bn, this being an increase, in comparable terms, of ITL1,484.4bn, equal to +21.9%.

The aforesaid increase is strictly related to the growth (+ ITL1,462.3bn) in technical provisions (mathematical provisions and other technical provisions of the Life business, provisions for unearned premiums and provisions for outstanding claims of the Non-life business).

With regard to net technical liabilities, equal to ITL7,427.9bn, an excess of investments for ITL778.7bn, net of financial liabilities, has been recorded.

With regard to the breakdown of the above-mentioned investments, fixed income securities and repo transactions represent 73.2%, buildings 12.5% and other investments 14.3%.

The investments also include those for the benefit of policy-holders, who bear the risk thereof, amounting to ITL313.1bn at the end of 1998.

These are investments which hedge life assurance contracts and capitalisation contracts with pay-outs directly linked to investment funds or share

indexes. At the end of the financial year, these investments are valued at current value, in strict correlation with the value of the related commitments (technical provisions).

During 1998, the policy on investments in securities has been geared towards maintaining the balance between the fixed rate component and the variable rate component in portfolios.

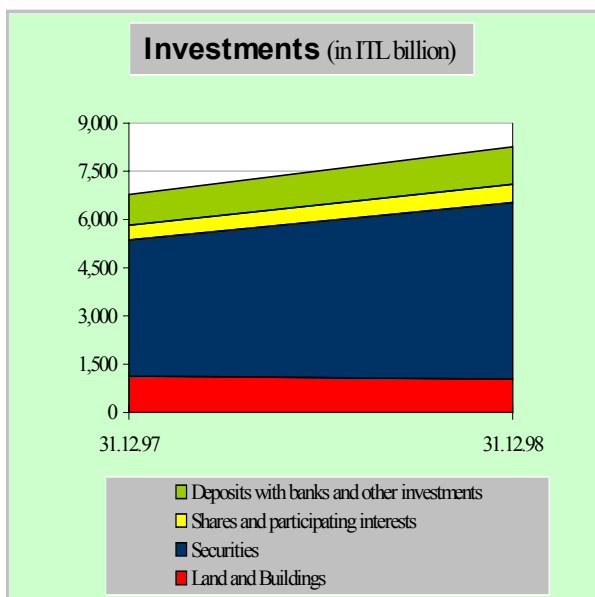
Work has also been done to increase the duration of securities, in order to thereby stabilise future returns as far as possible.

With regard to the risk deriving from the choice of issuing bodies, the Group has worked solely with securities issued by sovereign states, supranational entities (EIB, World Bank) and by banking institutions which all have a minimum rating of AA-except for “Istituti Bancari Italiani” issuers, for which a lower rating has been accepted.

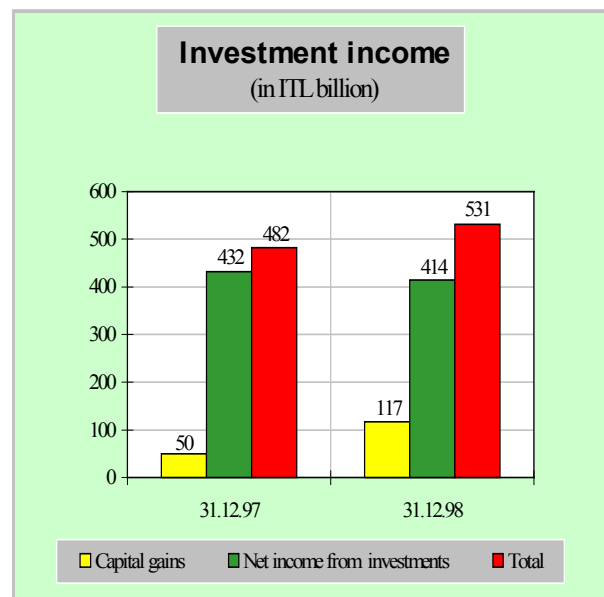
Where a securities investment is expressed in a currency other than the Lira or the Euro, the foreign exchange risk is generally hedged.

Net income from investments and liquid assets have amounted to ITL414.1bn (ITL432.2bn in 1997). The drop follows the significant fall in rates of interest, which has particularly affected the securities portfolio. The average ordinary net return on investment activities was 5.8% (6.8% in

1997). The net capital gains for the period, on both long and short term investments, reached ITL116.7bn (ITL50.4bn in 1997).



Thus, as a whole, the net return on investments and net capital gains came to ITL530.8bn (+10%) with a rate of return of 7.4%.



## SHAREHOLDERS' EQUITY

The equity pertaining to the Group stands at ITL1,148.5bn at the end of 1998, as against ITL1,118.3bn as at 31/12/1997, a positive difference of ITL30.2bn.

The portions of equity relating to third parties are ITL58.5bn (ITL29.3bn at the end of 1997).

## SHARES OF THE PARENT UNDERTAKING

As at 31 December 1998, the Parent undertaking Unipol Assicurazioni held 948,000 of its own ordinary shares, at a total nominal value of ITL948 million, equal to 0.37% of share capital.

## SUMMARY OF ACTIVITIES CARRIED ON BY THE COMPANIES (PARENT UNDERTAKING AND SUBSIDIARIES)

### Compagnia Assicuratrice Unipol spa

The business of the Parent undertaking in 1998 was particularly characterised by the following aspects:

- premium income of ITL2,582.3bn, an increase of 11.7%. Direct premiums totalled ITL2,471.3bn, including ITL1,802.6bn for Non-life business and ITL668.7bn in Life business. The rate of growth was 12.3% for all direct business (+9.2% non-life business and +21.6% Life business);

- worsening technical results of the Non-life business, which was affected by higher loss ratios in the Third Party Liability branches, with corresponding prudential allocations to the provisions for outstanding claims;
- sensible containment of operating expenses (-1.6 %, in terms of incidence on premiums);
- positive growth in investments, accompanied by a fall in returns in the financial sector;
- more limited ordinary profit, due to a worsening trend in Non-life business. Supported by extraordinary realised gains, the result for the financial year has risen by 9.4%.

The net profit for the financial year was ITL58.5bn (ITL53.5bn in 1997).

### Quadrifoglio Vita spa – Bologna

(Jointly controlled by Unipol Assicurazioni and Banca Agricola Mantovana).

In January 1998 the Company began operations in the bancassurance sector following the conclusion of agreements for marketing products via the outlets of the Bam Group (283 bank counters).

On 25 March 1998, Banca Agricola Mantovana acquired a 50% share of the Company.

In the month of May 1998 Quadrifoglio Vita increased its capital by ITL20bn (from 15 to 35 billion Lira); this operation was necessary to enable it to acquire from Arca Vita spa that part of

its business relating to the Life and capitalisation contract portfolios, distributed via the office network of the Bam Group.

The premium income achieved during the year has been significant, reaching ITL167.1bn (ITL22.5bn in 1997).

We must particularly point out new policies written equal to ITL154bn, relating to 6,652 policies, of which ITL70bn (45%) is from products of traditional type and ITL84bn (55%) from index-linked products.

The company ended the financial year with a loss of ITL397 million (compared to a net profit of ITL1,577 million in 1997, in which an extraordinary income was included).

#### **Noricum Vita spa - Bologna**

This Company, a specialist in the bancassurance sector, achieved strong growth for the second year in succession and premium income reached ITL297.2bn, an increase of 165.6% on the previous financial year.

There were 14,998 new policies written (+30.4%), with a volume of premiums equal to ITL254.2bn (+210%), of which 94.5% was collected via the banking channels.

At the beginning of 1998 the distribution network of the Banca Popolare dell'Adriatico, also part of the Caer Group, was added to that constituted by the Carisbo outlets. As well as being a commercial partner, the Caer Group is also a major shareholder in the Company.

The accounts for the financial year 1998 closed with a net profit of ITL2,953 million (ITL1,631 million in 1997).

#### **Compagnia Assicuratrice Linear spa - Bologna**

This Company, which has been operating right across the country since the month of February 1997, is involved mainly in direct tele-sales of insurance products (particularly Motor Third Party Liability).

In 1998, Linear tried new marketing methods, using the banking channel and the Internet, which may represent an interesting opportunity.

Premium income came to ITL22.2bn (ITL6.8bn in 1997), an increase of 225%.

Its growth in terms of premium income is mainly attributable to increased popularity of the Company, together with a range of products and services which have compared well with its main competitors in the market.

In 1998, its second year of operation, Linear increased its own share of the telephone insurance market, claiming 14% compared to 10.3% in 1997.

The financial year in question closed with a loss of ITL2,818 million (- ITL4,714 million in 1997).

#### **Unisalute spa – Bologna**

This company, which operates in the Health Care sector, generated total premium income of ITL32bn (ITL20.3bn in 1997), representing growth of 57.7% on the previous financial year.

The number of policy-holders rose from 40,000 at the end of 1997 to about 170,000 at the end of 1998, mainly due to the acquisition of new group policies.

In the month of October 1997 and in the aim of consolidating and supplementing its range of health and accident products, the company also extended its own operations to the assistance sector, obtaining a total of 115,000 customers by 1998 year-end.

In a largely stable insurance market such as the health care sector, characterised by somewhat dull technical margins, Unisalute has nevertheless managed to increase its own market share, achieving technical margins which are satisfactory and better than the market average. This result reflects the positive perception of both the service content inherent in the products offered and of the “managed care” model.

The 1998 balance sheet closed with a net profit of ITL780 million (ITL684 million in 1997).

#### **Unipol Banca spa – Bologna**

In the month of September and with the aim of offering Unipol customers an integrated service including the banking and managed savings fields, Unipol Assicurazioni acquired control of Banec, of which it already held a 16.74% share.

To support the Bank's investment plans, especially with regard to upgrading the computer system and in terms of opening new outlets, a capital increase of ITL60.4bn (from ITL94.9bn to ITL155.3bn) was agreed on 4/12/98 and fully paid in the month of January 1999.

The General Shareholders' Meeting on 4/12/98 also amended the company name from Banec (Banca dell'Economia Cooperativa) to Unipol Banca spa.

Note also that, with the instruction relating to banking activity conducted off premises (published in Official Gazette No 26 on 2/2/99), the Bank of Italy has established that the off-premises marketing of banking and financial products may also be carried on by insurance undertakings via their own agency structures.

This important innovation could have a significant effect on the future growth of the Bank.

The company ended the financial year 1998 with deposits of ITL471bn (+24%) and a net profit of ITL1,189 million (ITL433 million in 1997); as at 31/12/98 it had 13 outlets.

#### **Unipol Sim spa – Bologna**

This company carries on investment portfolio management activity on behalf of third parties, also acting in a trustee capacity.

During 1998, its organisation has been updated to enable it to operate not only in the Pension Funds sector and the Large customers (undertakings) segment but also with regard to retail customers via Unipol Banca's network of outlets and agents.

On 20/5/98 the payment of the increase in capital to ITL20bn was completed, as decided by the General Shareholders' Meeting on 20/11/97.

On 5/8/98 a Shareholders' Extraordinary General Meeting decided to amend the trading name of Unifid Sim spa to Unipol Sim spa.

The managed volume as at 31/12/98 amounted to ITL1,115bn (ITL425bn in 1997), representing an increase of 162.4%.

The net profit for 1998 is ITL250 million (ITL89 million in 1997).

#### **Property Companies**

As at 31 December 1998, the subsidiary property companies were responsible for land and buildings in a total amount of ITL325.1bn, net of depreciation funds (ITL321bn at the end of 1997).

During the financial year, one company was re-capitalised for an amount equal to ITL10bn.

Pursuing its rationalisation process for the sector, in January 1999 the Parent undertaking Unipol acquired the remaining 5% of shares in Edifin Immobiliare srl. There then began the merger process to incorporate into Unipol both this company and the 100% owned Unigestifimm srl.

#### **Unieuropa srl – Bologna**

The business purposes of this company are studies, market research and assistance to its partners, including holdings. In 1998 it continued its participation in the European Economic Interest Grouping "Euresa," together with Unipol's other European insurance partners: Macif and Maif (France), P&V (Belgium), Folksam (Sweden) and HUK Coburg (Germany).

The 1998 accounts closed with a loss of ITL222 million (- ITL180 million in 1997) due to repayment of the share (ITL251 million) of costs incurred by Euresa EEIG for its activities.

#### **Uniservice spa – Bologna**

This company, by leasing computer and tele-computing systems, provides to Unipol and to some of its affiliated companies a data transmission service connecting their agency network and the offices of claims settlement centres.

During the financial year, the company has extended the service it offers to other Group companies.

The 1998 accounts closed with a net profit of ITL230 million (ITL69 million in 1997).

## **INTRA-GROUP TRANSACTIONS**

As already shown in the Board of Directors' Report for the Parent undertaking, and in compliance with the Consob circular of 27 February 1998 on the subject of financial accounting information concerning transactions

with related parties, it is confirmed that between undertakings belonging to the Group there have been no atypical or unusual transactions by reference to the normal management of the company.

## **CHANGEOVER TO YEAR 2000**

The Parent undertaking's computer system, which also provides a service to the other Group companies, has been operating for some time already using dates beyond 1999, given the maturities of multi-year policies, and therefore no major impact on portfolio management activities is expected to occur due to the change of date.

Some computer procedures have been re-written in recent years, to allow for a four-digit year. Some changes remain necessary to procedures of earlier origin, not affecting insurance portfolio management but used for statistics and in the administrative management of claims, as well as printing and screens.

During 1998, the process of amending programmes began, and is continuing during these first months of 1999.

At the end of June 1999, using the increased power of the mainframe (also modified for this purpose in the 4th quarter of 1998), whole-system tests will be performed, defining an appropriate "test environment" with a year 2000 date. This will remain in place for six months to fully test all procedures.

During this same period at the start of 1999, base software is also being installed which is able to manage dates with a four-digit year (operating system, DB management, on-line operations management etc.). These installations will be completed in time to enable full testing to be carried out.

Still outstanding is the problem of historic data on magnetic media, for which it has been decided to make the modifications alongside those necessary to manage the Euro.

With regard to "local" systems, the Unipol system is fully centralised and all applications are on-line, so there is no problem of updating peripheral systems, which are used exclusively for "office" functions.

The cost of upgrading computer systems for the year 2000 is estimated at about ITL2bn, of which ITL800 million has already been incurred and fully

spent in 1998. This amount does not include the upgrading in capacity of the mainframe, as this may be considered to be merely bringing forward an upgrade which would in any case have been necessary because of the increase in the volume of the Group's activities.

With regard to the insurance portfolio, every importance has been attached to analysing the problem of risk arising from the changeover to 2000; precise operational instructions have been issued both in relation to the acquisition of new policies and for the existing portfolio.

Specifically, all policyholders have been sent an information / communication letter on the risks associated with the "millennium changeover", so that they can take measures to protect against damage, and specifying the non-insurability of its consequences.

Policies affected by this initiative constitute about 13.5% of third party liability contracts in the portfolio (excluding the families segment) and a restricted number (equal to 12% of policies in the portfolio) of policies in the EAR / machinery breakdown sector.

Reinsurers have renewed their contractual liabilities, without specific exclusions relating to year 2000 risk.

## **IMPORTANT FACTS WHICH HAVE EMERGED FOLLOWING YEAR-END CLOSE-OFF**

The trend of activity for the first months of 1999 indicates sustained growth of the United States economy, whilst there are no evident signs of improvement for Japan. In the Euro area there are definite signs of a slow-down in industrial production. Italy too is continuing a phase of limited growth in economic activity, with industrial production slowly getting back to less depressed levels than those touched at the end of '98.

The rate of inflation is remaining at around 1.4%. Rates of interest on the Euro market remain at levels of around 3% for short term and around 4% for long term, and there are no obvious signs appearing of any upward or downward trend.

Share markets on the main trading floors of the Euro area, including Milan, had an excellent start, probably due to enthusiasm for the new currency, but prices have fluctuated, bringing the average indexes back to levels not far off those at the end of 1998.

With regard to the insurance sector, there has been

another increase, effective from 1st January 1999, in the contribution to the Road Victims Fund, which, by a Ministerial Decree dated 20/1/99, was increased from 3% to 4% of Motor T.P.L. premiums written.

The sector welcomed the Bank of Italy's instruction published in the Official Gazette of 2/2/1999 in relation to off-premises banking business, which establishes the right of banks to sell their products via the insurance undertakings and their respective agents, provided that the products are of a standard type with non-modifiable clauses. This decision reinforces the increasing integration of banking and insurance activities.

The legislative process is also underway for two regulations of great interest to the insurance sector: one concerning a revised tax treatment of supplementary pension schemes, based on the government directive in the appendix to the 1999 Finance Act; the other relating to the compulsory extension of fire policies to cover risks arising

from natural disasters.

Where the Group is more directly affected is in connection with ISVAP circular No. 343/D of 30 September 1998, whereby all Life annuity tariffs and the option yield coefficients have been reviewed on new technical bases. All of this has been done in the aim of marketing the new products from 1/4/1999.

During the month of March, Unipol started operational management of a first share in the equity of Fonchim, a closed pension fund in the chemical sector. Management of a share of the Bayer Italia pension fund has also been acquired; this fund pre-dates the new regulations but its assets are managed by Unipol in the same way as Fonchim, as third party equity, separately from the equity of the Company. This brings the total

amount of third party equity currently managed by the Company to about ITL50bn.

On the basis of the Consob provisions, they have also proceeded with publication of information prospectuses for the Open Pension Funds “Unipol Futuro” and “Unipol Previdenza”, which it is planned to sell to the public from the month of April.

In terms of investments, Unipol has:

- paid ITL50.5bn of the capital increase of Unipol Banca spa, from ITL94.9bn to ITL155.3bn, as resolved on 4 December 1998;
- acquired, in the context of a reserved capital increase, 5.9% of the company Bell sa, for a total amount of ITL54.8bn;
- acquired 2.5% of the company Fingruppo spa, for a total value of ITL10bn.

## BUSINESS OUTLOOK

During the first two months of 1999, the state of insurance business is as follows:

- the Life business is experiencing growth in premium income, particularly in the bancassurance segment, whilst for Non-life business growth is not significantly different from the previous financial year;
- the loss ratio is behaving in a normal fashion, with nothing standing out in particular, and operating expenses are being managed continually and constantly;
- particular attention is being paid to action aimed at improving the technical results of the branches which are achieving negative results (Third party liability).

Property and financial activities, although suffering from the low level reached by rates of interest on the securities market, have made good progress.

Overall, the Group's activities for the early months are showing a positive trend, in line with expectations.

Bologna, 26 March 1999

**The Board of Directors**

# **CONSOLIDATED ANNUAL ACCOUNTS**

- **Balance sheet**
- **Profit and Loss Account**
- **Notes to the accounts**

Company **COMPAGNIA ASSICURATRICE UNIPOL - Società per Azioni**

**CONSOLIDATED ACCOUNTS**

**Balance Sheet**

1998 Financial Year

(Amounts in million ITL)

CONSOLIDATED BALANCE SHEET

ASSETS

as at 31 December 1998

A. SUBSCRIBED SHARE CAPITAL UNPAID			1	0
of which called-up capital	2	0		
B. INTANGIBLE ASSETS				
1. Deferred acquisition commissions	3	71,184		
2. Other acquisition costs	4	4,184		
3. Goodwill	5	20,888		
4. Other intangible assets	6	8,921		
5. Differences arising from consolidation	7	36,473	8	141,649
C. INVESTMENTS				
I - Land and buildings			9	1,031,627
II - Investments in affiliated undertakings and participating interests:				
1. Shares and participating interests in:				
a) holding companies	10	18,708		
b) subsidiaries	11	86,546		
c) associated undertakings	12	1,694		
d) affiliated undertakings	13	73,742		
e) other undertakings	14	307,335	15	488,025
2. Debt securities	16	960		
3. Corporate financing	17	22,639	18	511,624
III - Other financial investments				
1. Shares and participating interests	19	71,083		
2. Unit trust holdings	20	6,470		
3. Bonds and other fixed-income securities	21	5,491,270		
4. Loans	22	77,749		
5. Participation in investment pools	23	0		
6. Deposits with credit institutions	24	2,480		
7. Sundry financial investments	25	550,208	26	6,199,259
IV - Deposits with ceding undertakings			27	31,419
28				7,773,929
D. INVESTMENTS FOR THE BENEFIT OF LIFE-ASSURANCE POLICYHOLDERS WHO BEAR THE RISK THEREOF AND INVESTMENTS ARISING FROM PENSION FUND MANAGEMENT			29	313,150
to carry forward				8,228,728

as at 31 December 1997

			101	0		
	102	0				
	103	72,075				
	104	6,159				
	105	724				
	106	13,312				
	107	12,210	108	104,480		
			109	1,131,786		
110	18,708					
111	16,946					
112	1,222					
113	91,982					
114	318,092	115	446,950			
		116	14,672			
		117	8,170	118	469,792	
		119	13,860			
		120	1,207			
		121	4,214,233			
		122	76,088			
		123	0			
		124	0			
		125	579,794	126	4,885,182	
			127	27,601	128	6,514,360
				129	88,484	
	to carry forward				6,707,324	

CONSOLIDATED BALANCE SHEET

ASSETS

as at 31 December 1998

	carried forward		8,228,728
D. bis	TECHNICAL PROVISIONS - REINSURERS' SHARE		
	I - NON-LIFE INSURANCE BUSINESS		
	1. Provision for unearned premiums	30 42,796	
	2. Provision for claims outstanding	31 108,076	
	3. Other technical provisions	32 0	33 150,872
	II - LIFE ASSURANCE BUSINESS		
	1. Mathematical provisions	34 304,723	
	2. Provision for amounts payable	35 1,432	
	3. Other technical provisions	36 0	
	4. Technical provisions for life assurance policies where investment risk is borne by policyholders and pension fund management provision	37 0	38 306,155 39 457,028
E.	DEBTORS		
	I - Debtors arising out of direct insurance operations	40 452,417	
	II - Debtors arising out of reinsurance operations	41 121,010	
	III - Other debtors	42 146,497	43 719,924
F.	OTHER ASSETS		
	I - Tangible assets and stocks	44 8,924	
	II - Cash at bank and in hand	45 165,392	
	III - Own shares	46 6,375	
	IV - Other assets	47 43,680	48 224,372
G.	PREPAYMENTS AND ACCRUED INCOME		49 88,601
	<b>TOTAL ASSETS</b>		50 <b>9,718,653</b>

as at 31 December 1997

carried forward			6,707,324
130	40,817		
131	105,074		
132	0	133	145,891
134	304,781		
135	1,767		
136	0		
137	0	138	306,549
		139	452,440
		140	423,992
		141	146,049
		142	161,425
		143	731,466
		144	11,433
		145	170,651
		146	993
		147	23,800
		148	206,877
		149	92,478
		150	<b>8,190,585</b>

CONSOLIDATED BALANCE SHEET

LIABILITIES

as at 31 December 1998

A. CAPITAL AND RESERVES				
I - Capital and reserves - Group				
1. Subscribed share capital or equivalent funds	51	257,753		
2. Free reserves	52	808,187		
3. Consolidation reserve	53	-24,519		
4. Reserve for valuation differences on unconsolidated shareholdings	54	1,742		
5. Exchange risk reserve	55	-617		
6. Reserves for own shares and holding company's shares	56	43,708		
7. Profit (loss) for the financial year	57	62,250	58	1,148,503
II - Capital and reserves - minority interests				
1. Capital and reserves - minority interests	59	58,215		
2. Profit (loss) for the year - minority interests	60	265	61	58,481
			62	1,206,984
B. SUBORDINATED LIABILITIES				63
				0
C. TECHNICAL PROVISIONS				
I - NON-LIFE INSURANCE BUSINESS				
1. Provision for unearned premiums	64	752,568		
2. Provision for claims outstanding	65	2,003,299		
3. Equalization provision	66	688		
4. Other technical provisions	67	3,678	68	2,760,233
II - LIFE ASSURANCE BUSINESS				
1. Mathematical provisions	69	4,735,113		
2. Provision for amounts payable	70	15,014		
3. Other technical provisions	71	61,525	72	4,811,652
			73	7,571,885
D. TECHNICAL PROVISIONS FOR LIFE ASSURANCE POLICIES WHERE INVESTMENT RISK IS BORNE BY POLICYHOLDERS AND PENSION FUND MANAGEMENT PROVISION				74
				313,053
E. PROVISIONS FOR OTHER RISKS AND CHARGES				
1. Provisions for pensions and similar obligations			75	0
2. Provision for taxation			76	14,830
3. Contingent consolidation provision			77	0
4. Other provisions			78	9,285
			79	24,115
		to carry forward		9,116,036

as at 31 December 1997

151	257,622		
152	790,135		
153	-18,662		
154	-1,422		
155	-1,232		
156	43,708		
157	48,169	158	1,118,318
159	28,515		
160	753	161	29,268
		162	1,147,586
		163	0
164	701,005		
165	1,830,486		
166	598		
167	994	168	2,533,083
169	3,750,639		
170	13,596		
171	46,394	172	3,810,629
		173	6,343,712
		174	78,928
		175	0
		176	17,297
		177	0
		178	8,429
		179	25,726
to carry forward			7,595,952

CONSOLIDATED BALANCE SHEET

LIABILITIES

as at 31 December 1998

	carried forward		9,116,036
F. DEPOSITS RECEIVED FROM REINSURERS		80	143,699
G. CREDITORS AND OTHER LIABILITIES			
I - Creditors arising out of direct insurance operations	81	15,642	
II - Creditors arising out of reinsurance operations	82	20,355	
III - Debenture loans	83	0	
IV - Amounts owed to credit institutions	84	26,608	
V - Debts secured by a lien on property	85	25,606	
VI - Sundry debts and other financial debts	86	3,822	
VII - Staff leaving indemnity	87	43,689	
VIII - Other creditors	88	161,493	
IX - Other liabilities	89	138,990	436,203
H. ACCRUALS AND DEFERRED INCOME			22,715
			91
<b>TOTAL LIABILITIES</b>			<b>9,718,653</b>
			92

CONSOLIDATED BALANCE SHEET

GUARANTEES, COMMITMENTS AND OTHER MEMORANDUM ACCOUNTS

as at 31 December 1998

GUARANTEES, COMMITMENTS AND OTHER MEMORANDUM ACCOUNTS			
I - Guarantees by the Company		93	43,242
II - Guarantees received from third parties		94	203,588
III - Guarantees by third parties in favour of consolidated undertakings		95	14,061
IV - Commitments		96	3,567,624
V - Third parties' assets held in deposit		97	84,553
VI - Pension fund assets managed on behalf of third parties		98	0
VII - Securities deposited with third parties		99	8,051,949
VIII - Other memorandum accounts		100	8,924

as at 31 December 1997

carried forward		7,595,952
		180 138,288
	181 24,795	
	182 17,502	
	183 0	
	184 57,193	
	185 27,894	
	186 4,250	
	187 41,696	
	188 141,998	
	189 122,942	190 438,269
		191 18,076
		192 <b>8,190,585</b>

as at 31 December 1997

		193 34,583
		194 47,879
		195 13,007
		196 2,154,262
		197 104,213
		198 0
		199 0
		200 9,120



Company **COMPAGNIA ASSICURATRICE UNIPOL - Società per Azioni**

**CONSOLIDATED ACCOUNTS**

**Profit and Loss Account**

1998 Financial Year

(Amounts in million ITL)

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31 December 1998

<b>I. TECHNICAL ACCOUNT - NON-LIFE INSURANCE BUSINESS</b>			
<b>1. EARNED PREMIUMS, NET OF REINSURANCE</b>			
a) Gross premiums written		1,919,806	
b) (-) Outward reinsurance premiums		179,090	
c) Change in the provision for unearned gross premiums		51,893	
d) Change in the provision for unearned premiums, reinsurers' share		4,072	1,692,895
			1,300
<b>2. OTHER TECHNICAL INCOME, NET OF REINSURANCE</b>			
<b>3. CLAIMS INCURRED, NET OF SUMS RECOVERABLE AND REINSURANCE</b>			
a) Claims paid			
aa) Gross amount	1,412,047		
bb) (-) Reinsurers' share	99,891		
cc) change in the sums recoverable, net of reinsurers' share	40,736	1,271,421	
b) Change in the provision for claims			
aa) Gross amount	176,693		
bb) (-) Reinsurers' share	6,331	170,362	1,441,782
			24
<b>4. CHANGES IN OTHER TECHNICAL PROVISIONS, NET OF REINSURANCE</b>			
<b>5. BONUSES AND REBATES, NET OF REINSURANCE</b>			
<b>6. OPERATING EXPENSES:</b>			
a) Acquisition commissions		258,615	
b) Other acquisition costs		44,637	
c) Change in deferred acquisition commissions and costs		-55	
d) Renewal commissions		44,802	
e) Administrative expenses		72,841	
f) (-) Reinsurance commissions and profit participation		60,965	359,984
			5,591
<b>7. OTHER TECHNICAL CHARGES, NET OF REINSURANCE</b>			
<b>8. CHANGE IN THE EQUALIZATION PROVISIONS</b>			
			90
<b>9. BALANCE ON THE TECHNICAL ACCOUNT FOR NON-LIFE INSURANCE BUSINESS (Item III.1)</b>			
			-115,936

for the year ended 31 December 1997

		111	1,744,063			
		112	178,914			
		113	50,477			
		114	4,578	115	1,519,250	
				117	1,153	
	118	1,275,874				
	119	98,726				
	120	30,464	121	1,146,685		
	122	107,486				
	123	1,864	124	105,622	125	1,252,307
				126	-11	
				127	29	
		128	244,679			
		129	56,363			
		130	4,467			
		131	37,964			
		132	77,627			
		133	62,389	134	349,779	
				135	1,867	
				136	80	
				137	-83,646	

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31 December 1998

II. TECHNICAL ACCOUNT - LIFE ASSURANCE BUSINESS			
1. WRITTEN PREMIUMS, NET OF REINSURANCE			
a) Gross premiums written	28	1,142,052	
b) (-) outward reinsurance premiums	29	15,388	30 1,126,664
2. (+) ALLOCATED INVESTMENT RETURNS TRANSFERRED FROM THE NON-TECHNICAL ACCOUNT (Item III.5)			40 280,097
3. UNREALIZED GAINS ON INVESTMENTS FOR LIFE ASSURANCE POLICIES WHERE INVESTMENT RISK IS BORNE BY POLICYHOLDERS AND FOR PENSION FUNDS			41 34,986
4. OTHER TECHNICAL INCOME, NET OF REINSURANCE			42 6,267
5. CLAIMS INCURRED, NET OF REINSURANCE			
a) Claims paid			
aa) Gross amount	43	329,939	
bb) (-) Reinsurers' share	44	29,899	45 300,040
b) Change in the provision for claims			
aa) Gross amount	46	1,431	
bb) (-) Reinsurers' share	47	-336	48 1,767
49 301,808			
6. CHANGE IN THE MATHEMATICAL PROVISIONS AND OTHER TECHNICAL PROVISIONS, NET OF REINSURANCE			
a) Mathematical provisions			
aa) Gross amount	50	767,152	
bb) (-) Reinsurers' share	51	3,749	52 763,403
b) Other technical provisions			
aa) Gross amount	56	15,135	
bb) (-) Reinsurers' share	57	0	58 15,135
c) Technical provisions for life assurance policies where investment risk is borne by policyholders and pension fund management provision			
aa) Gross amount	59	234,125	
bb) (-) Reinsurers' share	60	0	61 234,125
62 1,012,664			
7. BONUSES AND REBATES, NET OF REINSURANCE			63 1,249
8. OPERATING EXPENSES			
a) Acquisition commissions	64	34,969	
b) Other acquisition costs	65	14,902	
c) Change in deferred acquisition commissions and costs	66	-1,903	
d) Renewal commissions	67	13,601	
e) Administrative expenses	68	21,928	
f) (-) Reinsurance commissions and profit participation	69	2,267	70 85,037
9. INVESTMENT CHARGES AND UNREALIZED LOSSES ON INVESTMENTS FOR LIFE ASSURANCE POLICIES WHERE INVESTMENT RISK IS BORNE BY POLICYHOLDERS AND FOR PENSION FUNDS			75 3,587
10. OTHER TECHNICAL CHARGES, NET OF REINSURANCE			76 8,387
11. BALANCE ON THE TECHNICAL ACCOUNT - LIFE ASSURANCE BUSINESS (Item III.2)			78 35,282

for the year ended 31 December 1997

		138	692,839		
		139	15,966	140	676,873
				150	285,458
				151	1,813
				152	968
		153	259,549		
		154	34,144	155	225,405
		156	1,971		
		157	596	158	1,375
				159	226,780
		160	538,449		
		161	-13,770	162	552,219
		166	10,270		
		167	0	168	10,270
		169	78,928		
		170	0	171	78,928
				172	641,416
				173	657
		174	27,712		
		175	13,330		
		176	-984		
		177	13,035		
		178	21,154		
		179	2,373	180	73,843
				185	0
				186	1,666
				188	20,750

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31 December 1998

<b>III. NON-TECHNICAL ACCOUNT</b>			
1. BALANCE ON THE TECHNICAL ACCOUNT - NON-LIFE INSURANCE BUSINESS (Item I.9)			79 -115,936
2. BALANCE ON THE TECHNICAL ACCOUNT - LIFE ASSURANCE BUSINESS (Item II.11)			80 35,282
3. INVESTMENT INCOME			
a) Income from shares and participating interests			
aa) share of profit (loss) for the year of shareholdings included by the equity method	81 2,672		
bb) other income	82 6,259	83 8,931	
b) Income from other investments			
aa) income from land and buildings	84 43,133		
bb) income from other investments	85 410,324	86 453,456	
c) Value re-adjustments on investments		87 2,507	
d) Realized gains on investments		88 66,444	89 531,339
4. INVESTMENT CHARGES			
a) Investment management charges, including interest		90 79,679	
b) Value adjustments on investments		91 19,962	
c) Realized losses on investments		92 4,544	93 104,186
5. (-) ALLOCATED INVESTMENT RETURNS TRANSFERRED TO THE LIFE ASSURANCE TECHNICAL ACCOUNT (Item II.2)			94 280,097
6. OTHER INCOME			95 57,418
7. OTHER CHARGES			
a) Interest on financial debts		96 4,499	
b) Sundry charges		97 55,969	98 60,468
8. BALANCE ON ORDINARY ACTIVITIES			99 63,352
9. EXTRAORDINARY INCOME			100 57,688
10. EXTRAORDINARY CHARGES			101 2,393
11. BALANCE ON EXTRAORDINARY ACTIVITIES			102 55,296
12. PROFIT BEFORE TAXATION			103 118,648
13. TAX ON PROFIT			104 56,132
14. CONSOLIDATED PROFIT			105 62,516
15. PROFIT (LOSS) FOR THE FINANCIAL YEAR - MINORITY INTERESTS			106 265
16. PROFIT (LOSS) FOR THE FINANCIAL YEAR - GROUP			107 62,250

for the year ended 31 December 1997

			189	-83,646
			190	20,750
191	-768			
192	4,044	193	3,276	
194	42,996			
195	451,182	196	494,179	
		197	22	
		198	45,587	199
				543,063
		200	67,069	
		201	20,480	
		202	1,930	203
				89,478
				204
				285,458
				205
				40,961
		206	11,018	
		207	42,580	208
				53,598
				209
				92,595
				210
				12,513
				211
				917
				212
				11,596
				213
				104,191
				214
				55,270
				215
				48,921
				216
				753
				217
				48,169

The undersigned declare that the financial statements are free from irregularity or error

The Company legal representatives (\*)

The Chairman ..... (\*\*)

Giovanni Consorte ..... (\*\*)

..... (\*\*)

The Members of the Board of Statutory Auditors

U. Melloni .....

D. Bassini .....

M. Conti .....

S. Costa .....

L. Roffinella .....

For internal use of the Company Register
Date of receipt

(\*) In case of foreign undertakings - signature by the general representative in Italy

(\*\*) Please indicate the functions of the signatory

# NOTES TO THE ACCOUNTS

## PART A – GENERAL DRAFTING CRITERIA AND BASIS OF CONSOLIDATION

From the present company financial year the consolidated financial accounts have been drawn up in accordance with the layout and instructions prescribed by Legislative Decree No. 173 dated 26 May 1997. They also comply with the instructions contained in ISVAP procedure No. 735 of 1 December 1997 relating to the layout of the accounts and incorporate the relevant guidance produced by the Supervisory Authority. For the purposes of the required comparisons with the corresponding data for the previous financial year, the necessary adjustments have been made in accordance with Article 9 of Legislative Decree 173/97.

### BASIS OF CONSOLIDATION

The consolidated accounts for Unipol Assicurazioni are produced by amalgamating its own accounts with those of its subsidiary companies which operate in the insurance sector or whose business activities are included within those carried on by the insurance companies in the context of their institutional investment activities.

The company Unieuropa srl, which operates in the field of analysis and market research, and the company Unipol Sim spa, an asset management company, have been valued, as in the previous financial accounts, by applying the equity method. In addition, the company Unipol Banca spa (former Banec - Banca dell'Economia Cooperativa spa), control of which was acquired in September 1998, has also been valued according to the equity method in 1998.

This investment transaction in the managed savings sector will enable a wider range of banking, financial and insurance type services to be offered to customers of the Unipol group.

Investments in affiliated companies, with shares varying from 20% to 50%, are valued on the relevant proportion of equity, including the result for the financial year, less dividends received and after adjustments required under the guidelines for producing the consolidated accounts.

A list of companies included in the consolidation is given on the following pages.

### CHANGES TO THE CONSOLIDATED AREAS

As already shown, the Parent undertaking has acquired control of the company Unipol Banca spa which, as it doesn't transact insurance business, has been valued using the equity method. The share owned as at 31/12/98 was equal to 69.15%.

The company Assicoop Genova spa, in which a share equal to 49% was acquired by the Parent undertaking on 28 October 1998, has also been valued using the equity method. The newly-constituted company, which holds a mandate as a Unipol agency, will draw up its first financial accounts as at 31/12/1999.

The following are now outside the basis of consolidation:

- Atlantis sa, 12% of the shareholding having been disposed of during the financial year;
- Compagnie Foncière de la Macif sa, the share in which fell to 19.9% following the disposal of 0.1% effected on 2/3/1999.

The following changes to shareholdings of the Parent undertaking have also occurred:

- Quadrifoglio Vita spa from 100 to 50%
- Noricum Vita spa from 54.91 to 51%
- Linear Ass.ni spa from 99 to 60%
- Sofircoop srl from 95 to 96.35%
- Lavoro e Prev. Serv. spa from 100 to 30.1%
- Unipol Sim spa from 98 to 91.53%
- Euresa Holding sa from 21.64 to 21.01%
- Assicoop Modena spa from 47.50 to 47%

The company Quadrifoglio Vita, in which Banca Agricola Mantovana has a 50% share, has been included on a line-by-line method because of the insurance aspect of its activity and by virtue of agreements between the partners.

The shareholding held by Compagnie Foncière de la Macif has been held at the book value.

### REPORTING DATE

The reporting date for the consolidated accounts is 31/12/1998, the close-off date for the accounts of

Unipol Assicurazioni. All the companies which are included in the basis of consolidation close their own accounts on 31 December, with the exception of the affiliated companies Commerfin spa and Finec spa, which close off their accounts on 30 June. For these an intermediate financial statement has been used, based on the date of the consolidated accounts. In drawing up the consolidated accounts, the accounts approved by the Shareholders' meetings of the respective companies have been used. In cases where the accounts were not yet approved, draft accounts approved by the respective Boards have been used.

## **CONSOLIDATION CRITERIA**

### **Companies included on a line-by-line basis**

Except in the case of Unieuropa srl, Unipol Sim spa and Unipol Banca spa, the accounts of subsidiaries are consolidated on a line-by-line method. This method provides for the assets, liabilities, income and expenses of consolidated undertakings to be fully amalgamated, the book value of the investment being eliminated from the balance sheet of Unipol Assicurazioni; in the case of part-ownership, the share of net capital and of the profit for the financial year attributable to minority shareholders is disclosed.

The net amount of capital relating to minority shareholders is recorded on the equity line denominated "Capital and reserves – minority interests", whilst the relevant share of the consolidated profit or loss is shown under the heading "Profit (loss) for the financial year – minority interests".

### **Companies included by proportionate consolidation**

This method provides for assets, liabilities, income and expenses of consolidated companies to be incorporated in proportion to the share held, with the book value of the shareholding being eliminated.

As at 31/12/98 no shareholding was included by proportionate consolidation.

### **Companies included by the equity method**

With this method, the value of the participation is adjusted to the amount of the corresponding fraction of the equity, inclusive of the result for the financial year.

## **Consolidation difference**

If the difference which arises from offsetting the book value of the shareholding against the corresponding fraction of the equity of the subsidiary is due to under-valuation or over-valuation of asset or liability items on the subsidiary's accounts, it is posted as an adjustment to the individual items, within the limits allowed for correct financial/technical valuations in force on the data the holding is acquired.

Where some or all of the difference cannot be imputed to individual lines, if negative, it is credited to the equity line "Consolidation reserve" or "Reserve for valuation differences" in the case of companies included by the equity method; if positive, it is debited to the asset line "Consolidation difference", to the extent that it represents the value of goodwill at the time the participation was acquired and is financially valid at the date of consolidation.

## **Elimination of intra-group transactions**

In drawing up the consolidated accounts, credits and debits flowing between companies included in the consolidation are eliminated, as are income and expenses relating to transactions between these companies and profits and losses not yet realised arising from operations effected between such companies and third parties outside of the group.

## COMPANIES INCLUDED IN THE CONSOLIDATED ACCOUNTS ON A LINE-BY-LINE BASIS

Company - Registered Office	Business - Share capital	% stake held		Group stake
		direct	indirect	
<b>Compagnia Assicuratrice Unipol spa</b> Bologna	1-Insurance and Reinsurance L. 257,752,528,000			
<b>Compagnia Assicuratrice Linear spa</b> Bologna	1-Insurance and Reinsurance L. 24,000,000,000	60.00		60.00
<b>Noricum Vita spa</b> Bologna	1-Insurance and Reinsurance L. 22,000,000,000	51.00		51.00
<b>Quadrifoglio Vita spa</b> Bologna	1-Insurance and Reinsurance L. 35,000,000,000	50.00		50.00
<b>Unisalute spa</b> Bologna	1-Insurance and Reinsurance L. 35,000,000,000	77.85		77.85
<b>Edifin Immobiliare srl</b> Bologna	4-Property Company L. 36,000,000,000	95.00		95.00
<b>Midi srl</b> Bologna	4-Property Company L. 50,000,000,000	97.00		97.00
<b>Pioquartosei srl</b> Bologna	4-Property Company L. 50,000,000,000	100.00		100.00
<b>Sofircoop srl</b> Bologna	4-Property Company L. 37,000,000,000	96.35		96.35
<b>Unifimm srl</b> Bologna	4-Property Company L. 85,000,000,000	100.00		100.00
<b>Unigestifimm srl</b> Bologna	4-Property Company L. 43,000,000,000	100.00		100.00
<b>Uniservice spa</b> Bologna	9-Services to Insurance Industry L. 200,000,000	99.00		99.00

## COMPANIES INCLUDED BY THE EQUITY METHOD

SUBSIDIARIES				
<b>Unipol Banca spa (new name of Banec spa)</b> Bologna	3- Bank L. 94,875,000,000	69.15		69.15
<b>Immobiliare Pietramellara srl</b> Bologna	4-Property Company L. 1,000,000,000		100.00 (Unipol Banca)	69.15
<b>Unipol Sim spa (new name of Unifid Sim spa)</b> Bologna	9-Asset Management Company L. 20,000,000,000	91.53		91.53
<b>Unieuropa srl</b> Bologna	9-Market Analysis / Research L. 1,000,000,000	98.00	2.00 (Noricum V.)	99.02
ASSOCIATED				
<b>Hotel Villaggio Città del Mare spa</b> Terrasini (Pa)	9-Tourism / Hotels L. 3,382,579,200	49.00		49.00
AFFILIATED				
<b>A.P.A. spa</b> Parma	9-Insurance Agency L. 1,000,000,000	49.00		49.00
<b>Assicoop Ferrara spa</b> Ferrara	9-Insurance Agency L. 500,000,000	46.00		46.00
<b>Assicoop Genova spa</b> Genova	9-Insurance Agency L. 500,000,000	49.00		49.00
<b>Assicoop Modena spa</b> Modena	9-Insurance Agency L. 4,000,000,000	47.00		47.00

Company - Registered Office	Business - Share capital	% stake held		Group stake
		direct	indirect	
<b>Assicoop Ravenna spa</b> Ravenna	9-Insurance Agency L. 7,000,000,000	47.43		47.43
<b>Assicoop Sicura srl</b> Bologna	9-Insurance Agency L. 390,000,000	40.00		40.00
<b>Assicoop Siena spa</b> Siena	9-Insurance Agency L. 1,400,000,000	49.00		49.00
<b>Assicura spa</b> Reggio Emilia	9-Insurance Agency L. 2,000,000,000	35.00		35.00
<b>Commerfin spa</b> Roma	2-Merchant Banking L. 1,472,000,000	20.00		20.00
<b>Consorzio ZIS Fiera R5.1</b> Bologna	9-Co-ordination and Planning L. 100,000,000		31.11 (Midi)	30.18
<b>Consorzio ZIS Fiera 2</b> Bologna	9-Urbanization work L. 640,000,000		46.10 (Midi)	44.72
<b>Euresa Holding sa</b> Luxembourg	2-Finance Company Lux. F. 654,554,000	21.01		21.01
<b>Finec spa</b> Bologna	2-Merchant Banking L. 150,000,000,000	31.60		31.60
<b>Lavoro e Previdenza Service spa</b> Bologna	9- Pension Fund Management L. 20,000,000,000	30.10		30.10
<b>Syneteristiki Vita sa</b> Athens (Greece)	1-Insurance and Reinsurance Drs 1,000,000,000	29.75		29.75
<b>OTHER SHAREHOLDINGS IN SUBSIDIARIES AND AFFILIATED COMPANIES AT THEIR BOOK VALUE</b>				
<b>Unintesa spa - in liquidation</b> Bologna	9-Network of Financial Advisors L. 3,917,400,000	97.43		97.43
<b>Sofimer Soc. Fin. Meridionale spa - in liquidation</b> Napoli	2-Merchant Banking L. 10,000,000,000	20.00		20.00
<b>Compagnie Foncière de la Macif sa</b> Niort (Francia)	4-Property Company FF 500,000,000	20.00		20.00

## **PART B - VALUATION CRITERIA**

### **Section 1 – Illustration of valuation criteria**

The most significant criteria used in producing the consolidated accounts are given below, together with any changes compared to those previously adopted.

#### **Intangible assets**

##### **Deferred acquisition commissions**

Pre-paid acquisition commissions on multi-year policies relating to non-life business are deferred and amortised evenly over a period of three years, beginning in the year in which such costs are incurred; for Life business these commissions are attributed based on the period of validity of policies with a maximum of 10 years. This is to comply with regulations of a fiscal nature and prudential considerations of the principle of financial matching.

Any other expenses inherent in the acquisition of risks relating to multi-year policies and the management thereof are to be reflected in the profit and loss account for the year in which they are incurred.

For the consolidated companies Unisalute and Noricum Vita the adjustment was made by amortising the prepaid acquisition commissions

#### **Investments**

##### **Land and buildings**

Property is generally included with fixed assets and recorded on the accounts at purchase price or construction cost or at their incorporation value in the case of buildings previously owned by incorporated companies. The book value of goods includes ancillary expenses and write-ups performed in previous financial years under the provisions of specific legislation and, to a lesser extent, following voluntary write-ups.

Improvement and transformation costs are capitalised in cases where they translate into an increment in the useful life of the assets and their return.

Buildings used for the company's business are amortised in equal instalments according to the expected period of use.

Usually, other buildings are not depreciated, given that constant maintenance is performed to prolong their useful life and that in the case of long term investments they are primarily intended to hedge liabilities to the assured.

Provision is also made for amortisation of the

“Città del Mare” holiday complex, situated in Terrasini (Palermo), the service centre located in Maratea and the shopping centres, in view of their specific nature and purpose.

##### **Investments in affiliated undertakings and participating interests**

These include long term investments such as controlling shareholdings, shareholdings in affiliated companies and in other undertakings.

Shareholdings in affiliated companies and subsidiaries whose activities are not homogenous with the insurance sector are included by the equity method; those in other companies are valued at acquisition or underwriting cost or at a value below cost in cases where there have been lasting losses in value.

##### **Other financial investments**

###### **Stocks and shares**

Shares which do not constitute fixed assets, own shares and shares in mutual funds are recorded at the lesser of the average acquisition cost and the market value, which for listed shares corresponds to the arithmetic mean of the stock exchange prices in the last month of the financial year.

###### **Bonds and other fixed yield securities**

Securities intended to be held long term on the company's balance sheet capital assets [fixed financial assets] are valued at the average purchase or underwriting cost, adjusted by or combined with an amount equal to the proportion of the negative or positive difference between repayment value and acquisition cost which has matured at the end of the financial year. Separate disclosure is made of the relevant proportion relating to any issue spread (Art 8 of Legislative Decree 27/12/94, No. 719 and Law 8/8/95, No. 349). They may only be written-down in the event of verified permanent loss of value.

For securities with an implicit rate (zero coupon bonds and others), the applicable amount includes an adjustment for the proportion of the capital which has already matured.

Securities used as short term investments are adjusted to the lesser of the accounting book value (substantially maintained at cost), increased or adjusted by matured issue spreads, and the market value; for listed securities, this is computed from

the arithmetic mean of prices applicable in the month of December and for those which are not listed, at the presumed realisation value on 31st December, determined on the basis of the current value of securities traded on regulated markets which have similar characteristics.

Reductions in value made in previous financial years are not maintained if the reasons for which they were made no longer apply.

### **Loans**

These are recorded at their nominal value, which also corresponds to their presumed realisation value.

### **Financial derivatives**

Financial derivatives, as defined in ISVAP Instruction No. 297 of 19 July 1996, are used exclusively for hedging purposes, to reduce the risk profile of the hedged assets and liabilities or to optimise their risk / return profile. Derivative contracts which are outstanding at the end of the period are therefore valued in a way which is consistent with the asset / liability being hedged. Specifically:

- for contracts hedging short-term instruments, the difference between book value and the higher market value of the instruments themselves at the end of the period is included;
- for contracts hedging long-term assets the valuation at cost method is applied;
- for contracts hedging against exchange rate risk, the principles followed for valuing accounting balances denominated in foreign currency are those in question. The cash / forward differential is adjusted to the applicable time period by applying the relevant accrual.

The current value of derivative contracts is determined using the "hedging cost" method, using the prevailing prices and rates at the end of the financial year for equal maturities and comparing these to the contractual ones.

Premiums received or paid for options on securities or currencies outstanding at the end of the period are recorded on lines G.VI "Sundry debts and other financial payables" and C.III.7 "Other financial investments" respectively.

At the maturity of the option:

- if it is exercised, the premium is applied as an adjustment to the purchase or sale price of the underlying asset / liability;
- if it is not exercised, the premium is recorded under "Other income / charges on financial investments".

### **Income on securities**

Accrued interest receivable is recorded in the financial accounts in accordance with the matching concept, as is the accrued difference between the repayment amount and the issue price of bonds and similar securities, as set out in Article 8 of the Legislative Decree No. 719 of 27/12/94 mentioned earlier. For constituent fixed assets the accrued difference between the repayment value and the book value is included.

Dividends are recorded in the financial year in which they are paid together with the relevant tax credit.

Gains and losses deriving from trading shares and fixed income securities are shown on the profit and loss account according to the actual date of realisation.

### **Investments for the benefit of Life- insurance policyholders, who bear the risk thereof, and investments deriving from pension fund management**

These are recorded at current value, as provided for in Articles 17 and 19 of Legislative Decree 173/97.

### **Receivables**

These are recorded at the presumed realisation value.

### **Other assets**

#### **Tangible assets and stocks**

Assets (furniture, office machinery, equipment and property recorded in the public registries) included in fixed assets are shown on the balance sheet at acquisition cost or at the value of conferment and amortised on the basis of their presumed useful life. On assets which come into use in the course of the financial year, a proportion of 50% has been applied to the amounts, as this by and large corresponds to their period of use. Assets having a small unit value are fully amortised in the year of acquisition.

### **Prepayments and accrued income, accruals and deferred income**

Prepayments and accrued income, as well as accruals and deferred income, are calculated in accordance with the criterion of financial and temporal matching.

### **Technical provisions - non-life business**

#### **Provision for unearned premiums**

The provision for unearned premiums for direct

business is determined analytically for each policy according to the pro-tempore method, based on gross premiums booked, less acquisition commissions and other directly attributable acquisition costs. For multi-year contracts the amortisation allowance relating to the financial year is deducted. Where applicable, the provision for unearned premiums also includes the provision for unexpired risks. Until the previous financial year the provision for unearned premiums had generally been calculated based on a flat rate proportion.

For Bonds and Credit branches, the flat rate method prescribed in the Ministerial Decree of 23/5/81 is applied.

The provision for unearned premiums also includes components required under specific legal provisions for business and risks of a particular nature (Credit, Hail, Atomic risk, Natural disasters).

The total amount allocated to provisions is sufficient to meet costs arising from risks which recur in successive financial years.

The reinsurers' share of the provision for unearned premiums is calculated by applying to the ceded premiums the same criteria as used to compute the provision for unearned premiums for direct business.

#### **Provision for increasing age**

The provision for increasing age is calculated at a flat rate, amounting to 10%, on contracts in the health portfolio which have the characteristics described in Article 25 of Legislative Decree 175/95.

#### **Provision for claims outstanding**

The provision for claims outstanding for direct business is determined analytically by valuing all claims outstanding at the end of the financial year and is based on technically prudential estimates; these are arrived at by applying objective factors which, as prescribed in Article 33 of Legislative Decree 173/1997, ensure that the amount of the provision is sufficient to meet benefits to be paid out and the related direct and settlement costs. For motor third party liability claims occurred in 1998, the size of the provision was calculated using the criterion of average cost for groups of typical claims (material damage and personal accident) in sufficient numbers and supported by historical and prospective data collected by the Undertakings.

The provision for outstanding claims also includes an amount set aside for claims 'incurred but not

reported', estimated on the basis of experience in relation to claims in previous financial years reported late, in accordance with the criteria established by the ISVAP instruction of 4 December 1998.

The reinsurers' share of the provision for outstanding claims reflects the amount recoverable from them, as prescribed in either individual treaties or contractual agreements.

#### **Life business - technical provisions**

The amount recorded on the accounts has been calculated in accordance with the provisions of Articles 24 and 25 of Legislative Decree 174/95 and as specified by the Ministerial Decree of 2 July 1987, concerning the minimum level of provisions for supplementary health and professional premiums and the provision for administrative charges.

The mathematical provision for direct assurance relating to the Life business is calculated analytically for each contract on the basis of pure premiums, without deduction for policy acquisition costs, and by reference to the actuarial assumptions (technical interest rates, demographic models of elimination by death and invalidity) used to calculate the premiums relating to existing contracts. The mathematical provision includes the proportion of pure premiums in relation to the premiums accrued during the financial year; it also includes all revaluations made by virtue of the contractual terms and is always greater than the redemption value. In compliance with the provisions of Article 38 of Legislative Decree 173/97, the technical provisions created to cover liabilities deriving from assurance contracts on human lives, and on which the return is determined on the basis of investments or indexes for which the assured bears the risk, have been calculated by reference to the liabilities deriving from such contracts and to the provisions of Article 30 of Legislative Decree 174/95 and successive ISVAP instructions. As prescribed in Article 38, comma 3 of Legislative Decree 173/97, the mathematical provision includes provisions established to cover mortality risk on assurance contracts of Class III of Table A attached to Legislative Decree 174/95, which guarantee a pay-out in the event of death of the assured person during the life of the policy. The mathematical provision also includes a supplementary provision pursuant to Article 25, comma 12 of Legislative Decree 174/95. In connection with this, once a difference had been identified between the demographic bases used to

calculate the constituent capital for life annuities and the latest figures from the General State Accounting Department, it was decided that the provision to be established would have to be integrated to cover liabilities towards assureds, to comply with the ISVAP instructions in circular No. 343D of 30 September 1998.

Thus, as prescribed in Article 34 of Legislative Decree 173/97, the provision for amounts payable includes the total value of the sums needed to cover payment of benefits which have accrued during the financial year and have not yet been paid.

The provision for bonuses and rebates was established to cover obligations of the Undertakings to set aside amounts accruing in the financial year as technical profits arising from the yield on individual contracts for partial reimbursement of premiums on certain policies on a temporary group tariff in the event of death and / or invalidity.

The amount of technical provisions borne by CONSAP (Concessionaria servizi assicurativi pubblici S.p.A.), which has replaced I.N.A., with the Treasury having joint liability, is computed on the basis of liabilities transferred as "legal cessions" and applying prudential criteria. Also taken into consideration are the ISVAP recommendations on the subject and annual rates of return are applied, now fixed for the financial years 1994, 1995 and 1996 as per the Ministerial Decree of 2 October 1998, published in the Official Gazette of 8/10/1998 No. 235.

### **Provision for taxation**

Taxes for the financial year are posted as applicable among other creditors – sundry taxes, based on taxable income. The provision for taxation includes deferred taxes on capital gains deferred under the terms of Article 54, 4th comma D.P.R. 917/86.

### **Provision for staff leaving indemnity**

The provision for staff leaving indemnity reflects accrued liabilities in relation to staff in accordance with prevailing legislation and collective labour agreements.

### **Earned premiums**

Premiums are recorded according to the related due date and in accordance with the provisions of Article 45 of Legislative Decree 173/1997. In conjunction with the provision for unearned premiums it gives us the amount for the period.

Starting with the financial year 1998 the new risk classification has been adopted as referred to in Point A) of the table attached to Legislative Decree 175/95 (non-life insurance business) and of the associated table attached to Legislative Decree 174/95 (Life assurance business); the instructions issued by ISVAP on the subject (provision 734 of 1st December 1997) are also followed.

### **Allocated investment return transferred from the non-technical account**

The allocation of portions of investment returns to the technical account of the Life business has been effected in accordance with the relevant instruction issued by ISVAP on 8/3/99 and published in the Official Gazette on 16/3/99.

### **Inward reinsurance**

In the case of risks accepted in inward reinsurance, except for risks assumed facultatively, the premiums and the indemnities and commissions costs already communicated by the cedants and relating to the financial year are recorded on specific asset or liability lines and deferred to the profit and loss account for the following financial year; this deferred application, which also applies to the associated retrocessions, arises because of the impossibility of having all the data available in time and in its entirety.

The provision for inward reinsurance risks are those communicated by the cedants, but may be integrated to incorporate any subsequently predictable losses.

### **Conversion of foreign currency balances**

Transactions expressed in foreign currency not arising from the consolidation of foreign undertakings are shown on the accounts at the year-end rates in accordance with multi-currency accounting standards.

Any surplus which results from the conversion into Lira of unrealised transactions is offset by an entry to the exchange risk provision. Any shortfall arising, on the other hand, is deducted from the aforesaid provision.

Exchange rate differences which arise from conversion of currencies included in the Euro, at the fixed and irrevocable rates of exchange established on 31/12/98 between the Euro and each of the aforesaid currencies, have been included in the profit & loss account. The amount in question was a negative balance of ITL8,736m, partly offset by transferring ITL5,408m from the appropriate provision.

### **Conversion differences**

The annual account entries of the foreign undertakings included in the consolidation are converted into Lira by applying the rate of exchange prevailing at the end of the financial year to the lines on the balance sheet and the P & L account.

Differences which derive from application of the aforesaid exchange rates are credited or debited to the "Exchange risk provision" line of the consolidated liabilities.

### **Exchange rates used**

The exchange rates applied to the main currencies for conversion into Lira are as follows, bearing in mind that, for currencies which are included in the Euro, the principle of triangulation has been adopted, as established by the Regulation of 17 June 1997, No. 1103/97, relating to provisions for the introduction of the Euro:

<b>Currencies</b>	<b>1998</b>	<b>1997</b>
<i>Currencies included in the Euro</i>		
Belgian Franc	47.998	47.587
French Franc	295.182	293.44
German Mark	989.999	981.69
Spanish Peseta	11.637	11.598
Ecu	1,936.27	1,940.39
<i>Other currencies</i>		
US Dollar	1,653.1	1,759.19
Pound Sterling	2,763.16	2,913.04
Greek Drachma	5.875	6.22

## PART C - INFORMATION ON THE CONSOLIDATED BALANCE SHEET AND PROFIT AND LOSS ACCOUNTS

### BALANCE SHEET - ASSETS

There follows a commentary on the balance sheet items and the way their composition has varied in comparison with the previous financial year,

together with the information required by prevailing regulations.

#### Section 1 – Intangible assets (line B)

##### Deferred acquisition commissions (B.1)

These amount to ITL71,184m (-ITL891m) divided as follows:

- non-life business, ITL20,971m (+ITL1,012m)
- Life business, ITL50,213m (-ITL1,903m).

##### Goodwill (B.3)

This line, in the amount of ITL20,888m (+ITL20,164m), mainly comprises goodwill paid in 1998 by Quadrifoglio Vita to acquire from Arca Vita spa part of its life portfolio (ITL17.1bn).

##### Other intangible assets (B.4)

This line, equal to ITL8,921m (-ITL4,391m), includes ITL5,462m of residual costs relating to capital increases and ITL3,459m in various multi-year costs, predominantly incurred for the purchase of software.

##### Consolidation difference (B.5)

This line is made up of the residue of goodwill costs paid for the acquisition of participating interests. These are amortised over 10 years for companies with insurance, insurance intermediary or banking activities, which are by nature financially profitable over the medium and long term, whilst for the other companies, amortisation is over five years.

The variations which have occurred in the financial year are as follows (in millions of Lira):

	1998	Variations compared to 1997
Balance at start of financial year	12,210	4,399
Increases	29,846	23,740
Decreases	(5,583)	(3,877)
<b>Balance at end of financial year</b>	<b>36,473</b>	<b>24,262</b>

The increase relates largely to the acquisition of the subsidiary Unipol Banca spa, which took place in 1998.

#### Section 2 – Investments (line C)

##### Land and buildings (C.I)

Land and buildings, net of the relevant depreciation, are made up as follows, as at 31 December 1998 (in millions of Lira):

	Land and Buildings	Amort. funds	Book value
Buildings:			
-for operational use	113,366	20,841	92,525
-for use of 3rd parties	840,633	33,092	807,541
Land	131,561	--	131,561
<b>Total</b>	<b>1,085,560</b>	<b>53,933</b>	<b>1,031,627</b>

Of the total amount, ITL41,309m derives from attribution of the consolidation differences.

No fixed assets have been leased out.

The variations which have occurred in the

composition of land and buildings are as follows (in millions of Lira):

Land and buildings as at 31.12.1997	1,187,393
New investments in the financial year	3,941
Capitalised increases and improvements	17,107
Decreases	(122,881)
<b>Land and buildings as at 31.12.1998</b>	<b>1,085,560</b>

The variations which have occurred in the amortisation fund amount to (in millions of Lira):

	1998	Variations compared to 1997
Amortisation fund as at 1.1.98	55,607	11,296
Increases	8,327	(5,045)
Decreases	(10,001)	(7,925)
<b>Amortisation fund as at 31.12.98</b>	<b>53,933</b>	<b>(1,674)</b>

Compared to the previous financial year, the investments in land and buildings show a downward variation of ITL101,833m, that is, ITL100,159m (-8.8%) net of the amortisation fund. During the financial year, financial charges amounting to ITL578m have been posted.

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

### **Stocks and shares in subsidiary undertakings (C.II.1.b)**

These relate to subsidiary companies which, because their activities are not analogous to insurance activity, have been valued by the equity method.

The total as at 31/12/98 amounts to ITL86,546m, an increase of ITL69,601m compared to 1997, substantially due to the acquisition of the company Unipol Banca spa.

The related list is given below (data in millions of Lira):

<b>Company – Registered Office – Share Capital</b>	<b>Group share</b>	<b>Value</b>
Unipol Banca spa Bologna – L. 94,875	69.15	67,122
Unipol Sim spa Bologna – L. 20,000	91.53	18,834
Unieuropa srl Bologna – L. 1,000	99.02	590
<b>Total</b>		<b>86,546</b>

### **Stocks and shares in associated and affiliated undertakings (C.II.1.c.d)**

These relate to associated and affiliated companies valued using the equity method, as listed in the table below:

<b>Company – Registered Office – Share Capital (millions of Lira/currency)</b>	<b>Group share</b>	<b>ITL million</b>
Finec spa Bologna – L. 150,000	31.60	47,507
Euresa Holding sa Luxembourg – F.Lux 654.5	21.01	7,674
Lavoro and Previdenza Service spa Bologna – L. 20,000	30.10	5,861
Assicoop Sicura srl Bologna – L. 390	40.00	3,061
Assicoop Ravenna spa Ravenna – L. 7,000	47.43	3,495
Assicoop Modena spa Modena – L. 4,000	47.00	2,159
Syneteristiki Vita sa Athens (Greece) – Grd. 1,000	29.75	1,524
Hotel Villaggio Città del Mare spa Terrasini (Pa) – L. 3,383	49.00	1,694
Assicoop Siena spa Siena – L. 1,400	49.00	556
Assicura spa Reggio Emilia – L. 2,000	35.00	678

A.P.A. spa Parma – L. 1,000	49.00	353
Commerfin spa Roma – L. 1,472	20.00	280
Assicoop Ferrara spa Ferrara – L. 500	46.00	203
Assicoop Genova spa Genova – L. 500	49.00	73
Consorzio ZIS 1 Bologna – L. 100	30.18	31
Consorzio ZIS 2 Bologna – L. 640	44.72	287
<b>Total</b>		<b>75,436</b>

Shareholdings in foreign companies amount to ITL9,198m (-ITL25,570m, this variation arising from the change to the basis of consolidation) and those in Italian companies amount to ITL66,238m (+ITL7,802m).

### **Stocks and shares in other undertakings (C.II.1.e)**

Of the total amount, ITL307,335m, (-ITL10,757m compared to 1997), ITL22,143m relates to the shareholdings in subsidiary and affiliated undertakings held at book value, and which are in the process of liquidation or disposal, as detailed below (in millions of Lira):

<b>Company – Registered Office – Share Capital</b>	<b>Group share</b>	<b>Value</b>
Unintesa spa – in liquidation Bologna – L. 3,917	97.43	1,193
Sofimer spa – in liquidation Naples – L. 10,000	20.00	1,202
Compagnie Foncière de la Macif Niort (France) – Fr.Fr. 500	20.00	19,748
<b>Total</b>		<b>22,143</b>

Of the balance (ITL285,192m), the most significant sums relate to the following undertakings (in millions of Lira):

Caer spa	178,262
P & V Holding sa	30,120
Italiana Assicurazioni spa	15,980
Fincooper scarl	9,809
Delta Immo sa	9,034
Immobiliare Mirasole spa	6,452
Acteldirect sa	5,472
Cooperbanca spa	4,517
Atlantis sa	4,067
Immobilgest Comp. Immobiliare spa	3,500
Immobilgest spa	2,964
The Co-Operators Group sa	2,320
Other	12,695
<b>Total</b>	<b>285,192</b>

### **Debt securities (C.II.2)**

The balance of the line “Debt securities”,

amounting to ITL960m (-ITL13,712m compared to 1997), is entirely made up of the loan extended to the participating interest company Euresa Life sa. This is a subordinated loan of Belgian Francs 20,000,000, of unlimited duration, the rate of interest being equal to that on 5-year securities of the Belgian state + 1% for the first 5 years, then that of 5 year securities of the Italian State + 1% from the 6th year onwards (from 2003).

The loan may be repaid early, after 5 years from its start, subject to the approval of the local supervisory body; this option may be exercised again once another five years have passed.

In the sole case of changes to regulations or their interpretation or political changes within the Grand Duchy of Luxembourg will it be possible for the debtor to repay the loan in a single payment, subject to the approval of the local supervisory body.

The loan is subordinate to repayments to principal creditors, on a par with other subordinate creditors, and is preferential debt with regard to receivables claimed by the holders of any type of shares in the company.

### **Loans (C.II.3)**

The balance of ITL22,639m (+ITL14,469m), relating to loans to undertakings, includes ITL14,759m paid over to the affiliated company Compagnie Foncière de la Macif sa, ITL7,380m to the participating interest company Immobiliare Mirasole spa and ITL500m relating to a subordinated loan extended to the subsidiary company Unintesa spa, in liquidation. This is a non-interest-bearing subordinated loan, made by Unipol on 29/4/1996 with a three-year maturity.

Since the company is in voluntary liquidation, Unipol's credit claim is subordinate to the full satisfaction of all the unsubordinated creditors of the said company, as established in the contractual regulations.

It is shown that receivables falling due beyond the end of the successive financial year and beyond the 5 years amount respectively to ITL7,060m and ITL5,424m.

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

The total balance on this line amounts to ITL6,199,259m, with an increase of ITL1,314,077m compared to the preceding financial year (+26.9%).

The components are (in millions of Lira):

	1998	Variations compared to 1997
1. Stocks and shares	71,083	57,223
2. Unit trust holdings	6,469	5,263
3. Bonds and other fixed-income securities	5,491,270	1,277,037
4. Loans	77,749	1,660
6. Deposits with credit institutions	2,480	2,480
7. Sundry financial investments	550,208	(29,586)
<b>Total</b>	<b>6,199,259</b>	<b>1,314,077</b>
		<b>+26.9%</b>

With regard to the balance on the line "Stocks and shares", the increase results from increased diversification of investments.

### **Bonds and other fixed-income securities (C.III.3)**

Bonds and other fixed-income securities amount to ITL5,491,270m (+ITL1,277,037m compared to 1997), held solely by the insurance companies and are broken down as follows (in millions of Lira):

		Comp %
Securities issued by Governments, public bodies and international org's.	2,155,817	39.3
Convertible bonds	5,908	0.1
Other listed securities	2,673,502	48.7
Other unlisted securities	656,043	11.9
<b>Total</b>	<b>5,491,270</b>	<b>100</b>

The breakdown of long and short term liabilities amounts to ITL1,863.9bn and ITL3,627.4bn respectively.

The line "Bonds and other unlisted fixed-income securities", includes (in the amount of 120,000,000 Swedish Krone, equal to ITL24,560m at the exchange rate prevailing on 31/12/98) a subordinated debenture loan issued by the Swedish insurance company Folksam, underwritten by Unipol in 1995. The exchange rate risk on the full amount was hedged with a cross currency swap contract at the time of the underwriting, maturing on 17/7/2000.

The final maturity of the loan is 17/7/2005; on 17/7/2000 the issuer may, however, exercise an early repayment option.

The rate of interest for the period 17/7/95-17/7/2000 is fixed and based on the return of 5-year Swedish state securities, plus 1.5%; the successive rate will be defined or will otherwise be determined as for the first period.

The Unipol credit is subordinate to all the other unsubordinated credits. In addition, the General Shareholders' Meeting of Folksam, or the Swedish Supervisory Authority, are entitled to suspend payment of interest (which will be capitalised) or write-down the loan, only in the event that the company falls below the solvency margin required by law; in the latter case the loan in question will be written-up as soon as the company is back above the said margin.

#### **Loans (C.III.4)**

These amount to ITL77,749m (+ITL1,661m) and are broken down as follows (in millions of Lira):

Secured loans	38,536
Loans on policies	36,697
Other loans	2,516
<b>Total</b>	<b>77,749</b>

Receivables becoming due beyond the next financial year and over 5 years amount to ITL68,663m and ITL40,910m respectively.

#### **Deposits with credit institutions (C.III.6)**

As at 31 December 1998 these amount to ITL2,480m and comprise a fixed deposit of US\$1,500,000 at the Banca Nazionale del Lavoro (Bologna) from 16/12/98 to 19/01/99.

#### **Sundry financial investments (C.III.7)**

The balance of ITL550,208m is made up as follows (in millions of Lira):

	<b>1998</b>	<b>Variations compared to 1997</b>
Securities - repo contracts	546,009	(27,933)
Premiums paid on put options purchased	1,410	1,410
Premiums paid for Cap/Floor contracts purchased	2,789	(3,063)
<b>Total</b>	<b>550,208</b>	<b>(29,586)</b>
		<b>-5.1%</b>

Below are the major positions, selecting those with a balance exceeding ITL60bn, which constitute 54.5% of the total amount, relating to securities in repo transactions (in millions of Lira):

<b>Security</b>	<b>Amount</b>
CTZ 15/9/97-15/3/99	85,053
CCT 1/11/96-03	80,008
CTZ 16/3/98-2000	69,975
BOT 31/8/98-26/2/99	64,666
	<b>299,702</b>

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

These amount to ITL31,419m, an increase of ITL3,819m (+13.8%) compared to 1997.

They are deposits placed with the cedants in respect of inward reinsurance risks; movements to them (set up and repayment) take place on an annual or intra-year schedule.

Their respective terms are closely connected to the specific nature of the underlying insurance guarantees and to the actual term of the reinsurance relationships; renewal of these is re-negotiated at the end of each year.

### **Section 3 – Other asset lines (lines D-Dbis-E-F-G)**

#### **Investments for the benefit of Life assurance policy-holders who bear the investment risk and investments arising from pension fund management (line D)**

This line, equal to ITL313,150m (+ITL224,666m compared to 1997), is composed exclusively of investments hedging life assurance and capitalisation contracts with payouts directly linked to investment funds or share indexes. Basically, they are index-linked and unit-linked products. There are as yet no investments arising from pension fund management.

#### **Reinsurers' share of technical provisions (line D bis)**

The balance on this line comes to ITL457,028m and represents an increase of ITL4,588m compared to 1997.

#### **Debtors (line E)**

This line, amounting to ITL719,924m in total, shows a decrease of ITL11,542m compared to 1997, and is detailed below (in millions of Lira):

### **Debtors arising out of direct insurance business (E.I)**

Premiums receivable from policy-holders	261,863
Receivables from intermediaries	134,620
Company receivables - current accounts	25,469
Recoverables from claims	30,465
<b>Total</b>	<b>452,417</b>

### **Debtors arising out of reinsurance operations (E.II)**

<b>Account receivable</b>	<b>121,010</b>
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### **Other debtors (E.III)**

Receivables from the Inland Revenue	98,629
Sundry receivables	47,868
<b>Total</b>	<b>146,497</b>

Amongst the "Sundry receivables" are ITL18,314m deriving from the sale of buildings. In relation to the line "Receivables" the amounts of receivables due beyond the next financial year and beyond 5 years amount to ITL22,942m and ITL2,027m respectively.

### **Other assets (line F)**

#### **Tangible assets and stocks (F.I)**

These comprise furniture, office machinery, electronic machines, vehicles, plant and equipment to the value of ITL87,030m, of which ITL78,106m is depreciated, giving a net value of ITL8,924m (-ITL2,509m compared to 1997).

#### **Cash at bank and in hand (F.II)**

At year end, deposits were equal to ITL165,392m (-ITL5,259m compared to 31/12/97) and relate to the cash flow which characterises the activity of the last days of the financial year.

#### **Own shares (F.III)**

These amount to ITL6,375m (+ITL5,383m) and comprise own shares held in the portfolio of the Parent undertaking at the end of the financial year. Note that the Parent undertaking also holds stocks of the holding company to a total value of ITL18,708m, recorded under the heading "Stocks and shares of holding undertakings".

#### **Other assets (F.IV)**

These amount to ITL43,680m (+ITL19,880m compared to 1997) and include (in millions of Lira):

Deferred reinsurance accounts receivable	20,378
Financial derivatives	20,654
Other assets	2,648
<b>Total</b>	<b>43,680</b>

The amount relating to "Financial derivatives" is made up almost entirely of positive adjustments to the initial exchange rate for forward currency trading operations (ITL20,351m).

### **Prepayments and accrued income (line G)**

These amount to ITL88,601m (- ITL3,877m) and are made up of accrued interest on securities in an amount of ITL76,587m, ITL9,234m from accruals on derivative instruments and ITL2,780m from other prepayments and accrued income.

## BALANCE SHEET – LIABILITIES

### Section 4 – Capital & reserves and subordinated liabilities (lines A-B)

#### Capital & reserves of the Group (line A1)

The shareholders' equity, excluding shares pertaining to minority interests, is split as follows (in millions of Lira):

	1998	Variations comp. to 1997
Share Capital	257,753	131
Legal reserve	48,116	5,346
Share premium reserve	504,359	338
Reserve for own shares	18,624	(5,383)
Contra fund own shares	6,375	5,383
Reserve for holding company shares	18,708	-
Extraordinary reserve	214,998	12,368
Reserve L.46/1967 Reg. Sicilia	631	-
Reval. reserves land and buildings	11,500	-
Revaluation reserve L.413/91	28,583	-
Consolidation reserve	(24,519)	(5,857)
Reserve for valuation differences on non-consolidated interests	1,742	3,164
Reserve for conversion diff's	(617)	614
Profit for the financial year	62,250	14,081
<b>Total</b>	<b>1,148,503</b>	<b>30,185</b> <b>+2.7%</b>

With regard to the share capital of the Parent undertaking, note that in 1998 the right to subscribe to new ordinary and preference shares was exercised by the holders of Warrants associated with the shares issued in November 1996.

In 1998, following the aforesaid subscriptions, the capital increased by ITL131m and reserves

increased by ITL338m.

The line "Consolidation reserve" includes any differences arising from offsetting the book value of participating interests against the corresponding portion of the equity of the consolidated companies, after any attributions to the asset lines of these undertakings and to the consolidation difference (Goodwill). It also includes consolidation adjustments due to application of the accounting principles of the Parent undertaking and elimination of intra-group dividends.

The line "Reserve for valuation differences on unconsolidated interests" houses valuation differences arising from application of the equity method, except for the part deriving from profits / losses for the financial year, which is posted to the line "Share in the earnings for the financial year on participating interests valued using the equity method" on the Profit & Loss account.

The size of the aforesaid reserve has increased by ITL3,164m compared to 1997, as a result of the changes made to the basis of consolidation.

The analysis of the relationship between the parent company's capital & reserves and profit for the year and the consolidated capital & reserves and profit for the year is shown in an attachment.

#### Subordinated liabilities (line B)

The current balance sheet has no subordinated liabilities.

### Section 5 – Technical provisions and other provisions (lines C-D-E)

#### Technical provisions (line C)

These amount to ITL7,571,885m in total, an increase of ITL1,228,172m (+19.4%) compared to 1997. They comprise ITL4,811,652m of technical provisions and provisions for amounts payable of the Life business and ITL2,760,233m of provision for unearned premiums, provision for outstanding claims and other non-life business provisions.

The increase in technical provisions results from the growth in insurance operations, which has affected the main activity areas and the Life business in particular.

The amount is sufficient to meet the liabilities of the Undertakings in relation to life policy holders and non-life claimants.

#### Technical provisions where the investment risk is borne by the policy-holders and provisions arising from pension fund management (line D)

These amount to ITL313,053m (+ITL234,126m compared to 1997) and relate to the technical provisions established to cover liabilities arising from life assurance contracts where the return is

linked to investments or indexes and for which the policy-holder bears the risk (Class III of Table A attached to Legislative Decree 174/95). There are no provisions deriving from pension fund management.

In compliance with Article 38 of Legislative Decree 173/97, the aforesaid provisions have been calculated by reference to the liabilities arising from the policies and are shown as accurately as possible based on the matching assets, in accordance with Article 30 of Legislative Decree 174/95 and subsequent ISVAP instructions. In the case of the contracts referred to in Class III of Table A attached to Legislative Decree 174/95, additional technical provisions have been established to cover mortality risks, determined by reference to a demographic model based on an

adjusted table of the male Italian population for 1992.

#### **Provisions for other risks and charges (line E)**

These amount to ITL24,115m (-ITL1,611m) and relate to:

(E.2) "Provision for taxation" of ITL14,830m; (E.4) "Other provisions" of ITL9,285m, comprising the provision for exchange rate risks of ITL6,577m, the provision for future charges of ITL2,651m, the provision for property charges of ITL57m.

The provision for taxation includes allocations to cover deferred taxes in relation to deferred capital gains, as per Article 54, 4<sup>th</sup> comma, of D.P.R. 917/86.

## **Section 6 – Creditors and other liability lines (lines F-G-H)**

### **Deposits received from reinsurers (line F)**

These have risen from ITL138,288m to ITL143,699m as at 31/12/98, an increase of ITL5,411m.

They represent deposits which constitute a guarantee in relation to ceded and retroceded risks, their maturity been equal to that of the corresponding receivables.

### **Creditors and other liabilities (line G)**

This line, amounting to ITL436,203m in total, shows a fall of ITL2,066m compared to 1997 and is composed of the components given below.

#### **Creditors arising out of direct insurance business (G.I)**

These are equal to ITL15,642m (-ITL9,153m) and mainly relate to payables to agents and other intermediaries (ITL4,338m) and current account payables to Companies (ITL5,572m).

#### **Creditors arising out of reinsurance operations (G.II)**

This balance amounts to ITL20,355m, an increase of ITL2,853m compared to 1997.

#### **Amounts owed to credit institutions (G.IV)**

Their value as at 31/12/98 comes to ITL26,608m and represents a fall of ITL30,585m, due to a reduction in the amounts owed by real estate subsidiaries.

#### **Debts secured by a lien on property (G.V)**

These amount to ITL25,606m and are down by ITL2,289m due to proportions of loans repaid during the financial year.

It can be seen that the amounts of payables due beyond the following financial year and over 5 years amount respectively to ITL23,476m and ITL12,277m respectively.

Note also that the collateral relating to the loans consists of mortgages on property.

#### **Sundry debts and other financial debts (G.VI)**

This line, equal to ITL3,822m (-ITL428m), is entirely made up of entries relating to financial derivatives outstanding as at 31/12/98 and, in particular, ITL2,040m from the proportion of premiums received relating to future financial years for cap options, and ITL1,782m for the value of premiums received for options sold (calls and puts on debt securities, on stocks and on currencies, swap options) and not yet exercised.

#### **Other creditors (G.VIII)**

Payables have increased by ITL19,495m compared to the previous financial year and comprise: (in millions of Lira):

Payables for tax liabilities of policy-holders	39,888
Payables - sundry taxes	74,528
Payables to suppliers	14,984
Payables to welfare bodies	8,819
Sundry payables	23,274
<b>Total</b>	<b>161,493</b>

The line “Payables - sundry taxes”, on which there is a balance of ITL74,528m, is mainly composed of ITL52,843m for income taxes (IRPEG and IRAP) assessed for the current financial year and ITL8,065m for the amount due for the releasing tax on some items of the shareholders’ equity (Legislative Decree. 467 of 18/12/97).

“Sundry payables” include ITL1,906m of amounts payable beyond the next financial year.

### **Other liabilities (G.IX)**

These show an increase of ITL16,048m compared to 1997 and are made up as follows (in millions of Lira):

Deferred reinsurance accounts payable	42,793
Commissions for premiums being collected and <i>rappels</i>	66,614
Financial derivatives	4,275
Other liabilities	25,308
<b>Total</b>	<b>138,990</b>

### **Accruals and deferred income (line H)**

These have risen from ITL18,076m in 1997 to ITL22,715m and relate to deferred income interest on portfolio recoupments and funding to agents of ITL9,103m, to accruals on financial derivatives of ITL11,268m, and other accruals and deferred income of ITL2,344m.

## **Section 7 – Guarantees, commitments and other memorandum accounts**

### **Guarantees (I, II, III)**

I. Guarantees given: ITL43,242m.

This relates mainly to guarantees given in relation to property transactions (mortgages on buildings amount to ITL30,000m).

II. Guarantees received: ITL203,588m.

This relates to guarantees received in connection with carrying out insurance activity, including ITL148bn for surety on bond contracts underwritten by agents.

III. Guarantees given by third parties in the interests of consolidated undertakings: ITL14,061m.

The larger amount results from the surety for commitments assumed by the undertakings relating to CID (ITL8,018m).

### **Commitments (IV)**

Their value as at 31/12/98, amounting to ITL3,567,624m, represents an increase of ITL1,413,362m compared to the previous financial year.

These mainly represent commitments assumed for financial derivative operations which are outstanding at the end of the financial year, amounting to ITL3,015,032m, whilst ITL546,982m relates to commitments from repo transactions.

### **Pension fund assets managed on behalf of third parties (VI)**

At financial year-end there were no asset or liability activities pertaining to pension funds managed in the name of and for the account of third parties.

## PROFIT AND LOSS ACCOUNT

### Section 8 – Information relating to technical accounts

#### Premiums for the financial year

Premiums written reached ITL3,061.9bn in 1998, a growth rate equal to 25.6% (+64.8% occurring in Life business and +10.1% in non-life business) compared to the previous financial year.

In the table below, which uses (as required by ISVAP instruction No. 734 dated 1 December 1997) the risk classification provided in point A in

the table attached to Legislative Decree No. 175 of 17/3/95, for non-life business and a similar table attached to Legislative Decree No. 174 of 17/3/95, for Life business, premiums are broken down into the various classes, showing how they are made up and the percentage variations compared to 1997 (in millions of Lira):

#### BREAKDOWN OF WRITTEN PREMIUMS PER CLASS OF BUSINESS

(Net of tax on premiums)

Classes of Business	financial yr		financial yr		variations 1998/1997	
	1998	%	1997	%	absolute	in %
<b>DIRECT ITALIAN BUSINESS</b>						
<b>Non-Life Business</b>						
Accident and Health (classes 1 and 2)	281,418	9.4	247,630	10.5	33,788	13.6
Land Vehicles - Motor T.P.L. (class 10)	918,171	30.7	823,551	34.9	94,619	11.5
Land Vehicles - Own Damage or Loss (class 3)	189,526	6.3	176,236	7.5	13,290	7.5
Marine, Aviation and Transport (classes 4, 5, 6, 7, 11 and 12)	16,654	0.6	16,224	0.7	431	2.7
Fire and Other Damage to Property (classes 8 and 9)	190,467	6.4	179,935	7.6	10,531	5.9
General T.P.L. (class 13)	167,796	5.6	148,002	6.3	19,794	13.4
Credit and Bonds (classes 14 and 15)	45,708	1.5	41,966	1.8	3,742	8.9
Miscellaneous pecuniary loss (class 16)	25,189	0.8	25,871	1.1	-682	-2.6
Legal Protection (class 17)	10,716	0.4	9,410	0.4	1,306	13.9
Assistance (class 18)	9,929	0.3	8,536	0.4	1,393	16.3
<b>Total Non-Life Business</b>	<b>1,855,573</b>	<b>62.1</b>	<b>1,677,361</b>	<b>71.0</b>	<b>178,212</b>	<b>10.6</b>
<b>Life Assurance Business</b>						
I - Life assurance, annuities	863,689	28.9	624,523	26.4	239,166	38.3
III - Ass. linked to investment funds/market indexes	228,293	7.6	26,141	1.1	202,152	773.3
V - Capitalisation operations	41,034	1.4	33,755	1.4	7,279	21.6
<b>Total Life Assurance Business</b>	<b>1,133,016</b>	<b>37.9</b>	<b>684,420</b>	<b>29.0</b>	<b>448,597</b>	<b>65.5</b>
<b>Total Direct Italian Business</b>	<b>2,988,590</b>	<b>100.0</b>	<b>2,361,781</b>	<b>100.0</b>	<b>626,809</b>	<b>26.5</b>
<b>INWARD REINSURANCE</b>						
<b>Indirect Non-Life Business</b>						
Accident and Health (classes 1 and 2)	7,335	10.0	7,065	9.4	270	3.8
Land Vehicles - Motor T.P.L. (class 10)	21,442	29.3	23,921	31.8	-2,480	-10.4
Land Vehicles - Own Damage or Loss (class 3)	1,598	2.2	1,351	1.8	247	18.3
Marine, Aviation and Transport (classes 4, 5, 6, 7, 11 and 12)	2,073	2.8	1,883	2.5	190	10.1
Fire and Other Damage to Property (classes 8 and 9)	29,143	39.8	29,362	39.1	-220	-0.7
General T.P.L. (class 13)	1,278	1.7	1,643	2.2	-364	-22.2
Credit and Bonds (classes 14 and 15)	1,365	1.9	1,228	1.6	137	11.1
Miscellaneous pecuniary loss (class 16)	0	0.0	4	0.0	-4	-100.0
Assistance (class 18)	0	0.0	244	0.3	-244	-100.0
<b>Total Indirect Non-Life Business</b>	<b>64,233</b>	<b>87.7</b>	<b>66,702</b>	<b>88.8</b>	<b>-2,469</b>	<b>-3.7</b>
<b>Indirect Life Assurance Business</b>						
I - Life assurance, annuities	9,035	12.3	8,419	11.2	616	7.3
<b>Total Indirect Life Assurance Business</b>	<b>9,035</b>	<b>12.3</b>	<b>8,419</b>	<b>11.2</b>	<b>616</b>	<b>7.3</b>
<b>Total Inward Reinsurance</b>	<b>73,268</b>	<b>100.0</b>	<b>75,120</b>	<b>100.0</b>	<b>-1,852</b>	<b>-2.5</b>
<b>TOTAL PREMIUM INCOME</b>	<b>3,061,858</b>		<b>2,436,901</b>		<b>624,956</b>	<b>25.6</b>

Direct and indirect premiums for the individual companies, net of intra-group transactions, are as follows (in millions of Lira):

	<b>Non-Life</b>	<b>Life</b>	<b>Total 1998</b>	<b>1997</b>
Unipol Assicurazioni spa	1,866,869	677,777	2,544,646	2,275,378
Noricum Vita spa		297,159	297,159	111,877
Quadrifoglio Vita spa		167,116	167,116	22,521
Unisalute spa	30,729		30,729	20,292
Linear Assicurazioni spa	22,208		22,208	6,833
<b>Total</b>	<b>1,919,806</b>	<b>1,142,052</b>	<b>3,061,858</b>	<b>2,436,901</b>

### **Breakdown of gross premium income by geographic area**

Premiums have been written almost entirely in Italy and 83.1% relates to the Parent undertaking.

The earned premiums showed a total increase of 28.4% in 1998, being +11.4% in non-life business and +66.5% in Life business.

### **Allocated investment returns transferred to the technical account of Life business (II.2)**

Note that, in accordance with the provisions contained in the ISVAP instruction No. 1140-G dated 8/3/99 (published in the Official Gazette of 16/3/99), a share of the investment returns, equal to ITL280.097m, has been transferred from the non-technical account to the technical account for the Life branches.

### **Other technical income (I.2 - II.4)**

Other technical income, net of reinsurance, amounts to ITL1,300m for the non-life business and ITL6,267m for the Life business respectively. In the case of the non-life business the line includes, in accordance with the new regulatory provisions, the reversal of commissions relating to cancelled premiums for previous financial years

(ITL279m) and cancelled premiums ceded for reinsurance (ITL493m). For the Life business, the line includes the reversal of the commissions relating to cancelled premiums for previous financial years (ITL501m), and interest borne by Consap on receivables for sums paid in connection with ex compulsory cessions of life assurance premiums (ITL4,426m).

### **Other technical charges (I.7 - II.10)**

Other technical charges, net of reinsurance, amount to ITL5,591m for non-life business and ITL8,387m for Life business respectively.

Amongst the other charges are: for non-life business, ITL1,140m for flat-rate write-downs, as a lump sum, on receivables from policy-holders and ITL2,649m for cancellations of receivables towards policy-holders for premiums for previous financial years. In the case of Life business, ITL695m represents cancellations of receivables from policy-holders for premiums for previous financial years, whilst ITL7,596m relates to recomputation of receivables from Consap for sums paid in connection with ex compulsory cessions, based on the annual rates of return given in the Ministerial Decree of 2/10/98 and taken into account the instructions issued by ISVAP on the subject, in circular 357/D dated 12/1/99.

## **Section 9 – Information relating to the non-technical account**

### **Income on other investments (III.3.b)bb)**

This is showing a negative difference of ITL40,858m, in which the fixed income securities portfolio has been particularly involved, due to a significant fall in interest rates, and which is broken down as follows (in millions of Lira):

- Bonds / fixed- income securities	324,592
- Loans	7,437
- Interest on deposits with credit institutions	15,687
- Sundry financial investments	61,040
- Interest on deposits with ceding undertakings	1,568
<b>Total</b>	<b>410,324</b>

### **Value re-adjustments on investments (III.3.c)**

Value re-adjustments have been made in the amount of ITL2,507m (+ITL2,486m) on investments written-down in the course of previous financial years, ITL2,273m of this relating to securities and ITL234m to other financial investments.

### **Realised gains on investments (III.3.d)**

These show an increase of ITL20,857m compared to 1997 and include (in millions of Lira):

Capital gains on divestitures:	
- bonds/ fixed-income securities	44,437
- stocks and shares	12,387
- buildings	4,315
- other financial investments	5,305
<b>Total</b>	<b>66,444</b>

These relate to capital gains arising from short term investments.

### Investment management charges, interests included (III.4.a)

Investment management charges and other interest payable, which show an increase of ITL12,610m are subdivided into the following items (in millions of Lira):

Charges – sundry financial investments	48,025
Charges – shares/bonds	3,636
Charges – property investments	19,003
Interest on reinsurance deposits	7,712
Depreciation of assets	1,303
<b>Total</b>	<b>79,679</b>

### Value adjustments on investments (III.4.b)

These amount to ITL19,962m (-ITL518m) and relate to a:

Value adjustments on:	
- bonds/ fixed-income securities	2,081
- shares	5,239
- participating interests	3,909
- other financial investments	406
- property depreciation	8,327
<b>Total</b>	<b>19,962</b>

Capital losses arising from valuations of participating interests total ITL1,383m for subsidiary companies and ITL808m for affiliated companies.

### Losses on investments (III.4.c)

These amount to ITL4,544m (+ITL2,614m) and are broken down as follows (in millions of Lira):

Capital losses on divestitures:	
- bonds/ fixed-income securities	1,636
- stocks and shares	1,470
- other financial investments	1,438
<b>Total</b>	<b>4,544</b>

### Other income (III.6)

On this line, equal to ITL57,418m (+ITL16,457m) the most significant components are: ITL24,143m for exchange rate differences arising from the conversion of foreign currency entries at year-end exchange rates; ITL12,794m for interest receivable

on bank deposits and ITL5,408m for transfers from the exchange rate risk provision.

### Interest on financial debts (III.7.a)

Of the balance on “Interest on financial debts”, which totals ITL4,499m (-ITL6,519m), ITL1,990m relates to interest on amounts owed to banks and ITL2,509m in interest on loans and corporate financing.

### Sundry charges (III.7.b)

Out of the total of ITL55,969m (+ITL13,390m), the most important part comes to ITL26,901m and relates to exchange rate differences arising from the conversion of foreign currency amounts at year-end exchange rates.

### Profit on ordinary activities

This reflects the trend which has been noticed in the non-life business, which has been affected in 1998 by the negative technical balance coming from the third party liability business.

### Extraordinary income (III.9)

This shows an increase of ITL45,175m, detailed below (in millions of Lira):

Income from divestiture / trading of:	
- property	16,042
- bonds/ fixed-income securities	20,703
- stocks and shares	18,022
- various (contingent assets / other)	2,921
<b>Total</b>	<b>57,688</b>

The capital gains shown above relate to the area of long-term investments and also include investments relating to special funds in the context of the Life assurance business.

### Extraordinary charges (III.10)

This amount, equal to ITL2,393m (+ITL1,476m), is principally composed of capital losses deriving from trading in stocks and shares (ITL1,467m), from expenses inherent in sales of property (ITL496m) and contingent liabilities (ITL363m).

## PART D - OTHER INFORMATION

### Staff

	Average Number 1998	Number as at 31/12/98
Unipol Assicurazioni	1,396	1,402
Quadrifoglio Vita	9	9
Unisalute	62	66
Noricum Vita	11	12
Linear Assicurazioni	80	85
<b>Total</b>	<b>1,558</b>	<b>1,574</b>

The average 1998 number is divided by category as follows:

Managers	62
Officers	163
Employees	1,264
Producers	66
Caretakers	3
	<b>1,558</b>

Altogether, the average structure of the Group underwent a numerical increase of 55 units compared to the previous financial year.

### Emoluments

The emoluments payable in 1998 to the Board members and Auditors of the Parent undertaking for performance of their functions in Unipol Assicurazioni and in other companies included in the consolidation are as follows (in millions of Lira):

Board members	817
Auditors	251
	<b>1,068</b>

### Transactions carried out by S.I.M.

As already shown in the Board's report, the company Unipol Sim spa carries on investment portfolio management activities for the account of third parties, also in a trustee capacity.

The volume managed reached the amount of ITL1,115bn at the end of 1998, an increase of 162% compared to 31/12/1997.

The managed volume of corporate clients increased by 177%, from ITL386bn at the end of 1997 to ITL1,071bn on 31/12/1998. This good result is due to the activity carried on with companies in the Unipol Group, for which the total funds under management has risen to ITL909bn as

at 31/12/1998(+ITL671bn). The funds managed for individual clients were ITL44bn as at 31/12/1998, there being no substantial variations compared to 31/12/1997.

### Consolidated financial report

The relevant report is provided in the attachment

Bologna, 26 March 1999

**The Board of Directors**

**RECONCILIATION BETWEEN  
THE PARENT COMPANY'S CAPITAL, RESERVES AND PROFIT FOR THE YEAR  
AND CONSOLIDATED CAPITAL, RESERVES AND PROFIT FOR THE YEAR**

*(amounts in ITL million)*

	<b>Capital and Reserves</b>	<b>Profit for the year</b>	<b>1998 Shareholders' Equity Total</b>	<b>1997 Shareholders' Equity Total</b>
<b>Balances on annual accounts of Unipol Assicurazioni</b>	<b>1,109,647</b>	<b>58,484</b>	<b>1,168,131</b>	<b>1,146,107</b>
Difference between net book value and capital, reserves and profit for the year of the undertakings:				
-included on a line-by-line basis	(15,379)	2,223	(13,156)	(10,638)
-included by the equity method	1,495	2,894	4,389	(789)
Exchange risk provision	(617)		(617)	(1,232)
Deferred differences arising from consolidation		(2,818)	(2,818)	(1,707)
Elimination of inter-group dividends	1,248	(1,248)	0	0
Inter-group transactions	(10,468)	(820)	(11,288)	(13,775)
Application of Group accounting criteria	327	(71)	256	352
Consolidation adjustments		3,606	3,606	0
<b>Balances on consolidated annual accounts - Group</b>	<b>1,086,253</b>	<b>62,250</b>	<b>1,148,503</b>	<b>1,118,318</b>
Minority interests	58,215	265	58,480	29,268
<b>Total for the Group, minority interests included</b>	<b>1,144,468</b>	<b>62,515</b>	<b>1,206,983</b>	<b>1,147,586</b>

**CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT**

*(amounts in ITL million)*

	<b>1998</b>	<b>1997</b>
<b>TECHNICAL ACCOUNT</b>		
<b>net of reinsurance</b>		
Earned premiums - Non-Life business	1,692,781	1,519,181
Earned premiums - Life business	1,126,664	676,873
<b>Total</b>	<b>2,819,445</b>	<b>2,196,054</b>
Claims paid - Non-Life business	(1,441,782)	(1,252,307)
Claims paid and changes in technical provisions - Life business	(1,314,471)	(868,196)
Operating expenses	(448,931)	(424,306)
Balance on other technical income/charges	(6,411)	(1,411)
Net investment income (1)	311,496	287,270
<b>Balance on the Technical Account</b>	<b>(80,654)</b>	<b>(62,896)</b>
<b>NON-TECHNICAL ACCOUNT</b>		
Investment income (2)	147,056	168,127
Other income	57,418	40,961
Other charges	(60,468)	(53,597)
<b>Balance on ordinary activities</b>	<b>63,352</b>	<b>92,595</b>
Extraordinary income	57,688	12,513
Extraordinary charges	(2,393)	(917)
<b>Profit before taxation</b>	<b>118,647</b>	<b>104,191</b>
Tax on profit	(56,132)	(55,270)
Profit for the year - minority interests	(265)	(752)
<b>PROFIT FOR THE YEAR - GROUP</b>	<b>62,250</b>	<b>48,169</b>

(1) Including investment income on Life business transferred from the non-technical account

(2) Net of investment income transferred to the Life assurance technical account

**RECONCILIATION BETWEEN  
THE PARENT COMPANY'S CAPITAL, RESERVES AND PROFIT FOR THE YEAR  
AND CONSOLIDATED CAPITAL, RESERVES AND PROFIT FOR THE YEAR**

(amounts in Euro 000s)

	Capital and Reserves	Profit for the year	1998 Shareholders' Equity Total	1997 Shareholders' Equity Total
<b>Balances on annual accounts of Unipol Assicurazioni</b>	<b>573,085</b>	<b>30,204</b>	<b>603,289</b>	<b>591,915</b>
Difference between net book value and capital, reserves and profit for the year of the undertakings:				
-included on a line-by-line basis	(7,943)	1,148	(6,795)	(5,494)
-included by the equity method	772	1,495	2,267	(407)
Exchange risk provision	(319)		(319)	(636)
Deferred differences arising from consolidation		(1,455)	(1,455)	(882)
Elimination of inter-group dividends	645	(645)	0	0
Inter-group transactions	(5,406)	(423)	(5,830)	(7,114)
Application of Group accounting criteria	169	(37)	132	182
Consolidation adjustments	0	1,862	1,862	0
<b>Balances on consolidated annual accounts - Group</b>	<b>561,003</b>	<b>32,149</b>	<b>593,152</b>	<b>577,563</b>
Minority interests	30,066	137	30,202	15,116
<b>Total for the Group, minority interests included</b>	<b>591,068</b>	<b>32,286</b>	<b>623,355</b>	<b>592,679</b>

**CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT**

(amounts in Euro 000s)

	1998	1997
<b>TECHNICAL ACCOUNT</b>		
<b>net of reinsurance</b>		
Earned premiums - Non-Life business	874,248	784,592
Earned premiums - Life business	581,873	349,576
<b>Total</b>	<b>1,456,122</b>	<b>1,134,167</b>
Claims paid - Non-Life business	(744,618)	(646,763)
Claims paid and changes in technical provisions - Life business	(678,868)	(448,386)
Operating expenses	(231,854)	(219,136)
Balance on other technical income/charges	(3,311)	(729)
Net investment income (1)	160,874	148,363
<b>Balance on the Technical Account</b>	<b>(41,654)</b>	<b>(32,483)</b>
<b>NON-TECHNICAL ACCOUNT</b>		
Investment income (2)	75,948	86,830
Other income	29,654	21,155
Other charges	(31,229)	(27,681)
<b>Balance on ordinary activities</b>	<b>32,719</b>	<b>47,821</b>
Extraordinary income	29,793	6,462
Extraordinary charges	(1,236)	(474)
<b>Profit before taxation</b>	<b>61,276</b>	<b>53,810</b>
Tax on profit	(28,990)	(28,545)
Profit for the year - minority interests	(137)	(388)
<b>PROFIT FOR THE YEAR - GROUP</b>	<b>32,149</b>	<b>24,877</b>

(1) Including investment income on Life business transferred from the non-technical account

(2) Net of investment income transferred to the Life assurance technical account

**STATEMENT OF CHANGES IN CONSOLIDATED CAPITAL AND RESERVES  
FOR THE YEAR ENDED 31 DECEMBER 1998**

*(amounts in ITL million)*

	Share capital	Reserves	Profit / (Loss) for the year	TOTAL
<b>Balances as at 31 December 1997</b>	<b>257,622</b>	<b>812,527</b>	<b>48,169</b>	<b>1,118,318</b>
Allocation of 1997 profit				
-dividends			(37,089)	(37,089)
-reserves		11,080	(11,080)	0
Conversion of Warrants	131	338		469
Changes in other reserves		4,555		4,555
Profit for the year 1998			62,250	62,250
<b>Balances as at 31 December 1998</b>	<b>257,753</b>	<b>828,500</b>	<b>62,250</b>	<b>1,148,503</b>

**CONSOLIDATED CASH FLOW**

*(amounts in ITL million)*

	1998	1997
<b>CASH INFLOW</b>		
<b>CASH INFLOW FROM OPERATING ACTIVITIES</b>		
Net profit for the year	62,250	48,169
Net increase in technical provisions	1,457,710	808,748
Amortisations for the year	22,589	24,659
Net increase in provisions for risks and charges	382	(5,850)
Fixed-income securities, shares and participating interests written down	11,636	8,791
(Increase) in debtors and other assets net of creditors and other liabilities	7,213	(67,959)
Increase (decrease) in financial debts	(32,873)	(82,440)
	1,528,907	734,118
<b>OTHER CASH INFLOW</b>		
Capital increase - shares issue	469	430
Changes in equity reserves	4,555	(20,851)
Increase (decrease) in minority interests	29,213	4,040
<b>TOTAL CASH INFLOW</b>	<b>1,563,144</b>	<b>717,737</b>
<b>CASH FLOWS WERE INVESTED AS FOLLOWS:</b>		
Net increase in debt securities and other fixed-income securities	1,263,134	235,651
Net increase in shares and participating interests	118,092	5,306
Net increase in buildings	(91,832)	(1,928)
Net increase (decrease) in financial investments	16,129	5,208
Net increase in assets for corporate use and multiyear expenditure	25,552	15,868
Value adjustments on investments	2,507	22
Other financial investments	197,732	434,258
Dividends paid	37,089	31,914
<b>TOTAL CASH FLOW INVESTED</b>	<b>1,568,403</b>	<b>726,299</b>
Increase (decrease) in cash and cash equivalents	(5,259)	(8,562)
<b>TOTAL</b>	<b>1,563,144</b>	<b>717,737</b>
<b>CASH AND CASH EQUIVALENTS</b>		
Bank balances and cash at 1 January	170,651	179,213
Bank balances and cash at 31 December	165,392	170,651
<b>INCREASE (DECREASE) IN THE YEAR</b>	<b>(5,259)</b>	<b>(8,562)</b>

**REPORT BY THE BOARD  
OF STATUTORY AUDITORS**

## REPORT BY THE BOARD OF STATUTORY AUDITORS

Shareholders,

The consolidated accounts for the Unipol Assicurazioni Group for the financial year 1998, together with the Board of Directors' Report, have been submitted to us in accordance with the law.

Our inspection of the accounts has been carried out in accordance with the operating guidelines of the Board of Statutory Auditors as recommended by the Certified Public Accountants and, in accordance with these principles, we have referred to the legal norms which govern the annual accounts, interpreted by and integrated with the correct accounting principles as determined by the National Boards of Certified Public Accountants. The Board has thereby determined that the consolidated accounts have been prepared in accordance with the prevailing civil regulations and those specific to the insurance sector, and notes that, from the present financial year, the accounts follow the layout and instructions prescribed in Legislative Decree No173/97.

The consolidated Balance Sheet and Profit and Loss Account are drawn up in comparative form, showing the data for the previous financial year. The line-by-line method has been applied to aggregate the balance sheets and profit and loss accounts of five insurance entities, six property companies and one service company, whilst twenty companies are valued using the equity method. They show a net profit of ITL62.2 billion, total assets of ITL9,719 billion and an equity attributable to the Group of ITL1,149 billion.

The Board considers that the problem of the changeover to year 2000 is under control and close to being resolved.

Inspections have been carried out in accordance with Art. 41 of the Legislative Decree of 9 April 1991, No. 127, referred to in Art. 75 of Legislative Decree No 173/97.

It has also been verified that:

- The consolidated accounts are in order and correspond to the results of the accounting records of the parent undertaking Unipol Assicurazioni and to the information supplied by the entities included in the consolidation;

- the Board of Directors' Report corresponds to the results of the consolidated accounts.

Having verified that the scope of the consolidation has been correctly identified, the Board confirms that:

- assets and liabilities have been correctly valued;
- the consolidation criteria adopted comply with legal requirements.

In accordance with the prevailing regulatory context, the Board of Directors' Report and Notes to the Accounts provide information on the performance of the Group during the financial year and, in our opinion, a thorough commentary on the principal items on the consolidated accounts, together with analysis of the consolidated Profit & Loss account and changes in the consolidated equity.

In accordance with the above, the Board concurs with the results given in the consolidated accounts for the Unipol Assicurazioni Group as at 31 December 1998.

Bologna, 7 April 1999

### THE BOARD OF AUDITORS

*Umberto MELLONI - Chairman*

*Diego BASSINI*

*Mauro CONTI*

*Severino COSTA*

*Lorenzo ROFFINELLA*

# **AUDITORS' REPORT**

**Report of Independent Auditors  
pursuant to Article 4 of D.P.R. No. 136/1975  
and to Article 75 of D.Lgs. No. 173/97**

(Translation from the original Italian text)

To the Shareholders of  
COMPAGNIA ASSICURATRICE UNIPOL S.p.A.

1. We have audited the consolidated financial statements of COMPAGNIA ASSICURATRICE UNIPOL S.p.A. and subsidiaries (UNIPOL Group) as at and for the year ended December 31, 1998. We have also confirmed the agreement of the Directors' Report with the aforementioned consolidated financial statements.
2. Our examination was made in accordance with the auditing standards recommended by CONSOB, and integrated, where necessary, in accordance with the specific procedures for the audit of the financial statements of insurance companies, performing those tests we deemed necessary in the circumstances. The financial statements of the subsidiary Unipol Banca S.p.A., representing approximately 1% of the consolidated assets and 20% of the total investments in Group companies consolidated applying the equity method, were examined by other auditor which has provided us with its audit report. Consequently, our opinion on the consolidated financial statements of the UNIPOL Group as at December 31, 1998 and for the year then ended, as far as it relates to the data examined by other auditor, is based also on its examination. With respect to our opinion on the consolidated financial statements for the prior year, presented for comparative purposes as requested by law, reference should be made to our report to the Shareholders issued May 18, 1998. To allow the comparison with 1998 figures presented in accordance with the new classification requested by law for consolidated financial statements, prior year amounts have been reclassified with respect to those included in the 1997 consolidated financial statements audited by us.
3. In our opinion, the above-mentioned consolidated financial statements, taken as a whole, have been prepared clearly in all material respects, and give a true and fair view of the consolidated financial position and the results of operations of the UNIPOL Group, in accordance with the regulations concerning consolidated financial statements. We therefore issue our report on the consolidated financial statements of COMPAGNIA ASSICURATRICE UNIPOL S.p.A. and subsidiaries (UNIPOL Group) as at and for the year ended December 31, 1998.

Milan, April 14, 1999

Reconta Ernst & Young S.p.A.

Signed by : Carlo Cassamagnaghi  
(Partner)