Compagnia Assicuratrice Unipol S.p.A.

Registered and Head Offices in Bologna – Via Stalingrado 45 – Share capital €2,360,144,410.00 fully paid-up. Tax Code and Companies' Register in Bologna 00284160371 – R.E.A. 160304 – Authorized to provide insurance services by MD 28 December 1962 (OJ 15/18.1.63) and MD 29 April 1981 (OJ 135/19.5.81)

www.unipol.it

Unipol Assicurazioni
Consolidated Accounts 2005

Translation from the original Italian text.

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COMPANY'S BOARDS AND OFFICIALS [(*)]

	Honorary Chairman		Enea Mazzoli
Board of Directors	**Chairman and Managing Director**		Pierluigi Stefanini
	Vice Chairman and Managing Director		Vanes Galanti
	Board Members	Antonio Silvano Andriani Jean Dominique Antoni Francesco Boccetti Rocco Carannante Piero Collina Bruno Cordazzo Pier Luigi Fabrizi Jacques Forest Fabrizio Gillone Claudio Levorato Ivan Malavasi Riccardo Margheriti	Massimo Masotti Enrico Migliavacca Pier Luigi Morara Milo Pacchioni Marco Pedroni Aldo Soldi Graziano Trere' Marco Giuseppe Venturi Francesco Vella Luca Zaccherini Mario Zucchelli
	Secretary to the Board of Directors		Roberto Giay
Remuneration Committee	**Members**		Piero Collina Enrico Migliavacca Mario Zucchelli
Internal Audit Committee	**Members**		Francesco Boccetti Rocco Carannante Massimo Masotti
Area General Managers			Carlo Cimbri Carmelo De Marco
Joint General Managers			Riccardo Laurora Salvatore Petrillo
Central Managers		Domenico Brighi Giancarlo Brunello Federico Corradini	Stefano Dall'Aglio Francesco Montebugnoli Stefano Scavo
Board of Statutory Auditors	**Chairman**		Umberto Melloni
	Members		Carlo Cassamagnaghi Luigi Capè
	Alternate Members		Marco Baccani Roberto Chiusoli
External Auditors			K.P.M.G. spa

[(*)] Updated on the basis of the resolutions adopted by the Shareholders' Meeting on 3 May 2006.

Introduction

Macroeconomic background

Last year was characterised by a difficult international situation, a slowdown in growth worldwide and an increase in rates of inflation.
In 2005 Italian GDP grew by 0.1%, considerably less than the 1.1% of the end of 2004.
In the Eurozone as a whole GDP grew by only 1.4% compared with 1.8% in the previous year.
In the Summer of 2005 international rates of inflation began to be affected by the continued increases in energy costs. However, in Italy consumer prices rose by only 2% whereas the average for Europe as a whole was 2.2%.
The estimates for 2005 indicate an improvement in the unemployment rates. In Italy they could be down to 7.7%, from 8% at the end of 2004.
The figure for the Eurozone as a whole is also down, from 8.9% to 8.7%.

Financial markets

On 1 December 2005 the European Central Bank applied a temporary monetary squeeze: the European base rate, which had stayed at 2% since 6 June 2003, rose to 2.25%.
The Bank of England also altered its rates in 2005, but in the opposite direction: the UK base rate was in fact reduced from 4.75% to 4.50%.

At the end of 2005 international share markets recorded excellent performances, with the exception of the New York Stock Exchange. The most outstanding was that of the Tokyo Stock Exchange (+ 40.24%).
The average of the Stock Markets in the Eurozone was +21.27%, whereas the Milan Stock Exchange recorded growth of only 13.78%.

At the end of 2005, after falling to its lowest point in November, the Dollar/Euro exchange rate stabilised at 1.18. The Dollar also rallied considerably in November against the Pound Sterling and the Yen.

Insurance business

The figures issued by ISVAP indicate that in the first nine months of 2005 (the last period for which figures are available) premium income in Italy recorded an increase of 11.8% compared with the same period of the previous year.
Non-Life business continued to show very modest growth (less than +2%), partly because of the unfavourable business cycle. Growth was almost exclusively in non-Motor business, which was up 4.2%, whilst Motor premium income grew by only 0.5%.
The best rates of growth were recorded in Life business. The increase of 17.1% as at 30 September 2005 (compared with +3.2% for the same period of 2004) was mainly due to capital redemption contracts (+21.2%) and to Class III contracts, which have a greater financial content (+20.5%).
The breakdown according to sales channel indicates a net prevalence of banking and postal outlets, which have a 63.5% share of the business, compared with the traditional

networks (agencies, head office and brokers, which had 29.2%) and advisers (7.3%).
The latest figures available (as at December 2005) relating to new Life business (individual contracts) show levels exceeding €53bn (+12.6%). Business for the year rose to more than €59bn, an increase of +15.5%.

Principal new legislation relating to insurance business

Finally let us recall some of the new legislation introduced in 2005 that affects this sector:

- ISVAP Circular 551/D dated 1 March 2005 relating to 'Provisions relating to transparency of Life assurance contracts', which introduced numerous changes to the 'Notes' and to the 'Schedule' (containing the essential features of the contract in terms that can be easily understood by the potential policyholder).
- ISVAP Ruling 2340 dated 21 March 2005, which issued provisions relating to calculating the adjusted solvency of an insurance company and to checking the solvency of its holding company. This Ruling amends the previous ISVAP Ruling, 2050 dated 26 February 2002. On 22 December 2005, following the introduction of the IAS/IFRS and of the amendments contained in Legislative Decree 142/2005 relating to supervision of financial conglomerates, ISVAP published a document for public consultation, comments on which were to be received by 31 January 2006, by means of which it intends to amend legislation dealing with ascertaining adjusted solvency and with checking the solvency of holding companies using the consolidated accounts method. The new legislation came into force as from the year ended 31 December 2005.
- ISVAP Circular 555/D dated 17 May 2005 covering provisions relating to compulsory Motor TPL insurance. This particularly provides more consumer protection under compulsory third-party liability insurance by making it compulsory to indicate the universal conversion class so as to guarantee comparability between the various classes and to provide standardised treatment for customers and a continuous insurance history for all vehicles including motorcycles and mopeds.
- On 12 May 2005 EC Law 2004 came into effect (law 62 of 18/4/2005, published in Official Gazette 96 of 27/4/2005) and with it the new rules on confidential information and on market abuse which, by amending Legislative Decree 58/98 (known as the Draghi law), Legislative Decree 231/01, the Italian Civil Code and the Criminal Procedure Code, are intended to monitor individuals who have access to confidential information such as to be able to affect the performance of securities (financial analysts, rating agencies and journalists). CONSOB's powers to carry out investigations were extended and administrative penalties were increased. On 22 June CONSOB published three rulings in order to adapt its investigations as a result of which penalties can be applied to the principles introduced by the new law.
- On 2 September 2005 the Council of Ministers issued a legislative decree to approve the new Insurance Code, which came into effect on 1 January 2006. The Code consists of 355 articles and simplifies and reorganises this sector. Attention is drawn to the following major innovations:
    - the duty of injured parties to make a direct claim for redress for both all the material damage and the non-serious injury to the non-responsible driver to their

own company, which will then recover its losses from the company of the person responsible for the loss or injury (this new scheme will come into effect when the Government has approved the enabling decree);

- ➢ the introduction of new rules in favour of policyholders, such as transparency in policy terms and a code of conduct for companies and intermediaries;
- ➢ compensation for passengers to be paid by the insurer of the vehicle;
- ➢ in the event of sale or theft of the vehicle, refund of the premium for the period until the policy runs out;
- ➢ setting up a single public register of all insurance intermediaries (agents, brokers, banks, post offices and their employees operating off the premises), to be operated by ISVAP;
- ➢ setting up at ISVAP an Italian Information Centre in order to assist injured parties with accidents that occur in countries other than the country of residence.

- ISVAP Ruling 2372 dated 16 September 2005 on provisions relating to covering technical provisions for direct insurance other than Life assurance.

- Legislative Decree 190 of 19 August 2005 – Distance Selling, which came into effect on 8 October in implementation of EC Directive 2002/65 relating to the distance selling of financial services to consumers. The decree applies to all Non-Life and Life insurance contracts, including personal pension products, and governs in detail the techniques of providing information and selling at a distance, including any method that could be used for selling a service without the consumer and the supplier being physically present. Particular attention has been paid to the information that must be provided to the potential policyholder relating to the insurance company, the service offered and the possibilities of making a complaint and of withdrawing.

- On 16 November Bankitalia and ISVAP signed an initial coordination agreement relating to financial conglomerates in the banking and insurance sectors. This agreement, which was also sent to CONSOB, implements Legislative Decree 142 of 30 May 2005 (which incorporated EC Directive 2002/87 relating to the supplementary supervision of credit institutions, insurance companies and investment companies belonging to financial conglomerates) and specifically lays down the procedures for identifying financial conglomerates subject to supplementary supervision, the authorities called upon to coordinate the supplementary supervision of conglomerates and the criteria and methods for calculating capital adequacy at conglomerate level.

- Legislative Decree 252 of 5 December 2005, 'Rules governing supplementary pension schemes', the coming into force of which was, however, postponed until 1 January 2008 (apart from four articles, including the article relating to the duties and the powers of COVIP, which came into effect on 14/12/05). By 13 June 2006 COVIP will have issued guidelines for all pension schemes, which must conform to the contents of the decree by 31 December 2007. Reform of staff-leaving indemnity was also put off until 2008. As from 1 January 2008 employees will have six months in which to decide whether to continue in the company staff-leaving indemnity scheme or to transfer the amount accrued into a pension fund of their choosing and as from 1 July 2008 the regulations on the tacit transfer of the staff-leaving indemnity if the employee does not express a choice (silent assent) will apply.

- ISVAP Ruling 2404 of 22 December 2005, covering 'provisions relating to the layout of consolidated accounts drawn up on the basis of international accounting standards', specifying the layout that companies must adopt when drawing up consolidated accounts under IAS/IFRS. This Ruling, which comes into effect when the accounts for 2005 are drawn up, is accompanied by instructions for drawing up the financial statements, which include the Balance Sheet, the Profit and Loss Account, the Statement of Changes in the Shareholders' Equity, the Cash Flow Statement and the tables to be included in the Notes to the Accounts.

- ISVAP Circular 574/D of 23 December 2005, covering provisions relating to outward reinsurance, in order to monitor companies' reinsurance contracts and to check that the insurance risk is actually transferred while assessing the suitability of the reinsurance contracts for having an effect on the solvency margin and on the assets matching the technical provisions. The provisions of this circular came into effect on 1 January 2006.

- ISVAP Circular 577/D of 30 December 2005, covering provisions relating to internal audit and risk management systems. In this circular ISVAP lays down the guidelines to which companies must adhere when setting up suitable internal auditing and risk management procedures in order to enable the most significant risks to be identified, assessed and monitored. Companies must conform to the provisions of the circular by 30 June 2006.

The principal innovations as far as taxation is concerned were introduced during 2005 by the following provisions:

- Legislative Decree 38 of 28 February 2005: measures for incorporating the IAS regulations;

- Legislative Decree 247 of 19 November 2005, the 'correction' to the Corporation Tax Consolidation Act;

- DL 203 of 30 September 2005, converted into Law 248 of 2 December 2005 and Law 266 of 23 December 2005, the Additional Finance Act and the Finance Act 2006 respectively.

In particular, within these rulings, of considerable importance for insurance companies are the regulations that changed the system of capital gains on investments ('PEX'), the level of the tax deductibility of the amounts of depreciation on the value of goodwill (from 1/10 to 1/18), the treatment of capital losses on sales of shares (up to the amount of the relative dividends not counted as income received in the previous 36 months not being deductible), the percentage for determining the deductibility for the purpose of IRES of write-downs on receivables (from 0.60% to 0.40%) and the presumption that write-downs on receivables and on amounts set aside for risks to policyholders are not deductible for the purpose of IRAP.

Also of importance for the insurance sector is the reduction from 0.90% to 0.60% of the percentage annual deduction of the variation in the long-term component of the provision for outstanding claims, which is fixed at 50% of the provision.

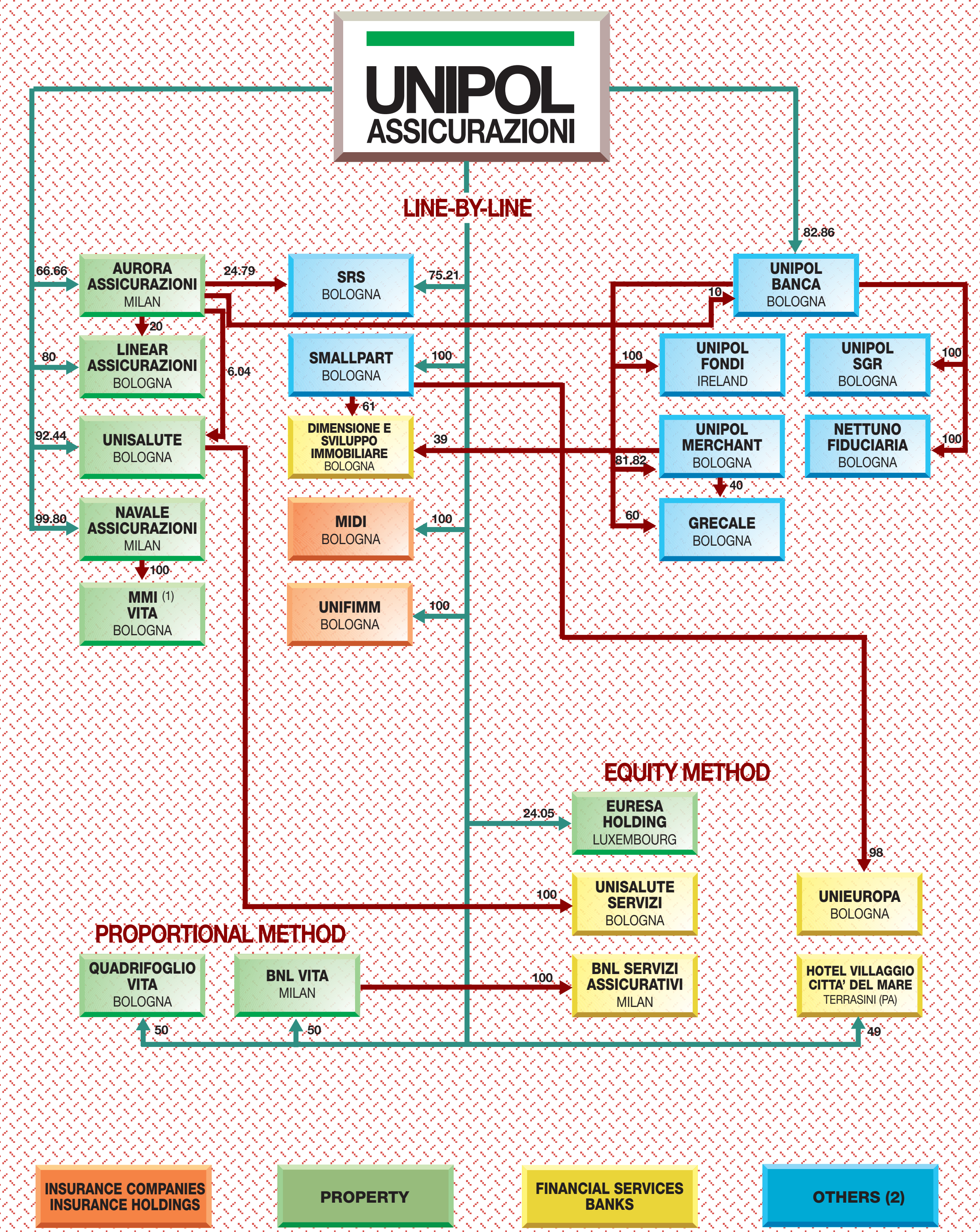
Finally, your attention is drawn to the changes in the method of calculating rental income on property rented out and not used for corporate business and the consequent limits to the deductibility of ordinary maintenance expenses.

* * *

The international business cycle continues to give cause for concern in the first few months of 2006 but the forecast seems to be fairly positive: an upturn in the economic cycle world-wide is expected, although there are still worries linked to inflation.
In the case of Italy estimates for GDP have been revised slightly upwards. In February inflation was 2.1% whilst that in the Eurozone as a whole is estimated to have been around 2.3%.
After stepping in several times during 2005 the US Central Bank once again put its official rates up by a quarter of a point, bringing them up to 4.5% on 1 February 2006 (from 2.25% at the beginning of 2005). Then the European Central Bank increased its base rate to 2.50% on 2 March 2006.
In these first few months of 2006 there was a general increase in both short-term and medium-/long-term rates in the principal international economies: as at 17 March the short-term Italian rate (three-month Euribor) was 2.71% and the 10-year government rate was 3.87%.
The principal international stock markets achieved positive results: as at 17 March 2006 the Milan Stock Exchange had risen by 10.35% compared with the Eurozone average of +7.08%.
As at 28 February the Dollar/Euro exchange rate was stable at 1.19.

Amongst the latest legislation you will recall that on 17 March 2006 Official Gazette 64 (General Series) published Law 102 of 21 December 2006 'Urgent provisions relating to consequences of road accidents' which introduces new rules on the procedure for actions for damages as a result of road traffic accidents causing personal injury (whether fatal or not). The first thing to be laid down was that the legal procedure to be applied in such actions is the same as the procedure used in actions relating to industrial accidents, thus introducing important differences compared with the ordinary procedure. Another major innovation provides that, in the event that the evidence submitted by the injured party is such as to prove that a large proportion of the responsibility lies with the defendant, the judge may order the latter and his insurer to make immediate payment to the victim of a provisional amount of between 30 and 50% of the presumed level of damages that will be paid when judgement is passed.

BASIS OF CONSOLIDATION AS AT 31 DECEMBER 2005



(1) On 15 February 2006 the company changed its name into Navale Vita S.p.A., with headquarters in Rome.
(2) Mainly service companies strictly related to insurance and property investment businesses

GROUP HIGHLIGHTS

(Amounts in €m)

	Financial year 2005	Financial year 2004
Insurance business - Direct income	**8,855**	**7,887**
% variation	*12.3*	
- Non-Life insurance premiums	3,948	3,866
% variation	*2.1*	
- Life assurance premiums	4,238	2,909
% variation	*45.7*	
- investment products	669	1,112
% variation	*-39.8*	
Banking business - Direct customer deposits	**6,951**	**5,485.0**
% variation	*26.7*	
Loss ratio % - Non-Life business (net of reinsurance)	**71.2**	**72.6**
Expense ratio % - Net operating expenses/Non-Life net premiums	**23.0**	**22.4**
Total net operating expenses	**1,118**	**1,036**
Net investment income and capital gains on disposals	**957**	**821**
Profit before taxation	**482**	**433**
% variation	*11.3*	
Consolidated profit	**283**	**265**
% variation	*6.4*	
Net profit - Group	**254**	**242**
% variation	*5.2*	

Investments and liquid assets	**35,925**	**27,934**
% variation	*28.6*	
Technical provisions	**22,249**	**18,651**
% variation	*19.3*	
Financial liabilities	**10,436**	**9,787**
% variation	*6.6*	
Capital and reserves pertaining to the Group	**5,552**	**2,643**
% variation	*110.0*	

N° of staff	**6,405**	**5,999**

Board Report

The Group

The principal events of 2005 relating to the Unipol Group concerned the project to acquire control of Banca Nazionale del Lavoro (BNL). This project followed an initial phase during which we defended our holding in BNL Vita, which was threatened by the public offer made by the Banco Bilbao Vizcaya Argentaria (BBVA).

The market was kept informed of the details of the many events that took place during 2005 and the first few months of 2006 by means of documents published and press releases issued. Below we summarise the principal strategic objectives that this operation was intended to achieve:

- creation of a major national combined insurance and banking group, which would be a leader in Italy in insurance and banking services and assets under management with a single presence from the point of view of distribution and the pursuance of customer synergies on the Italian market;
- remarkable growth in both size and income for Unipol and BNL and creation of considerable added value for all shareholders as a result of the ability to pursue synergies of costs and of income through the introduction of several improvements in the way the various aspects of the business operate.

The principal formal steps for implementing the project taken during the year were:

- obtaining, subject to authorisation by the Banca d'Italia received on 15 July 2005, a 14.89% shareholding in BNL for an expenditure of €1.24bn (Unipol and Aurora);
- signing with other BNL shareholders, on 18 July 2005, a shareholders' agreement relating to a consultation and block agreement regarding shareholdings in BNL;
- submitting, as a result of the above points, a compulsory public offer for all the BNL ordinary shares.

The public offer, authorised by CONSOB, had been decided on the basis of a payment of €2.70 per ordinary BNL share and related to 58.89% of its fully-diluted ordinary share capital, which, however, fell to 49.39% if the amounts held by Deutsche Bank and Crédit Suisse First Boston, which were the subject of call options in favour of Unipol Assicurazioni, the holding by the Banca Popolare dell'Emilia Romagna and the non-transferrable shares relating to the free capital increase reserved for employees were deemed not to be part of the bid.

In view of the above, the maximum expenditure expected to be required for the public offer amounted to €4.2bn, which Unipol Assicurazioni had expected to come largely from its own capital and to a lesser extent from borrowed capital. More specifically:

- a capital increase of €2.6bn. At its meeting held on 6 October 2005, using the powers granted to it by the Extraordinary Shareholders' Meeting held on 29 August 2005, Unipol Assicurazioni's Board of Directors decided on a bid price of €2.05 for each new ordinary share and €1.56 for each new preference share. The new shares were subsequently offered as an option to Unipol shareholders at a ratio of 13 new ordinary and/or preference shares for each 9 ordinary and/or preference shares owned. The increase, which thus more than doubled the Company's shareholders' equity, was carried out last October and, despite the considerable financial commitment required, concluded with all the shares offered being subscribed, which was proof of the shareholders' faith in the Unipol Group and in its strategies;

- the use of €0.2bn of available shareholders' equity and €0.8bn that it was possible to release mainly through divestments of minority shareholdings. In particular the intention was to sell a maximum of 35% of Aurora, and 19.98% was in fact sold in December;
- the issue of subordinated debenture loans and/or other sources of long-term loans by the Unipol Group commensurate with the actual amount required to cover the BNL operation (estimated to be approximately €600m).

It will be remembered that in December CONSOB deemed the financial contracts between Unipol and Deutsche Bank to be shareholders' agreements and that as a result of these agreements and of the fact that in the middle of October Deutsche Bank had acquired approximately 40,000 BNL shares (0.001%) at €2.755 per share, for a countervalue of €110,200, the price of the bid should have been increased to €2.755 per share. This would have involved Unipol spending approximately €84m more.

However, the actual launch of the bid was subject to the approval of the Supervisory Authority (Banca d'Italia once ISVAP had approved it) which had to be satisfied in particular that the requirements regarding the shareholders' equity of the resultant new financial conglomerate would be observed and with the business plan.
Therefore last summer there began a period of intense collaboration with the relevant Supervisory Authorities, linked to the complexity of the operation, to the concomitant coming into effect of the IAS/IFRS accounting principles and to the forthcoming implementation of the EC directive relating to financial conglomerates. In particular, the uncertainties that would result from estimating the equity requirements using legislation that had not yet come into force, and the fact that the Supervisory Authorities were still in the process of laying down the operational criteria while the operation was being carried out, posed considerable difficulties that Unipol had to face.
Nevertheless, on 10 January 2006, after an operation lasting five months, the Banca d'Italia announced that the conditions for complying with the requirements of prudence relating to the adequacy of shareholders' equity required for the acquisition of the control of BNL to be authorised were not met, and it then definitively confirmed this opinion on 3 February 2006.

At its meeting held on 4 February 2006, at the same time as it noted the definitive decision of the Banca d'Italia, Unipol Assicurazioni's Board of Directors approved an agreement with one of the major European banking and financial operators, the French bank BNP Paribas, to sell the BNL shares held by the Group and by its financial partners. This agreement is dependent upon the following conditions being met:

- ✓ the potential purchaser obtaining from Banca d'Italia and from the Antitrust Authority or, if relevant, from the European Commission, authorisation to acquire control of BNL;
- ✓ each Authority concerned, including the Banque de France, issuing all the subsequent authorisations or approvals that might be required for the operation to be carried out.

It is expected that, if these conditions are not met by the deadline of 30 June 2006, the agreements entered into will become totally ineffective. In this regard it should be mentioned that on 20 March 2006, the Banque de France having given its approval, Banca d'Italia authorised BNP Paribas to acquire control of BNL.

The agreement mentioned above lays down a price of €2.925 per share, providing a total capital gain of approximately €81m, which enables the costs incurred in launching the bid to be substantially offset and the put options on BNL securities held by the principal financial partners of the operation (Deutsche Bank and Crédit Suisse First Boston) to be settled with no economic and financial effect.

In order to seal the strategic partnership BNP Paribas has shown interest in acquiring a holding of 4.5% in the share capital of Finsoe, Unipol Assicurazioni's holding company, whilst Unipol will have a Director on the Board of BNL.

Overall, therefore, the outcome of the operation has been that the investment made has been safeguarded and there will be positive repercussions, including that the agreement signed provides for Unipol Assicurazioni to acquire a further 1% of BNL Vita, thus bringing its holding up to 51% of the capital, and that there is a commercial sole distribution agreement for a period of 5 years. Unipol becomes BNP Paribas' principal partner in Italy and therefore other forms of collaboration in Non-Life and supplementary pension schemes will be considered which may involve BNL acting as distributor.

The **other principal events** relating to last financial year are attributable to the further growth recorded in the work the Group did both in insurance and in banking business.

In **insurance business** work was completed on the operations preparatory to the strategic repositioning of Navale Assicurazioni as part of the project to enable it to specialise in the sales channel consisting of multifirm agents and small brokers. The merger between Navale Assicurazioni and the MMI Italia Group was finalised on 31 October 2005. The reorganisation of the departments and logistics of the new company set-up was completed with the creation of two principal centres in Milan and Rome. The company was provided with a new computerised underwriting system and the claims portfolio was transferred to the system used by the Group and so as from January 2006 claims have been handled by the Group Claims-Handling Department.

In **banking business** Unipol Banca's sales network continued to develop and expand internally and had grown to 250 branches (+29 compared with the end of 2004), 129 of which were combined with an insurance agency. Management work continued to be based on the retail and corporate customer synergies between the companies in the Group which enabled a level of approximately €170K in current account business to be reached, approximately 21% of which was generated by the selling activities carried out by the Group's insurance agencies.

There was also considerable growth in the business carried out by Unipol Merchant in both medium- and long-term credit, which reached a level of loans granted of €263m, and in financial consultancy (Capital Markets, Mergers & Acquisitions, Corporate Finance Advisory, Financial Brokerage) including such prestigious commissions as participating in the stock-exchange listing of IGD (Immobiliare Grande Distribuzione S.p.A), assisting HERA S.p.A. with its plan for the merger with Meta S.p.A. and in the associated voluntary public offer, the stock-exchange listing of Monti Ascensori S.p.A and assisting Unipol Assicurazioni with its capital increase operation.

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As far as income is concerned it should be pointed out that the BNL operation and the valuation of some shareholdings including Hopa, a company in which Unipol Assicurazioni holds a participating interest of 7.13%, and Reti Bancarie, led to the Group incurring the following extraordinary charges:

- approximately €74m of costs for 2005 connected with the BNL operation, costs which if the outcome of the bid had been positive would have had to be capitalised and which instead were recorded in the financial year. It will be remembered that the capital gains on the sale of the BNL shares held by the Group, amounting to approximately €81m, will instead be recorded in the accounts for 2006, one reason being that the suspensive conditions to which the strategic agreement with BNP Paribas is subject will not lapse until 2006;
- write-downs of shareholdings to the profit and loss account (Hopa and Reti Bancarie) of approximately €100m. In particular, in the case of the holding in Hopa the unit value recorded was reduced to €1.8 per share, in line with the values ascertained as a result of a recent expert valuation carried out on the company in question.

Net of these extraordinary charges totalling approximately €174m, the consolidated Group profit for 2005 nevertheless rose to €254m, an increase of 5.2% compared with the profit for 2004 (€242m on the basis of the same accountancy standards).

In conclusion the positive outcome of the BNL operation enabled the Group to safeguard its shareholders' equity and to increase its holding in BNL Vita, thus creating the conditions for strategic collaboration in the Italian insurance and pensions market with a leading international operator. In addition, thanks to the trust placed in it by its shareholders, the Group has considerable financial resources, the purpose of which will be decided over the next few months under the Group's new business plan.

Salient Aspects of Business Operations

The consolidated accounts as at 31 December 2005 closed with a consolidated profit of €283m, €28m of which pertained to minority interests. Group net profit was €254m.

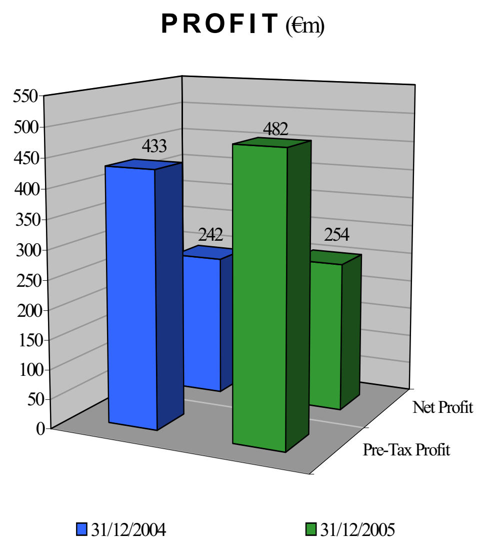
It should be mentioned that the result for the previous financial year of €242m was reassessed following application of shadow accounting to the capital gains/capital losses on the financial assets underlying the Life business segregated accounts. This accounting technique allocates the capital gains or the capital losses recorded but not realised to policyholders (based on the contractual terms) and adjusts the technical insurance provisions as if they had been realised on the date the accounts closed. The effect on the consolidated accounts for 2004 was a drop in the profits of €2m. (Group net profits as at 31/12/2004 had been €244m, and this was the figure published in the consolidated half-yearly report as at 30/6/2005, as required by CONSOB Ruling 14990/2005 – reconciliations required by IFRS 1, paragraphs 39 and 40.)

The most significant items are summarised as follows (in €m):

	2005	2004	*% var. 05/'04*
Net premium income	7,899	6,332	*24.8*
Net income from commissions and fees	78	73	*6.1*
Net investment income	957	821	*16.6*
Net charges relating to claims	7,207	5,751	*25.3*
Net operating expenses	1,118	1,036	*8.0*
Profit before taxation	482	433	*11.3*
Consolidated net profit	**283**	**265**	*6.4*
Group net profit	**254**	**242**	*5.2*
Investments and liquid assets	35,925	27,934	*28.6*
Technical provisions and financial liabilities	32,686	28,438	*14.9*
Capital and reserves pertaining to the Group	5,552	2,643	*110.0*

- **income from insurance business**, gross of reinsurance cessions, reached **€8,885m** (+12.1% compared with the situation as at 31/12/2004), €669m of which related to Life investment products;
- **direct customer deposits** from **banking business** amounted to **€6,951m** (+26.7% compared with 31/12/2004). Customer funds (assets under management and funds under custody) amounted to €23,645m (+48.4% compared with 31/12/2004);
- **earned premiums**, net of reinsurance cessions, amounted to €7,899m, €3,682m of which was from Non-Life business (€3,449m in 2004) and €4,217m from Life business (€2,883m in 2004);
- **net charges relating to claims**, net of reinsurance cessions, amounted to €7,207m, €2,621m of which was from Non-Life business (€2,504m in 2004) and €4,586m from Life business (€3,248m in 2004);

- the **loss ratio** for Non-Life business was 71.2%, an improvement compared with 72.6% the previous financial year;
- **operating expenses**, net of commission received from reinsurers, amounted to €1,118m, the incidence of operating expenses on net premium income in Non-Life business being 23% (22.4% in 2004) whilst in Life business it was 2.8% (4.5% in 2004);
- the level of **investments and liquid assets** rose to €35,925m, an increase of €7,991m compared with the position as at 31 December 2004;
- **technical provisions** and **financial liabilities** amounted to €32,686m, the corresponding value as at 31 December 2004 having been €28,438m;
- **net capital gains and investment income** for the period and net gains from disposals and trading amounted to €957m (€821m in 2004);
- the total **gross result** amounted to €482m. Net of tax of €199m and of the profits pertaining to minority interests of €28m, the **net profit for the Group** as at 31 December 2005 was €254m.



Below is a summary of the reclassified consolidated profit and loss account as at 31 December 2005, broken down by business sector (Non-Life, Life and banking) compared with the figures for the previous financial year:

SUMMARY OF CONSOLIDATED PROFIT AND LOSS ACCOUNT BROKEN DOWN BY BUSINESS SECTOR

	NON-LIFE BUSINESS		% var.	LIFE BUSINESS		% var.	INSURANCE TOTAL		% var.
	2005	2004		2005	2004		2005	2004	
Net premium income	3,682	3,449	6.8	4,217	2,883	46.3	7,899	6,332	24.8
Net income from commissions and fees	0	0		12	20		12	20	
Financial income/charges	285	180	58.9	615	576	6.8	901	756	19.2
Net charges relating to claims	(2,621)	(2,504)	4.6	(4,586)	(3,248)	41.2	(7,207)	(5,752)	25.3
Operating expenses	(845)	(774)	9.2	(120)	(131)	-8.3	(966)	(905)	6.7
Other income/charges	(95)	(24)		(32)	20		(127)	(4)	
Pre-tax profit (loss)	**407**	**327**	24.7	**105**	**121**	-13.0	**512**	**447**	14.5

	BANKING BUSINESS		% var.	Intersector eliminations		CONSOLIDATED TOTAL		% var.
	2005	2004		2005	2004	2005	2004	
Net premium income						7,899	6,332	24.8
Net income from commissions and fees	74	53	40.1	(8)		78	73	6.1
Financial income/charges	95	81	17.6	(39)	(16)	957	821	16.6
Net charges relating to claims				0	1	(7,207)	(5,751)	25.3
Operating expenses	(166)	(131)	26.6	13	0	(1,118)	(1,036)	8.0
Other income/charges	2	(0)		(3)	(2)	(127)	(6)	
Pre-tax profit (loss)	**6**	**3**	128.2	**(37)**	**(17)**	**482**	**433**	11.3
Taxation						(199)	(167)	19.0
Consolidated profit (loss)						**283**	**265**	6.4
Profit (loss) - minority interests						(28)	(24)	19.3
Profit (loss) - Group						**254**	**242**	5.2

Insurance Business

Premium income and investment products

Total income (premiums and investment products) as at 31 December 2005 amounted to €8,885m, an increase of 12.1% compared with the situation as at 31 December 2004. This performance is essentially attributable to Life business, which recorded growth of 22% during the period. In Non-Life business growth was 1.9% and was mainly due to the contribution of the recently-acquired Non-Life companies (MMI Danni and MMI Assicurazioni).

On the same basis of consolidation (i.e. including premium income as at 31/12/2004 relating to the companies in the MMI group) premium income would have recorded an increase of 10.1% (+22% for Life business and -1.6% for Non-Life business).

Income as at 31 December 2005 is broken down as follows:

- Non-Life premium income 44.6% (49% in 2004)
- Life premium income 47.9% (36.9% in 2004)
- Life investment products 7.5% (14.1% in 2004)

The variation in the breakdown of Life income was due to the greater insurance risk in the new products sold during 2005 compared with 2004.
Direct income amounted to €8,855m (+12.3% compared with 31/12/2004), of which premiums accounted for €8,186m (€6,775m in 2004) and investment products for €669m (€1,112m in 2004).
All the Non-Life income of the companies in the Group is classified as insurance premiums in compliance with the requirements of IFRS 4 (presence of a significant insurance risk).

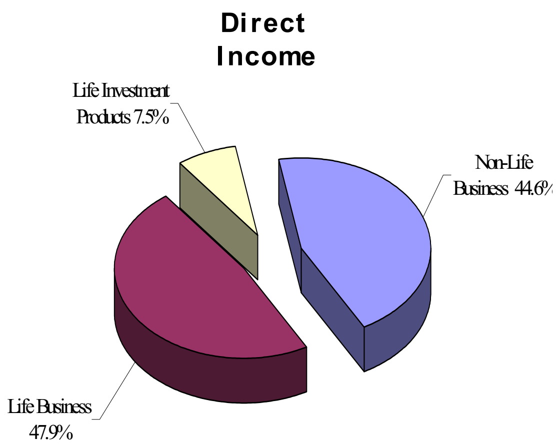
€644m (96.2%) of the investment products related to Class III (Unit- and Index-Linked contracts), €11m (1.7%) to Class I (contracts specifically funded by assets with an insurance risk of less than 10%) and €14m (2.1%) to Class V (capital redemption contracts specifically funded by assets with an insurance risk below 10%).

The contracts issued were subscribed almost entirely in Italy.

The income breakdown (Non-Life premium income, Life premium income and investment products) and the breakdown indices are set out in the table below:

INCOME BREAKDOWN
(Amounts in €m)

	Financial year 2005	Comp. %	Financial year 2004	Comp. %	% var. 2005/2004
DIRECT ITALIAN BUSINESS					
Non-Life premium income	3,948	*44.6*	3,866	*49.0*	2.1
Life premium income	4,238	*47.9*	2,909	*36.9*	45.7
Total Non-Life and Life direct premium income	8,186	*92.4*	6,775	*85.9*	20.8
Life investment products	669	*7.6*	1,112	*14.1*	-39.8
Total direct income	**8,855**	***100.0***	**7,887**	***100.0***	**12.3**
INDIRECT BUSINESS					
Non-Life premium income	26	*88.6*	37	*90.4*	-28.5
Life premium income	3	*11.4*	4	*9.6*	-13.0
Total indirect business	**30**	***100.0***	**41**	***100.0***	**-27.0**
TOTAL INCOME	**8,885**		**7,928**		**12.1**



During the fourth quarter premium income was €2,740m, an increase of 44.6% compared with the fourth quarter of 2004.

The following table shows direct income as at 31 December 2005 for Unipol Assicurazioni, Aurora Assicurazioni and the other subsidiaries, subdivided according to business activity and broken down into the various components: Non-Life premium income, Life premium income and investment products (in €m):

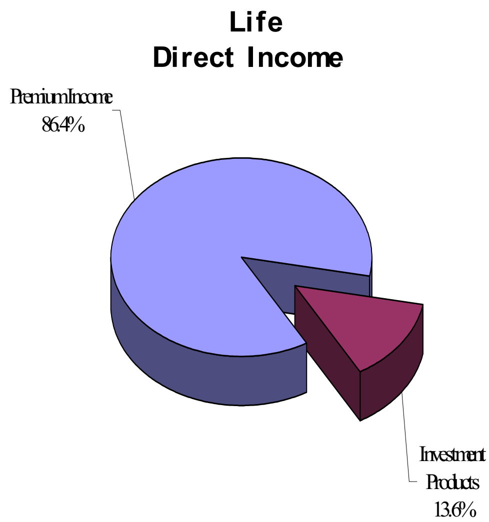
Direct Income	Non-Life Premiums	Life Premiums	Total	*Comp. %*	Investm. Products	Total Income	*Comp. %*
Unipol Assicurazioni	1,429	1,717	3,146	*38.4*	43	3,189	*36.0*
Aurora Assicurazioni	2,062	1,236	3,298	*40.3*	35	3,333	*37.6*
Other subsidiaries	457	1,285	1,742	*21.3*	592	2,333	*26.3*
TOTAL DIRECT PREMIUMS	**3,948**	**4,238**	**8,186**	*100.0*	**669**	**8,855**	***100.0***
Direct premiums by sector							
Traditional composite companies	3,491	2,954	6,446	*78.7*	78	6,523	*73.7*
Non-Life specialist companies	457		457	*5.6*		457	*5.2*
Bancassurance companies		1,283	1,283	*15.7*	592	1,875	*21.2*
TOTAL DIRECT PREMIUMS	**3,948**	**4,238**	**8,186**	*100.0*	**669**	**8,855**	***100.0***

Life business

Income from Life business as at 31 December 2005 totalled €4,911m, an increase compared with 31 December 2004 of 22%, which, on the same basis of consolidation, was substantially unchanged in view of MMI Vita's limited contribution to Life business.

Direct income amounted to €4,907m (+22% compared with 31/12/2004). Class V – Capital redemption contracts – improved significantly (+44.8%), as did Class VI – Pension funds – which, now that it included the Cometa Fund (pension fund for employees in the metal and mechanical industry), rose from €53m in 2004 to €237m as at 31 December 2005 (+343%). Class I – Traditional contracts – also grew (+14.4%) whilst Class III – Index- and Unit-Linked Contracts – was down (-5.3%).

As at 31 December 2005 direct Life premium income amounted to €4,238m whilst investment products amounted to €669m. As at 31 December 2004 Life premium income was €2,909m and investment products amounted to €1,112m.



Pension funds

The most significant event of the financial year was the approval on 24 November 2005, after a long passage through Parliament, of the decree reforming the system of supplementary pensions (Legislative Decree 252/05), which, however, postponed the implementation of the principal innovations of the reform until 1 January 2008.

As things are at the moment pension fund schemes in the private sector are by and large almost up and running, whilst the public sector continues to lag considerably behind as far as supplementary pension schemes are concerned even though the schools sector pension fund now has enough members to enable it to operate.

The market for closed and open-end funds recorded a modest performance both in terms of new members and of flows of contributions (approximately 4% on a yearly basis). Growth in shareholders' equity was more sustained, influenced more than anything else by the good performance in financial markets.

Thus performance in 2005 was the same as in the previous two financial years, with supplementary pension schemes still being a long way from the expected take-off.

In collaboration with J.P. Morgan Fleming, with which it has had a partnership agreement since February 2004, during 2005 Unipol was awarded renewed mandates to manage two pension funds, Solidarietà Veneto (the fund for the Veneto region) and Cooperlavoro (workers' cooperatives). In addition, at the end of the financial year bids for the renewal of the Previcooper mandate (consumer cooperatives) and for the Marco Polo mandate (commerce and tourism) were submitted, but the outcome of the bidding has not yet been announced.

The assets of the Cometa pension fund (metal and mechanical industry), of the Byblos pension fund (paper and printing) and of the Prevaer pension fund (airport companies) came under Unipol management during the financial year, whilst the other pension funds already in the portfolio continued to be managed as normal.
Assets under management as at 31 December 2005 totalled €507m.

The first few months of 2006 will be characterised by the launch of the management of a new Filcoop mandate (agricultural and foodstuffs cooperatives). In addition, as from 1 January 2006 the asset management of the Bayer pension fund ceased when it was incorporated into Fonchim, the fund for the industry.

In open-end pension funds business, as at 31 December 2005 the three Unipol funds (Unipol Futuro, Unipol Previdenza and Unipol Insieme) and the Aurora Previdenza open-end pension fund reached totals of assets under management of €91m and 8,980 members.

As regards open-end pension funds, the figures for 2005 were affected by the modest contribution of retail income, which can be largely ascribed to the break in relations with the sales networks of the Cardine group, exacerbated by the difficulty the networks of the other approved banks and the Unipol agencies had in expanding distribution, which was in line with the overall market trend.
The best results were obtained in group pension plans, achieved by means of agreements entered into with companies that did not fall within the scope of occupational pension funds.

Overall Unipol succeeded in maintaining its market share, thus confirming its position as a market leader, in particular as far as insurance companies are concerned.

There is nothing particularly new to report for first few months of 2006: individual membership is not increasing very fast, though group pension plans are coming along nicely with the implementation of new agreements for managing company pension plans being recorded in the first few months of the financial year.

* * *

The **traditional composite companies** (Unipol Assicurazioni and Aurora Assicurazioni) achieved direct Life income of €3,031m, to which must be added premium income relating to MMI Vita of €1m, making a total of €3,032m, an increase of 30.4% compared with the situation as at 31 December 2004.
Life premium income amounted to €2,954m (€2,002m in 2004) whilst investment products amounted to €78m (€324m in 2004).

As at 31 December 2005 **Unipol Assicurazioni** had achieved Life direct income of €1,760m, an increase of 47.2% compared with the same period of the previous financial year, owing in particular to the increase in Class V (capital redemption contracts), which grew by 55.2%, and Class VI (pension funds), which rose from €52m as at 31 December 2004 to €235m as at 31 December 2005. Class III recorded growth of 12.2% whilst Class I (traditional contracts) was largely unchanged.

As at 31 December 2005 income from Life contracts achieved via Unipol Banca banking outlets was €179m.
The Life direct income of the Parent Company Unipol Assicurazioni was made up of €1,717m in insurance premiums (€1,008m in 2004) and €43m in investment products (€188m in 2004).

The subsidiary **Aurora Assicurazioni** achieved Life direct income of €1,271m (+12.5% compared with 31/12/2004). The increase was mainly achieved in Class V – Capital redemption contracts (+27.6%) and Class I – Traditional contracts (+9.6%), whilst Class III – Unit- and Index-Linked Contracts – recorded a fall of 33.4%, which was due to marketing contracts that, as far as bancassurance was concerned, placed more importance on products in Class I.
Aurora Assicurazioni's Life direct income was made up of €1,236m in insurance premiums (€994m in 2004) and €35m in investment products (€136m in 2004).
As in the case of the holding company Unipol, the variation in the breakdown of Life income was due to the greater insurance risk in the products sold during 2005 compared with 2004.
Income achieved by the banking channel (Reti Bancarie) amounted to €153m (€133m in 2004).

* * *

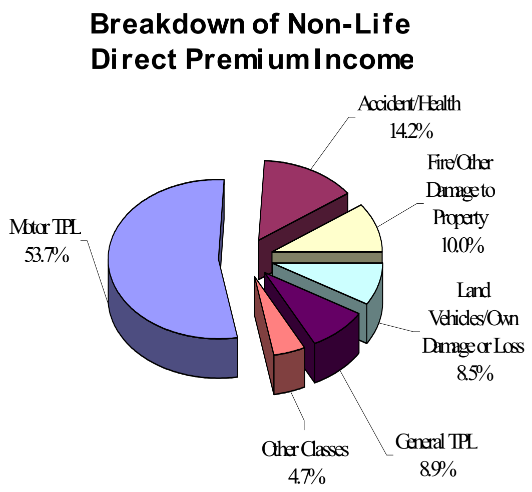
The **bancassurance** companies (BNL Vita and Quadrifoglio Vita), which were 50% owned, achieved total income of €3,750m, an increase of 10.6% compared with 31 December 2004. The proportion pertaining to the Group under proportional consolidation amounted to €1,875m.
Investment products accounted for 31.6% of total direct income.

BNL Vita achieved direct income of €3,009m (+16.7% over 31/12/2004), 50% of which, i.e. €1,504m, pertained to the Group. Almost all of Class III – Unit- and Index-Linked Contracts, which were down by 12.4%, was represented by investment products. Classes I and V recorded increases of 38.4% and 59.3% respectively over 31 December 2004.

As at 31 December 2005 **Quadrifoglio Vita** had achieved direct income of €741m, down 8.9% compared with 31 December 2004, 50% of which, i.e. €370m, pertained to the Group. There was a particularly large increase of 37.3% in Class V (capital redemption contracts) whilst the other classes were down.

Non-Life business

Total premium income in the Non-Life portfolio as at 31 December 2005 amounted to €3,974m (+1.9% compared with 31/12/2004). On the same basis of consolidation (i.e. including the Non-Life companies in the MMI Group in 2004) there was a drop of 1.6% compared with 31 December 2004.
Direct premium income alone amounted to €3,948m (+2.1% compared with 31/12/2004). The various classes of business performed differently: Motor TPL recorded growth of 3.2% compared with 31 December 2004 and there was also an improvement in Accident and Health (+6%) and General TPL (+2.1%). However, Fire (-4.2%) and classes linked to other Motor cover (-4.2%) were down.



The traditional sector of the **composite companies** (Unipol Assicurazioni and Aurora Assicurazioni) achieved direct premium income of €3,491m (-1.4% compared with 31/12/2004).

Unipol Assicurazioni's direct premium income as at 31 December 2005 amounted to €1,429m, +2.5% compared with 31 December 2004 (+2.2% in Motor TPL and +2.8% in the other classes).

As at 31 December 2005 **Aurora Assicurazioni** had achieved direct premium income of €2,062m, a drop of 3.9% compared with 31 December 2004, attributable mainly to the Motor classes.

* * *

The **specialist companies** (Linear, Unisalute and Navale) wrote direct premiums of €457m (+40.5%). On the same basis of consolidation, taking the premium income of the Non-Life companies in the MMI Group as at 31 December 2004 into account, income was substantially the same.

Linear achieved premium income of €163m, an increase of 6%. 61% of the premium income for the financial year was obtained over the phone and the remaining 39% via the Internet.
Unisalute achieved premium income of €82m, an increase of 10% over 31 December 2004.
The Non-Life company **Navale Assicurazioni** had achieved direct premium income as at 31 December 2005 of €212m. Taking into account the premium income for 2004 of the newly-incorporated companies (MMI Assicurazioni and MMI Danni), there was a drop in premium income of 10%, linked to the divestment of those parts of the portfolio (in particular Industrial Risks and Marine – Hull) no longer deemed to be in line with the new company's strategic mission.

Financial performance in insurance business

The Group's insurance business contributed a total of €512m to pre-tax profits, €105m of which pertained to Life business (€121m in 2004) and €407m to Non-Life business (€327m in 2004).
Operating expenses incurred as at 31 December 2005 (acquisition and renewal commissions and other acquisition and administrative expenses), net of commissions received from reinsurers, came to a total of €966m (€905m in 2004, +6.7%).
The relative incidence on net premium income for the period was 12.3%, down compared with 31 December 2004 (14.3%), largely owing to Life business, which fell from an incidence of 4.5% in 2004 to 2.8% as at 31 December 2005. The incidence of net operating expenses on net premium income in Non-Life business as at 31 December 2005 was 23% (22.4% in 2004).

The loss ratio in Non-Life business, including claims-handling expenses and net of reinsurance items, was 71.2% (72.6% in 2004).
The positive trends in core business recorded at the end of 2004 continued, though there was more pressure from competition, especially in the Motor TPL class, despite the fact that the tariffs offered to customers remained substantially stable. In Non-Life non-Motor business marketing contracts once again mainly targeted growth in the retail market, but a lot of attention was still paid to the trends in technical results, which on the whole remained at positive levels.

A total of 1,382,023 direct claims were reported, a proforma increase of 1.4% compared with 31 December 2004 (this increase including MMI Italia Group claims reported as at 31/12/2004).

As at 31 December 2005 the **combined ratio**, based on direct business and inward reinsurance and gross of reinsurance, was 93.8% (94.2% as at 31/12/2004).

Reinsurance

Inward reinsurance
As at 31 December 2005 premiums written amounted to €30m (-27% compared with 31/12/2004), €26m of which was from Non-Life lines of business and €3m from Life business.

Outward reinsurance
Premiums ceded totalled €337m whereas as at 31 December 2004 they had amounted to €457m. The retention rate rose from 93.3% as at 31 December 2004 to 95.9% as at 31 December 2005.

As far as the **Group** was concerned during 2005, reinsurers of proportional types of cover were able to benefit from a positive result in line with the good technical trend of contracts written by the individual undertakings. The same applied to types of cover in the event of excess of loss, in view of the fact that during the financial year they were not hit by a particularly high loss ratio.
Reinsurance for all the companies in the Group was placed with leading European

reinsurers, all, according to the leading rating agencies, having adequate financial strength.

As far as **Unipol Assicurazioni** was concerned during 2005, reinsurance cover was maintained in the same forms as those already adopted during the previous financial year. In the case of the principal forms of cession, an arrangement based on proportional types of cover for almost all the classes subject to reinsurance was implemented.
Also adopted were forms of non-proportional types of cover for Motor TPL, General TPL, Land vehicles – own damage or loss, Fire, Accident, Goods in transit and Other Damage to property relating to Hail risks.

In the case of **Aurora Assicurazioni**, Non-Life reinsurance cover arrangements had undergone several significant changes since the previous financial year.
Proportional cessions were reduced by entering into individual treaties for Fire, Bonds, Technological classes, Hail, some TPL types of coverage, Assistance and Legal Protection.
Cessions of surplus types of cover affected Motor TPL, Land vehicles – own damage or loss, General TPL, Accident, Fire, Theft, Goods in transit and Bonds, in addition to the usual stop-loss policy on the proportion retained in Hail, a treaty renewed with a considerable reduction in the rate by virtue of the good results in terms of the loss ratio.

As for **Navale** (the company in the Group that in November 2005 incorporated MMI Danni and MMI Assicurazioni) a new single arrangement was introduced in 2005 for the portfolio of the three undertakings, which are now unified. The scope of some treaties was enlarged and in some cases, benefiting from Group synergies, the financial terms of the treaties were also improved.

In the case of the Unipol Group the retention rate in the Non-Life sector in 2005 was 92.1% compared with 89.2% in the previous financial year.

In Life business 'surplus' types of reinsurance cover continued to operate for sums assured that exceeded the retention levels of the individual undertakings. The result of the direct cessions operated in Life business was also positive for our reinsurers, though to a lesser extent than in the previous financial year.

In the case of the Group the retention rate in the Life sector was 99.4% in 2005 compared with 98.8% in the previous financial year.

Litigation

Summonses received continued to be carefully monitored during 2005, with good results in almost all geographical areas. Keeping the counterparty's legal costs to a minimum is in fact considered one of the primary objectives of claims handling.

As regards the **Parent Company Unipol Assicurazioni**, the number of cases initiated in 2005 was down compared with the figure for 2004. On the other hand there was a slight increase in the number of cases pending as at 31 December. Almost 40% of the cases were concentrated in the South.

During 2005, as a continuing consequence of the fine imposed in 2000 by the Antitrust Authority, 315 policyholders applied to Justices of the Peace for a refund of 20% of the Motor TPL premiums they had paid between 1995 and 2000. Unipol Assicurazioni, which deems these applications to be unfounded, continued to contest the cases, going so far as to appeal against decisions that had gone against it.
It should be pointed out that decision 2207 issued on 4 February 2005 by the full bench of the Court of Cassation, which had heard an appeal by Unipol Assicurazioni, established that jurisdiction to rule in such cases lay with the Court of Appeal and not with Justices of the Peace.
This decision interrupted the flow of new cases coming before Justices of the Peace and cases began to be brought before the Court of Appeal (247 during 2005).
The total cost during 2005 resulting from the judgements handed down was approximately €1.6m.

As regards the events relating to the fine imposed in 2000 on the subsidiary **Aurora Assicurazioni** by the Antitrust Authority and now confirmed by the Court of Cassation, it should be mentioned that the Company received 336 summonses to appear before Justices of the Peace and 150 to appear before the Court of Appeal, by which policyholders hoped to obtain a refund of part of the Motor TPL premiums they had paid. 684 decisions were issued in favour of the Company in 2005 and 682 against it, involving total expenditure of €0.3m. 199 appeals were also submitted to the Courts.

In the case of both companies, the change to bringing cases before the Court of Appeal instead of before Justices of the Peace was concentrated almost exclusively in Naples.

Banking Business

As at 31 December 2005 Group direct customer deposits totalled €6,951m compared with €5,485m in the previous financial year (+26.7%). Customer funds were up 48.4% to €23,645m, €21,590m of which were funds under custody and €2,055m assets under management.
Assets managed on behalf of customers – both individual accounts and UCITS managed by the Group – experienced healthy growth.

Lending to customers was up from €3,974m as at 31 December 2004 to €5,505m as at 31 December 2005 (+38.5%). Unipol Banca's lending was mainly to small and medium-sized enterprises and to households, whilst Unipol Merchant's lending was aimed at larger companies and corporate financing intended mainly for industrial investments.
The securitisation scheme for performing commercial (70%) and residential (30%) mortgage loans, which had been set up with the advice of ABN AMRO and Unipol Merchant and had enabled loans totalling €1.6bn to be granted, was brought to a close during the year.
The 2005 financial year ended with a net pre-tax profit of €6.4m (€2.7m in 2004).

The following table shows the principal items in the profit and loss account for banking business, set out in accordance with the banking layout.

BANKING BUSINESS *(Amounts in €m)*	**2005**	**2004**	***% var. 05/'04***
Net interest income	126.4	81.7	*54.7*
Net income from commissions and fees	74.4	53.1	*40.1*
Other net financial income	-0.1	8.4	
Gross operating income	**200.7**	**143.2**	***40.2***
Value adjustments/readjustments for deterioration of financial assets	-30.6	-9.0	
Financial management - net profit	**170.1**	**134.2**	***26.8***
Operating expenses	-163.7	-131.5	*24.5*
Other profits (losses)	0.0	-0.1	
Pre-tax profit (loss)	**6.4**	**2.7**	***142.5***

The gross operating income was €200.7m and was up 40.2% compared with the previous financial year. This growth also led to an increase in operating costs (+24.5%, mainly administrative expenses) but this was less than the increase in income from core business.
Net write-downs on loans and financial assets of approximately €30.6m were carried out.
The net profit on current operations therefore amounted to €6.4m (+142.5% compared with 2004).

Staffing

As at 31 December 2005 the insurance companies in the Group had 4,758 employees, 45 of whom were on fixed-term contracts.
This was a net increase of 192 over 31 December 2004, mainly owing to the retention of 165 people employed by the newly-acquired MMI Italia Group companies.

The number of full-time equivalent (FTE) employees was 4,522.

The Unipol Banca Group had 1,647 employees as at the same date, 27 of whom were on fixed-term contracts (+214 compared with 31/12/2004).
The number of full-time equivalent employees was 1,618.

The total number of employees in the Group as at 31 December 2005 was 6,405 (+406).

	31/12/2005	31/12/2004	*var.*
Unipol	1,736	1,524	*212*
Aurora	2,061	2,254	*-193*
Other companies	961	788	*173*
Total insurance sector	**4,758**	**4,566**	***192***
Unipol Banca	1,589	1,388	*201*
Unipol Merchant	55	43	*12*
Other finance companies	3	2	*1*
Total banking sector	**1,647**	**1,433**	***214***
Total Unipol Group	**6,405**	**5,999**	***406***

IT Systems

During 2005 Unipol Assicurazioni's Group Joint General IT Department worked on both the Parent Company's projects and specific projects relating to the companies in the Group.

As part of a programme for the gradual rationalisation of the Group's Life operating package, a project to renovate the entire 'traditional contracts' Life system was set up in order to create economies of scale by using the same software (still different in each of the Life companies) and to support business operations by using the latest technology. This revamp involves rewriting all the software in accordance with the latest technology in order to provide an operating package that is more flexible, powerful and complete. The year 2005 saw the completion of the feasibility study for this project, realisation of which will occupy the IT Department (and the Life Departments) for approximately two and a half years.

Specific projects to update the Unipol and Aurora Non-Life, Claims, and Commercial IT systems were also examined. They will take a total of three years and be concluded by 2008.

Other projects undertaken involved improving the operation and management of the specialist companies' IT systems. In particular, work was carried out during 2005 to extend the dedicated IT system to Navale Assicurazioni, and the data from the companies in the MMI Italia Group was also transferred to it. As a result of transferring these data and of implementing the new IT system, which was launched towards the end of 2005, Navale Assicurazioni today has a complete new software package that can support its business operations.

Unipol Group Sales Network

The Unipol Group offered a full range of insurance, banking and asset management products using a composite sales network covering the whole of Italy.

In particular, as at 31 December 2005 the **composite companies** in the Group had the benefit of a network of 1,741 agencies (575 Unipol Assicurazioni agencies and 1,166 Aurora agencies). In addition, both Unipol Assicurazioni and Aurora Assicurazioni placed Life products direct through networks of banking outlets (Unipol Banca and Reti Bancarie respectively) and financial advisers (333 financial advisers belonging to the Crédit Suisse sales network who sold Aurora Assicurazioni products).

As regards the Non-Life **specialist companies**, Unisalute operated in Health and Assistance by selling managed care group contracts direct to businesses, associations and various bodies. For selling individual contracts the company used 73 agencies, 71 of which were Unipol agencies that had a Unisalute mandate, the Internet and telemarketing.
In Motor business, Linear operated via the telephone call-centre and via the Internet.
Navale operated through brokers and multi-firm agencies.

Turning to the **bancassurance companies**, Quadrifoglio used the network made up of 285 outlets of the Banca Agricola Mantovana (MPS Group) whilst BNL Vita sold its products through approximately 700 outlets belonging to the BNL Group.
As regards **banking business**, as at 31 December 2005 Unipol Banca had 250 points of sale, 129 of which were combined with insurance agencies, 45 finance shops and 440 financial advisers. The company also made use of direct sales channels (telephone and Internet banking) and the principal Unipol agencies (which were gradually being joined by the Aurora agencies) which sold traditional banking products.

Unipol Merchant – Banca per le Imprese, a subsidiary of Unipol Banca, is the bank in the Unipol Banca banking group that specialises in medium-term corporate business and also operates in merchant banking and investment banking. The principal sales channel for Unipol Merchant's products and services was represented by Unipol Banca's network of branches.

New Products

In order to respond efficiently to drivers' expectations relating to Motor insurance, which increasingly concentrated on security, clarity, simplicity and saving money, the Unipol Assicurazioni Group examined a series of solutions that had the aim of improving relations with customers by laying stress on new products and services, technology, convenience and personalisation.
In May 2005 Unipol Assicurazioni and Aurora Assicurazioni began to market two Motor TPL products, which were not only new but the only ones of their kind. They were well advertised in the principal media in February and March. Both these products were able to combine a significant saving on the Motor TPL, Fire and Theft tariffs with greater security for drivers, including in terms of assistance:

- The first, known as *Unibox* at Unipol and *Aurobox* at Aurora, makes use of satellite technology to enable the effects of accidents to be better monitored, fraud to be tackled more effectively, rapid and timely assistance to be provided to customers in difficulty as a result of a road accident and new personalised tariffs to be developed. Customers who agree to have the system fitted on their vehicles immediately benefit from a discount on their premiums.
- As the result of an agreement with Unipol Banca the second new product, *Franchigia Fruttuosa,* enables customers to obtain a discount on the Motor TPL tariff and at the same time to benefit from the interest accrued on the sum deposited in advance, as a bond, to cover part of the cost of any accidents caused, without having to incur any expense.

As regards Life products, marketing activities concentrated on offering instruments that protect the capital sum as well as offering customers a guaranteed return. These are investment products with a mainly financial content and traditional Life products.

Group Property and Financial Management

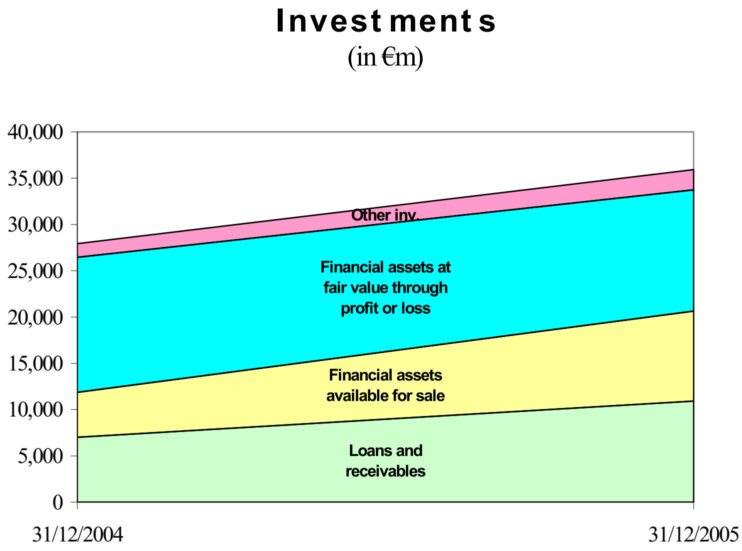
Investments and liquid assets

In view of the uncertainties on the bond markets and taking into account the expected rise in rates during 2005, management contracts were characterised by a substantial allocation of liquid low-risk investments (the average weighting of variable-rate securities and of liquid assets in 2005 being 40%).
The need to optimise yields in the bond portfolio was pursued by operating in options with no speculative content and in trading activities that enabled the volatility in interest rates recorded during the period to be translated into a financial benefit. The average weighting of the bond portfolio was 65% with a net return of 4%.
Operating in share securities increased in 2005 (the average weighting being 5.5%), as the positive performance recorded by the share markets in 2004 was expected to continue in 2005. Share assets obtained excellent results in terms of profitability (net returns of 14.5%). Investments in trading shares concentrated on high-yield high-liquidity shares, with the risks underwritten being constantly monitored. Most of the shares belonged to the Eurostoxx 50 and the remainder to the usual European share indices. Investments in shares in markets outside Europe were carried out via ETF funds.

As at 31 December 2005 the level of the Group's investments and liquid assets had reached a total of €35,925m, an increase of €7,991m compared with the position as at 31 December 2004 (+28.6%).

INVESTMENTS AND LIQUID ASSETS
(Amounts in €m)

	31/12/2005 (a)	Comp. %	31/12/2004 (b)	Comp. %	% var. (a/b)
Buildings	352	*1.0*	441	*1.6*	*-20.1*
Shareholdings in subsidiaries, affiliated companies and joint ventures	28	*0.1*	62	*0.2*	*-53.9*
Investments held to maturity	949	*2.6*	755	*2.7*	*25.7*
Loans and receivables	10,926	*30.4*	7,018	*25.1*	*55.7*
-Loans and receivables from banking customers	*5,486*	*15.3*	*3,974*	*14.2*	*38.0*
-Interbanking loans and receivables	*2,027*	*5.6*	*1,613*	*5.8*	*25.7*
-Deposits with ceding undertakings	*27*	*0.1*	*25*	*0.1*	*6.4*
-Other loans and receivables	*3,386*	*9.4*	*1,406*	*5.0*	*140.9*
Financial assets available for sale	9,723	*27.1*	4,852	*17.4*	*100.4*
Financial assets at fair value through profit or loss	13,085	*36.4*	14,580	*52.2*	*-10.3*
- held for trading	*8,888*	*24.7*	*10,919*	*39.1*	*-18.6*
- designated at fair value through profit or loss	*4,197*	*11.7*	*3,661*	*13.1*	*14.6*
Cash and cash equivalents	861	*2.4*	227	*0.8*	*279.7*
TOTAL INVESTMENTS AND LIQUID ASSETS	**35,925**	*100.0*	**27,934**	***100.0***	**28.6**



Property
The Group's property investments as at 31 December 2005 amounted to €352m. Including property for own use the Group's property assets amounted to €669m. As at 31 December 2004 property assets had amounted to €918m, €441m of which was accounted for by investments in property, €178m by property in the course of divestment and €299m by property used for corporate business.

During the year the work of rationalising and upgrading property assets begun in 2004 continued, having as its objective divestment of property assets that no longer fulfilled the Group's organisational and operational requirements and odd properties scattered throughout the country.
More specifically, divestments of property totalling €321m (net of depreciation) were carried out, thus enabling net capital gains totalling €91m to be realised.

In addition €54m was invested in office buildings during the second half of 2005.

Shareholdings in subsidiaries, affiliated companies and joint ventures
As at 31 December 2005 investments in subsidiaries, affiliated companies and joint ventures totalled €28m, almost exclusively relating to affiliated undertakings. The drop of €33m compared with 31 December 2004 was mainly attributable to the sale of Finec Holding spa to the cooperatives that were already shareholders of the company.

Investments held to maturity
As at 31 December 2005 investments held to maturity amounted to €949m (+25.7% compared with 31/12/2004). Fixed-rate bonds acquired to match special Life tariffs were classified in this category.

Loans and receivables
As at 31 December 2005 loans and receivables amounted to €10,926m compared with €7,018m as at 31 December 2004 (+55.7%). Most of this item, €7,513m, was provided by banking business (€5,587m in 2004) and €2,970m was attributable to the Parent

Company Unipol Assicurazioni, this amount being deposited in a term bank account as a bond for the public offer for BNL and allocated to Other loans and receivables. (The bond was cancelled on 16/2/2006.)

Financial assets available for sale

As at 31 December 2005 financial assets available for sale amounted to €9,723m, double the amount recorded as at 31 December 2004. The increase in assets available for sale compared with 2004 was the result of the change in the way securities were classified introduced during 2005, as a result of which a corresponding decrease in financial assets held for trading was recorded.

As well as debt and equity securities, this category included the Group's strategic shareholdings, both listed and unlisted (including those in Banca del Monte dei Paschi di Siena, Hopa and Reti Bancarie), in addition to the €1,255m holding in BNL, representing 14.89% (€96m as at 31/12/2004).

Financial assets recorded at fair value through profit or loss

The financial assets in this category are divided into assets held for trading and assets designated to be recorded at fair value through profit or loss.

As at 31 December 2005 they amounted to €13,085m (-10.3% compared with 31/12/2004), the decrease being attributable to a change in the way securities were classified. This item was made up of €4,197m of assets the investment risk of which was borne by the policyholders (Life business) and €8,888m of trading assets.

Capital gains and investment income

As at 31 December 2005 net investment income and capital gains amounted to €957m (€821m in 2004, +16.6%).

Details of the net capital gains and investment income are set out in the table below:

NET INCOME *(Amounts in €m)*	31/12/2005 (a)	*comp. %*	31/12/2004 (b)	*comp. %*	*var. (a/b)*
Investments in property	117	*12.2*	49	*6.0*	*135.6*
Income from shareholdings in subsidiaries, affiliated companies and joint ventures	45	*4.7*	3	*0.3*	*1510.2*
Net income from investments held to maturity	35	*3.6*	13	*1.6*	*164.3*
Net income from loans and receivables	225	*23.5*	152	*18.5*	*48.1*
Net income from financial assets available for sale	170	*17.7*	213	*25.9*	*-20.3*
Net income from financial assets/liabilities at fair value	482	*50.3*	481	*58.6*	*0.0*
Proceeds from cash and cash equivalents	13	*1.4*	12	*1.4*	*14.5*
Net charges from other financial liabilities	(129)	*-13.4*	(102)	*-12.4*	*26.2*
Total	**957**	*100.0*	**821**	*100.0*	*16.6*

Net income from Financial assets available for sale included approximately €100m of write-down for losses in value of strategic shareholdings (Hopa and Reti Bancarie).

Shareholders' Equity

As at 31 December 2005 the shareholders' equity pertaining to the Group, including the profit for the period, amounted to €5,552m (€2,643 as at 31/12/2004). The shareholders' equity pertaining to minority interests amounted to €491m (€242m as at 31/12/2004).

The increase over the previous financial year was due to:

- an increase in the capital of the Parent Company Unipol Assicurazioni, net of expenses, of €2,560m;
- warrants conversion of €92m;
- distribution of dividends by the Parent Company Unipol Assicurazioni of €132m;
- Group net profit of €254m;
- a variation in provisions for profits or losses on financial assets available for sale and other profits and losses recorded direct as shareholders' equity of €59m;
- other variations in the consolidation provision of €76m.

As at 31 December 2005 the Parent Company's share capital was €2,360,144,410 and was made up of 1,460,524,546 ordinary shares and 899,619,864 preference shares.
Unipol Assicurazioni's shareholders' equity as at 31 December 2005 amounted to €5,437m (€2,595m as at 31/12/2004).

As at 31 December 2005 the Parent Company Unipol Assicurazioni held no own shares. As at the same date the other subsidiaries in the Group held no shares in the holding company.

Technical Provisions and Financial Liabilities

TECHNICAL PROVISIONS AND FINANCIAL LIABILITIES
(Amounts in €m)

	31/12/2005	31/12/2004	% var.
Non-Life technical provisions	7,147	6,701	6.6
Life technical provisions	15,103	11,950	26.4
TOTAL TECHNICAL PROVISIONS	**22,249**	**18,651**	**19.3**
Financial liabilities at fair value	**3,723**	**3,562**	**4.5**
- Investment contracts - insurance companies	*3,632*	*3,504*	*3.7*
- Other	*91*	*58*	*57.4*
Other financial liabilities	**6,713**	**6,225**	**7.8**
- Investment contracts - insurance companies	*615*	*595*	*3.3*
- Subordinate liabilities	*648*	*652*	*-0.5*
- Payables to banking customers	*4,552*	*4,125*	*10.4*
- Interbanking payables	*163*	*109*	*50.3*
- Other	*735*	*746*	*-1.4*
TOTAL FINANCIAL LIABILITIES	**10,436**	**9,787**	**6.6**

As at 31 December 2005 technical provisions amounted to €22,249m, an increase of 19.3% compared with the position as at 31 December 2004, and these were made up of Non-Life technical provisions of €7,147m (€6,701m in 2004, +6.6%) and Life technical provisions of €15,103 (€11,950m in 2004, +26.4%).

Total Financial liabilities amounted to €10,436m (+6.6% compared with 31/12/2004), €4,247m of this amount being financial liabilities relating to investment contracts issued by the insurance companies (€4,099m in 2004).
Financial liabilities recorded at fair value through profit or loss amounted to €3,723m (+4.5%) and mainly consisted of investment contracts issued by insurance companies where the investment risk was borne by the policyholders totalling €3,632m.

Other Financial liabilities amounted to €6,713m (+7.8%) and consisted of payables to banking customers of €4,552m (+10.4%), investment contracts issued by insurance companies totalling €615m (+3.3%), subordinated debenture loans of €648m (-0.5%) and other liabilities amounting to €898m (+5%).

Group Net Profit as at 31 December 2005

The net profit for the Group amounted to €254m and was made up as follows:

GROUP NET PROFIT
(Amounts in €m)

	31/12/2005	31/12/2004	% var.
Net profit of the Parent Company, Unipol Assicurazioni	247	175	40.6%
Net profits of the other consolidated companies	245	182	34.5%
Total book profits (Parent Company and other consolidated undertakings)	**492**	**358**	**37.5%**
Consolidation adjustments:			
Derecognition of dividends within the Group	(171)	(81)	
Other adjustments	(38)	(11)	
Total consolidation adjustments	**(209)**	**(92)**	
Consolidated profit	**283**	**265**	**6.4%**
Minority interests	(28)	(24)	19.3%
Net profit - Unipol Group	**254**	**242**	**5.2%**

Relations with Group Undertakings and Related Parties

The Parent Company Unipol Assicurazioni had the usual relations with companies belonging to the Group covering coordination and:

- reinsurance and coinsurance with the subsidiary and affiliated companies that operated in insurance;
- renting property;
- agency mandates;
- financial management;
- property management;
- IT services;
- secondment of staff;
- claims-handling;
- internal audit services (ISVAP Circular 366/D/1999).

These relations, which did not include operations that were atypical or unusual, were governed by normal market terms (with the exception of the secondment of staff, for which the only payment was reimbursement of the actual cost, and of the provision of auxiliary services, which were mainly charged on the basis of the costs actually incurred and calculated on the basis of analytical accounting criteria).
Moreover these auxiliary activities enabled departments to be operated more rationally and the undertakings concerned to be provided with a better level of service.

Based on the information received and on the audits carried out, there were no significant operations with related parties, as defined in IAS 24, other than those summarised below:

- acquisition by Aurora Assicurazioni from Finsoe spa (Unipol Assicurazioni's holding company) of minority shareholdings in the following subsidiaries:
  - ✓ 20% of Linear, for €24m;
  - ✓ 6.04% of Unisalute, for €4.1m;
- subscription by Unipol Assicurazioni of part of the increase in Unipol Banca's share capital. Some of the rights not taken up by Unipol were subscribed by Unipol's direct and indirect holding companies, Finsoe spa and Holmo spa;
- acquisition by Unipol Banca, from Finsoe spa, of a minority interest of 8.67% in Unipol Merchant spa, for €10.1m.

The above acquisitions were carried out on the basis of independent expert valuations or on normal market terms.

In addition, none of the operations referred to in Articles 8 and 9 of Legislative Decree 239/2001 were carried out with Group undertakings during the year.

Finally it should be mentioned that Unipol Assicurazioni amended the Code of Conduct with related parties to comply with amendments to legislation.

In accordance with Article 2497 *et seq.* of the Italian Civil Code none of the shareholders of the Parent Company Unipol Assicurazioni carried out any of its administration and coordination work.
It should be mentioned that Finsoe spa, which held a controlling share in Unipol Assicurazioni spa as defined in Article 2359 (1)(1), of the Italian Civil Code, did not carry out any of Unipol Assicurazioni spa's administration or coordination work, either technical or financial, but was merely a shareholder in Unipol Assicurazioni spa.

Significant Events after the End of the Financial Year

The principal events after the end of the financial year related to the progress made in the project to acquire control of the bank BNL spa, as already dealt with in full in the first part of this report.

It should be pointed out that by the time this report was written authorisation for the acquisition of the control of BNL by BNP Paribas had already been received from the Banca d'Italia and the European Antitrust Authority (on 20/3/2006 and 28/3/2006 respectively). Authorisation from ISVAP, the final condition for implementing the contracts for the sale of the BNL shares held by Unipol Assicurazioni and Aurora Assicurazioni, was still awaited.
This operation will allow Unipol and Aurora to make total capital gains of €81m (with an effect of €68m on the consolidated accounts for 2006 net of minority interests).

It should be mentioned that on 16 March 2006, in compliance with the request made by ABN AMRO NV, Unipol Assicurazioni sold it 10,856,573 Antonveneta shares for a unit price of €26.5, that is for a total of €287.7m.
The sale of the above shares, which took place on the block market, enabled the Company to make a capital gain of €62.1m.

Business Outlook

During the first two month of 2006 the trend in the Group's insurance business showed growth in Life premium income whilst growth in Non-Life business was constantly monitored with, as usual, attention being paid to safeguarding the technical results. The trend in the loss ratio continued to be in line with last year and the trend in operating costs was also normal. Property and financial management returned a positive performance in line with expectations.

As regards banking business, the growth trend continued after the end of the year as planned. In accordance with the authorisations issued in 2005 by the Supervisory Body, Unipol Banca opened three more new branches (combined with insurance agencies) and therefore now has 253 branches covering the whole of Italy.

Overall, business performance in the first few months of 2006 has been in line with the objectives for the end of the year, and this should lead to further growth in both turnover and Group profits.

Bologna, 29 March 2006

The Board of Directors

2005 Consolidated Accounts

Company **Compagnia Assicuratrice UNIPOL S.p.A.**

Share capital subscribed **€ 2,360,144,410** Paid-up **€ 2,360,144,410**

Registered Offices in BOLOGNA - Via Stalingrado 45

Companies' Register in Bologna 00284160371

CONSOLIDATED ACCOUNTS

FINANCIAL STATEMENTS

2005 Financial Year

(Amounts in €m)

BALANCE

ASSETS

€m		2005	2004
1	**INTANGIBLE ASSETS**	**1,443.4**	**1,625.3**
1.1	Goodwill	1,411.2	1,590.8
1.2	Other intangible assets	32.3	34.5
2	**TANGIBLE ASSETS**	**371.3**	**347.2**
2.1	Property	317.3	298.5
2.2	Other tangible assets	54.0	48.7
3	**TECHNICAL PROVISIONS - REINSURERS' SHARE**	**678.2**	**693.9**
4	**INVESTMENTS**	**35,064.5**	**27,707.3**
4.1	Investments in property	352.3	441.0
4.2	Shareholdings in subsidiaries, affiliated companies and joint ventures	28.4	61.6
4.3	Investments held to maturity	949.4	755.2
4.4	Loans and receivables	10,926.1	7,017.9
4.5	Financial assets available for sale	9,723.2	4,851.6
4.6	Financial assets recorded at fair value through profit or loss	13,085.1	14,580.0
5	**SUNDRY RECEIVABLES**	**1,142.9**	**1,188.8**
5.1	Receivables arising out of direct insurance operations	785.9	784.7
5.2	Receivables arising out of reinsurance operations	112.0	107.1
5.3	Other receivables	244.9	297.0
6	**OTHER ASSETS**	**534.7**	**587.3**
6.1	Non-current assets or assets held for sale belonging to a group in the course of being sold		178.3
6.2	Deferred acquisition costs	68.8	71.4
6.3	Deferred tax assets	176.3	140.0
6.4	Current tax assets	48.3	34.7
6.5	Other assets	241.3	162.9
7	**CASH AND CASH EQUIVALENTS**	**860.8**	**226.7**
	TOTAL ASSETS	**40,095.8**	**32,376.5**

SHEET

LIABILITIES AND SHAREHOLDERS' EQUITY

€m		2005	2004
1	**SHAREHOLDERS' EQUITY**	**6,042.9**	**2,885.3**
1.1	**pertaining to the Group**	**5,551.7**	**2,643.1**
1.1.1	Capital	2,360.1	916.5
1.1.2	Other equity		
1.1.3	Capital reserves	2,391.3	1,179.3
1.1.4	Accumulated earnings and other reserves	432.5	251.2
1.1.5	(Own shares)		
1.1.6	Provision for net exchange rate differences		
1.1.7	Profits or losses on financial assets available for sale	80.5	17.6
1.1.8	Other profits or losses recorded in the equity direct	32.9	36.6
1.1.9	Profits (loss) for the year pertaining to the Group	254.5	241.9
1.2	**pertaining to minority interests**	**491.1**	**242.2**
1.2.1	Capital and reserves pertaining to minority interests	462.2	218.2
1.2.2	Profits or losses recorded in the equity direct	0.9	0.5
1.2.3	Profits (loss) for the year pertaining to minority interests	28.1	23.5
2	**AMOUNTS SET ASIDE**	**37.9**	**31.6**
3	**TECHNICAL PROVISIONS**	**22,249.4**	**18,651.3**
4	**FINANCIAL LIABILITIES**	**10,436.4**	**9,787.1**
4.1	Financial liabilities recorded at fair value through profit or loss	3,723.0	3,562.0
4.2	Other financial liabilities	6,713.4	6,225.2
5	**PAYABLES**	**410.9**	**366.7**
5.1	Payables arising out of direct insurance operations	68.3	54.8
5.2	Payables arising out of reinsurance operations	57.7	44.1
5.3	Other payables	285.0	267.8
6	**OTHER LIABILITIES**	**918.3**	**654.4**
6.1	Liabilities of a group in the course of being sold held for sale		
6.2	Deferred tax liabilities	223.5	178.1
6.3	Current tax liabilities	74.5	42.8
6.4	Other liabilities	620.3	433.5
	TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**40,095.8**	**32,376.5**

PROFIT AND LOSS ACCOUNT

€m		2005	2004
1.1	Net premium income	7,899.2	6,331.7
1.1.1	*Gross earned premiums*	*8,233.5*	*6,793.9*
1.1.2	*Earned premiums ceded*	*-334.2*	*-462.3*
1.2	Commissions and fees receivable	120.9	113.5
1.3	Income and charges arising out of financial instruments recorded at fair value through profit or loss	481.5	481.4
1.4	Income arising out of shareholdings in subsidiaries, affiliated companies and joint ventures	45.5	3.4
1.5	Income arising out of other financial instruments and investments in property	751.5	490.6
1.5.1	*Interest receivable*	*473.6*	*344.6*
1.5.2	*Other income*	*36.2*	*37.9*
1.5.3	*Profits realised*	*240.0*	*103.0*
1.5.4	*Unrealised profits*	*1.7*	*5.0*
1.6	Other receipts	94.2	108.8
1	**TOTAL RECEIPTS AND INCOME**	**9,392.8**	**7,529.3**
2.1	Net charges relating to claims	7,206.9	5,751.2
2.1.2	*Amounts paid and variation in technical provisions*	*7,424.3*	*6,048.8*
2.1.3	*Reinsurers' share*	*-217.4*	*-297.6*
2.2	Commissions and fees payable	42.9	40.0
2.3	Charges arising out of shareholdings in subsidiaries, affiliated companies and joint ventures	0.0	0.6
2.4	Charges arising out of other financial instruments and investments in property	321.3	154.0
2.4.1	*Interest payable*	*131.0*	*100.0*
2.4.2	*Other charges*	*17.8*	*6.9*
2.4.3	*Losses realised*	*41.9*	*6.2*
2.4.4	*Unrealised losses*	*130.7*	*40.9*
2.5	Operating expenses	1,118.4	1,035.6
2.5.1	*Commissions and other acquisition expenses*	*732.2*	*652.3*
2.5.2	*Investment management expenses*	*22.5*	*62.6*
2.5.3	*Other administrative expenses*	*363.7*	*320.8*
2.6	Other costs	221.6	115.2
2	**TOTAL COSTS AND CHARGES**	**8,911.2**	**7,096.6**
	PROFIT (LOSS) FOR THE YEAR BEFORE TAXATION	**481.6**	**432.7**
3	Taxation	199.1	167.3
	PROFIT (LOSS) FOR THE YEAR NET OF TAX	**282.5**	**265.4**
4	PROFIT (LOSS) PERTAINING TO OPERATIONS CLOSED DOWN		
	CONSOLIDATED PROFIT (LOSS)	**282.5**	**265.4**
	pertaining to the Group	**254.5**	**241.9**
	pertaining to minority interests	28.1	23.5

STATEMENT OF CHANGES IN THE SHAREHOLDERS' EQUITY

€m			As at 31-12-2003	Amendment to the closing balances
Shareholders' equity pertaining to the Group	Capital		906.2	
	Other equity			
	Capital reserves		1,171.1	
	Accumulated earnings and other reserves		356.7	
	(Own shares)			
	Provision for net exchange rate differences			
	Profits or losses on financial assets available for sale		13.9	
	Other profits or losses recorded in the equity direct	Profits or losses on instruments held for hedging a financial flow		
		Profits or losses on instruments held for hedging a net investment in a foreign account		
		Provision arising out of changes in the shareholders' equity of the participating interests		
		Provision for write-up of intangible assets		
		Provision for write-up of tangible assets	36.6	
		Income and charges relating to non-current assets or to a group in the course of being sold held for sale		
		Other provisions		
	Net profit (loss) for the year			
	Total pertaining to the Group		**2,484.5**	
Shareholders' equity pertaining to minority interests	Capital and reserves pertaining to minority interests		204.3	
	Profits or losses recorded in the equity direct			
	Net profit (loss) for the year			
	Total pertaining to minority interests		**204.3**	
Total			**2,688.7**	

Amounts allocated	Transfers to the profit and loss account	Other transfers	As at 31-12-2004	Amendment to the closing balances	Amounts allocated	Transfers to the profit and loss account	Other transfers	As at 31-12-2005
10.2			916.5		1,443.7			2,360.1
8.2			1,179.3		1,211.9			2,391.3
10.2		-115.7	251.2		313.7		-132.5	432.5
6.4	-2.6		17.6		99.5	-36.6		80.5
			36.6		-3.7			32.9
241.9			241.9		12.6			254.5
276.9	**-2.6**	**-115.7**	**2,643.1**		**3,077.7**	**-36.6**	**-132.5**	**5,551.7**
13.9			218.2		244.0			462.2
0.5			0.5		0.4			0.9
23.5			23.5		4.5			28.1
37.9			**242.2**		**248.9**			**491.1**
314.9	**-2.6**	**-115.7**	**2,885.3**		**3,326.6**	**-36.6**	**-132.5**	**6,042.9**

CASH FLOW STATEMENT (indirect method)

€m	2005	2004
Profits (loss) for the year before taxation	**481.6**	**432.7**
Change in non-monetary items	**3,405.1**	**1,877.2**
Change in provision for Non-Life unearned premiums	27.1	140.4
Change in provision for outstanding claims and in other Non-Life technical provisions	403.0	555.5
Change in mathematical provisions and in other Life technical provisions	3,183.6	1,164.3
Change in deferred acquisition costs	2.6	-25.2
Change in amounts set aside	6.3	-10.4
Non-monetary income and charges arising out of financial instruments, investments in property and shareholdings	-300.5	-15.1
Other variations	83.0	67.6
Change in receivables and payables generated by operations	**90.1**	**17.1**
Change in receivables and payables arising out of direct insurance and reinsurance operations	20.8	15.7
Change in other receivables and payables	69.3	1.3
Tax paid	**-146.4**	**-123.8**
Net liquid assets generated/absorbed by monetary items pertaining to investment and financial operations	**424.0**	**1,183.2**
Liabilities arising out of financial contracts issued by insurance companies	147.5	335.9
Payables to banking customers and interbanking payables	472.2	1,976.4
Loans and receivables from banking customers and interbanking loans and receivables	-1,895.5	-2,591.7
Other financial instruments recorded at fair value through profit or loss	1,699.9	1,462.7
TOTAL NET LIQUID ASSETS ARISING OUT OF OPERATIONS	**4,254.5**	**3,386.5**

Net liquid assets generated/absorbed by investments in property	89.9	-29.3
Net liquid assets generated/absorbed by shareholdings in subsidiaries, affiliated companies and joint ventures	33.3	6.3
Net liquid assets generated/absorbed by corporate financing and receivables	-1,982.2	-772.0
Net liquid assets generated/absorbed by investments held to maturity	-194.2	-345.3
Net liquid assets generated/absorbed by financial assets available for sale	-4,711.5	-1,967.3
Net liquid assets generated/absorbed by tangible and intangible assets	157.8	-166.1
Other net cash flows generated/absorbed by investment operations	178.3	-178.3
TOTAL NET LIQUID ASSETS ARISING OUT OF INVESTMENT OPERATIONS	**-6,428.5**	**-3,452.0**

Net liquid assets generated/absorbed by equity instruments pertaining to the Group	2,700.2	30.1
Net liquid assets generated/absorbed by own shares		
Distribution of dividends pertaining to the Group	-132.5	-115.7
Net liquid assets generated/absorbed by capital and reserves pertaining to minority interests	244.4	36.5
Net liquid assets generated/absorbed by subordinate liabilities and participating financial instruments	-3.5	-28.1
Net liquid assets generated/absorbed by sundry financial liabilities	-0.4	-41.1
TOTAL NET LIQUID ASSETS ARISING OUT OF CORPORATE FINANCING OPERATIONS	**2,808.2**	**-118.3**

Effect of exchange rate differences on cash and cash equivalents		

CASH AND CASH EQUIVALENTS AS AT 1 JANUARY	226.7	410.5
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	634.1	-183.8
CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER	860.8	226.7

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

The Company legal representatives (*)

The Chairman -- (**)

Pierluigi Stefanini -- (**)

-- (**)

The Statutory Auditors

Umberto Melloni --

Luigi Capè --

Carlo Cassamagnaghi --

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

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

Notes to the Accounts

NOTES TO THE ACCOUNTS

1. GENERAL DRAFTING CRITERIA

The Unipol Assicurazioni Group, consisting of the Parent Company Unipol Assicurazioni and its subsidiaries, operates in all Non-Life and Life insurance and reinsurance business, may issue investment contracts and may set up and manage open-end pension funds. It also operates in banking business.

The Parent Company Unipol Assicurazioni is a stock company registered in Italy and is listed on the Milan Stock Exchange.
The registered offices are at Via Stalingrado 45, 40128 Bologna (Italy).

The Unipol Group's consolidated accounts for the year ended 31 December 2005 were drawn up by applying all the IAS/IFRS issued by the IASB and endorsed by the European Union, in accordance with the provisions of EC Regulation 1606/2002, which came into effect from the 2005 financial year.
All the accounting standards applied in drawing up the consolidated accounts for the year ended 31 December 2005 were also applied in drawing up the comparative figures for 2004.

Unless otherwise specifically indicated all the amounts reported in these notes are quoted in €m.

The reconciliation tables provided for by IFRS 1, showing the principal adjustments, are contained in the relevant paragraph.
It should be noted that the result for the previous financial year of €241.9m was reassessed following application of shadow accounting to the capital gains/capital losses on the financial assets underlying the Life business segregated accounts. The effect on the consolidated accounts for 2004 was a drop in the profits of €2.4m. (Group net profits as at 31/12/2004 had been €244.3m and this was the figure published in the consolidated half-yearly report as at 30/6/2005, as required by CONSOB Ruling 14990/2005 – reconciliations required by IFRS 1, paragraphs 39 and 40).
The new criterion was applied in order to make the transition from a criterion deemed to be acceptable to a criterion that better represents the financial effects of the operations in question.
In line with the provisions of IAS 8, shadow accounting was applied retrospectively in order to make it possible to compare the figures for the previous financial year with those for the current financial year.

The layout (balance sheet, profit and loss account, statement of changes in the shareholders' equity, cash flow statement and other tables) conforms to the provisions of ISVAP Ruling 2404 of 22 December 2005 (Provisions relating to the layout of consolidated accounts drawn up in accordance with international accounting standards).

1.1 Basis of consolidation

The Unipol Group's consolidated accounts as at 31 December 2005 are the result of adding the figures of the Parent Company Unipol Assicurazioni to those of all the subsidiaries,

both direct and indirect (IAS 27): six insurance companies, a banking Group consisting of six companies, two property companies, two financial holding companies and a service company, excluding the subsidiaries that are considered to be too small to be significant
The jointly-controlled companies (two bancassurance companies) are consolidated using the proportional method (IAS 31) whilst the affiliated companies, in which holdings are between 20% and 50%, and the subsidiaries that are considered not to be significant, are valued using the equity method (IAS 28).

The shareholdings consolidated on a line-by-line basis and proportionally and the shareholdings valued using the equity method are listed in the tables showing the Basis of consolidation and Details of unconsolidated shareholdings respectively, which are appended to the Notes to the Accounts.

Changes in the basis of consolidation

Operations carried out during 2005 and other changes related to:

- the acquisition by Navale Assicurazioni of the companies in the MMI Italia Group (consisting of: MMI Danni spa, MMI Assicurazioni spa, MMI Vita spa, Immobiliare Comense srl) and subsequently
- the merger by incorporation of MMI Danni, MMI Assicurazioni and Immobiliare Comense into Navale Assicurazioni (which took legal effect on 31/10/2005);
- the founding of SRS spa following the partial split of Bios in favour of Unipol Assicurazioni (75.21%) and Aurora Assicurazioni (24.79%);
- the acquisition by Aurora Assicurazioni, from Finsoe spa, of:
  - ✓ 20% of Linear,
  - ✓ 6.04% of Unisalute;
- the acquisition of Nuovi Investimenti spa by Smallpart (39%) and Unipol Merchant (10%);
- the acquisition of Pegaso Finanziaria spa by Smallpart (45%);
- the sale by Unipol Assicurazioni of 19.98% of its holding in the subsidiary Aurora Assicurazioni;
- the sale by Unipol Assicurazioni and Unipol Merchant of their entire holdings in Finec Holding (28.61% and 1.30% respectively);
- the sale by Smallpart of its entire holding in AR.CO. Assicurazioni (40%);
- the increase in its holding in Navale spa, from 99.31% to 99.80% by Unipol Assicurazioni spa;
- the increase in Unipol Banca spa's holding in Unipol Merchant spa, from 62.27% to 81.82%, 8.67% of which was acquired from Finsoe spa;
- changes in Smallpart spa's holdings in Dimensione e Sviluppo Immobiliare spa (from 36% to 61%) and Assicoop Modena (from 47% to 43.32%).

It should be mentioned that, as a result of the operation to increase Unipol Banca's share capital, which was subscribed and paid in December 2005, Unipol Group's holding in this company fell from 91.53% to 79.53%. The latter figure was the percentage holding once the increase in Unipol Banca's share capital had been registered on 5 January 2006.

Reference date

The reference date for the consolidated accounts is 31 December 2005, the date the annual accounts of the Parent Company Unipol Assicurazioni closed. All the consolidated undertakings closed their accounts on 31 December with the exception of the affiliated company Pegaso Finanziaria spa, which closed its latest accounts on 30 June 2005 and for which interim accounts up to the date of the consolidated accounts were used. Reformulations of the individual accounts of each company, adjusted to comply with IAS/IFRS and approved by the Boards of Directors of the companies concerned, were used for the purpose of drawing up the consolidated accounts.

1.2 Consolidation criteria

Companies consolidated on a line-by-line basis
This method of consolidating the subsidiaries provides for the consolidation on a line-by-line basis of the assets, liabilities, income and charges of the consolidated undertakings as from the date they were acquired, the elimination of the book value of the holding from the Parent Company's accounts and, in the case of partial shareholdings, the recording of the amount of the shareholders' equity and the operating profit pertaining to minority interests.
The amount of the shareholders' equity pertaining to minority interests is recorded under Shareholders' equity as 'Shareholders' equity pertaining to minority interests', whilst the relevant amount of the consolidated profit is shown under 'Profit (loss) for the year pertaining to minority interests'.
The accounts of the subsidiaries are consolidated on a line-by-line basis with the exception of those of two companies which are so small that the equity method is used.

Companies consolidated on a proportional basis
This method of consolidating the jointly-controlled companies provides for the consolidation of the assets, liabilities, income and charges of the consolidated undertakings in proportion to the holding, and for the elimination of the book value of the participating interest.
As at 31 December 2005 two shareholdings were consolidated using the proportional method.

Companies consolidated using the equity method
When this method is used the value of the holding is adjusted according to the relevant fraction of the shareholders' equity, including the operating result and all the adjustments made when consolidation is on a line-by-line basis.

Goodwill
Any surplus of the acquisition cost of shareholdings in subsidiaries and associates over the interest at the net fair value in the assets, liabilities and contingent identifiable liabilities, is recorded as goodwill under intangible assets.
This goodwill represents a payment made in the expectation of future financial benefits arising out of assets that cannot be identified individually and recorded separately.

In the years following the year of acquisition, goodwill is valued at cost, net of any losses of value that have accumulated.
In the event that the Group's holding acquired in the shareholders' equity of the company exceeds the cost of acquisition, the difference is recorded in the profit and loss account direct.

Elimination of operations within the Group
When the consolidated accounts are drawn up the amounts receivable and payable between companies included in the consolidation, the income and charges relating to operations carried out between these companies and the profits and losses resulting from operations carried out between these undertakings and not yet carried out with parties external to the Group are eliminated.

1.3 Business report

The layout of the business report is based on the major types of business in which the Group operates:

- Non-Life insurance business,
- Life assurance business,
- Banking business.

No business report based on geographical areas has been produced since the Group operates mainly on a national level and there appears to be no significant difference in the risks and benefits, according to the type of business activity carried out, that can be correlated with the economic situation in the individual regions.

2. ACCOUNTING STANDARDS ADOPTED

The principal accounting standards and the most significant criteria used in drawing up the consolidated accounts are set out below. These criteria are the same as those used to reformulate the consolidated accounts as at 31 December 2004 in order to show the comparative figures for the previous year.

2.1 Intangible assets - IAS 38

In accordance with the provisions of IAS 38 only intangible assets that can be identified and controlled by the undertaking, from which the undertaking will derive financial benefits in future, can be capitalised.
The following assets are recorded as intangible assets with a specific useful life and therefore written down:

- goodwill paid for the acquisition of Life portfolios: the value of the contracts acquired is determined by estimating the current value of the future cash flows of the existing contracts. The Group writes down this value throughout the expected residual life. This valuation is reviewed annually;
- costs incurred for the acquisition of software licences, written down over three years;
- expenses relating to building work on property belonging to third parties, written down throughout the life of the relative rental agreements.

Goodwill paid when acquiring/integrating companies is also included among intangible assets, as already mentioned in paragraph 1.2. As this goodwill has an indefinite useful life it is not written down but is valued at least once a year, or each time there is any indication of contingent impairment (permanent loss of value), by means of a test to ascertain any permanent loss of value (impairment test), in which case the permanent loss of value is recorded in the profit and loss account and cannot be taken into account again in subsequent years.

The goodwill paid when acquiring business and/or when acquiring bank branches recorded in the accounts as at 1 January 2004 (the date of transition to IAS) was maintained at the book value, as allowed by IFRS 1, after it had been valued using methods provided for in the IAS. Following the positive outcome of the impairment test this goodwill was confirmed on both 31 December 2004 and 31 December 2005.

2.2 Tangible assets - IAS 16

This item includes property used for corporate business, plant and machinery and fixtures and fittings.
For recording and valuing this category of property the Group adopted the criterion of the amortised cost.
Depreciation, which is carried out each year on a straight-line basis on the estimated residual useful life, begins when the property is available and ready for use and ends when the property is eliminated from the accounts (the useful life of buildings being estimated at 30 years).
In the case of wholly-owned property (land and buildings) the depreciation is carried out only on the building.
The consolidated property companies include in the book value the investment charges incurred when borrowing capital specifically for acquiring and renovating property, if this can be justified.
The costs of improvements and conversions are capitalised if they result in an increase in the useful life of the assets and in their profitability.

Land and buildings that suffer permanent losses of value are written down.
The values recorded for the property owned by the subsidiary Aurora include the amounts of the differences arising from consolidation occurring at the time of acquisition, which are included in order to reflect the value of the property at the time it was acquired.

2.3 Investments in property - IAS 40

Investments in property were recorded by applying the criterion of the amortised cost, as allowed by IAS 40 (an alternative to the fair value method).
Property, the recoverable value of which is estimated to be less than the book value (or zero), is written down annually on a straight-line basis, based on the recoverable value and the presumed useful life (estimated to be 30 years). In view of their particular nature and purpose this was mainly the Pianeta Maratea tourist and hotel complexes (Maratea – Pz), the complex that houses the Jolly Hotel in Rome (via Pio IV), supermarkets, industrial units and a property in Milan.
If the recoverable value of the property was estimated to exceed the book value no depreciation was carried out. In the case of the Group it was residential property.

In the case of wholly-owned property (land and buildings) the depreciation was carried out only on the building.
The costs of improvements and conversions are capitalised if they result in an increase in the useful life of the assets and an increase in their profitability.

Land and buildings that have suffered permanent losses of value are written down. The market value is determined at least once a year by means of expert valuations carried out by outside companies.
The values recorded for the property owned by the subsidiary Aurora include the amounts of the differences arising from consolidation occurring at the time of acquisition, which are included in order to reflect the value of the property at the time it was acquired.

2.4 Financial assets - IAS 32 and 39

IAS 39 provides that debt instruments, equity instruments, receivables, payables and derivatives must be classified on the basis of the purposes for which they are held. The following categories are provided for:
- Financial assets recorded at fair value through profit or loss
- Financial assets available for sale
- Financial assets held to maturity
- Loans and receivables.

There is a specific criterion for recording and valuing each of these categories.

It should be mentioned that the Group records financial transactions on their value date.

Financial assets recorded at fair value through profit or loss
Investments in this category are subdivided in two further subitems:
- financial assets held for trading, which includes share securities other than strategic shareholdings, variable-yield bonds, structured securities where the derivative components can be unbundled if necessary, investment funds and derivatives;
- financial assets to be recorded at fair value through profit or loss, where the assets linked to financial liabilities assessed at fair value are classified (investments relating to contracts issued by insurance companies where the investment risk is borne by the policyholders).

The fair value is calculated, in descending order of priority, on prices recorded in active markets, prices provided by operators or the internal valuation models generally used in the financial world.
The differences (positive or negative) between fair value and book value are recorded in the profit and loss account. The fair value of listed securities is represented by the market value on the date the accounts are drawn up.

Financial assets available for sale
Investments classified as securities available for sale are recorded at fair value. The differences compared with the book value must be recorded in the shareholders' equity in a special provision for unrealised profits/losses (net of tax).
The fair value of securities available for sale is calculated, in descending order of priority, on prices recorded in active markets, on prices provided by operators or on the internal

valuation models generally used in the financial world. The fair value of listed securities is represented by the market value on the date the accounts are drawn up.
The amortised cost of the debt securities in this category is calculated according to the effective rate of return and is recorded in the profit and loss account. The comparison with the fair value is made after the proportion of the amortised cost for the financial year has been recorded.
If a security available for sale incurs a loss of value such as to make it impossible to recuperate the investment, the unrealised accumulated loss previously recorded in the shareholders' equity is recorded in the profit and loss account.

The Group classifies in the category of financial assets available for sale fixed-income bonds, variable-yield bonds, structured securities where the derivative part cannot be unbundled, equity securities, strategic shareholdings (less than 20% of the share capital, of commercial or corporate strategic importance) and securities arising out of the securitisation schemes carried out by Unipol Banca.

Investments in equity instruments not listed on active markets for which it is not possible to make a reliable assessment of the fair value are valued at cost (net of any write-downs).

Financial assets held to maturity
Investments in securities held to maturity are recorded at cost less depreciation, if necessary written down to take account of permanent losses of value.
The Group classifies in this category most of the fixed-income bonds acquired to match special Life tariffs.

Loans and receivables
Receivables in this category consist of contracts for which the Group holds a right to the cash flows arising out of the loan agreement, are characterised by fixed or ascertainable payments and are not listed on an active market.
This item consists mainly of receivables from customers and banks due to the companies in the banking Group. This category also includes insurance companies' mortgage loans and credit facilities, reinsurers' deposits, reverse repurchase agreements, term deposits exceeding 15 days and receivables for agents' recoupments.
It also includes bonds that can be converted into unlisted shares, held for the purposes of merchant banking and subject to the implicit derivative being unbundled.

In accordance with the provisions of IAS 39 loans and receivables must be initially recorded at their fair value, which corresponds to the amount granted including the transaction costs and the fees chargeable direct.
Following the initial recording, receivables are valued at the amortised cost, which is represented by the value at which they are initially recorded net of repayments, plus or minus any difference between the initial value and the value on maturity because of depreciation calculated in accordance with the criterion of effective interest and less any reduction because of a decrease in value and irrecuperability.

Applying the effective interest rate enables the financial effect of a loan transaction to be spread evenly over its expected life. In fact, the effective interest rate is the rate that discounts back all the future cash flows of the loan, establishing a current value corresponding to the value granted including all the transaction costs and income pertaining to it. When the cash flows and the contractual duration of the loan are being estimated, all the contractual terms that can affect the amounts and the maturity dates (for instance early redemptions and the various options that may be exercised) are taken into account but not the losses expected on the loan. Following initial recording, for the whole life of the loan the amortised cost is determined by continuing to apply the effective interest rate fixed at the start of the operation (original interest rate). This original rate does not vary over time and is also used following any contractual amendments to the interest rate or events that in fact mean that the loan becomes interest-free (for instance if a collective creditor action takes place).

The amortised cost method is applied only to loan contracts with an original duration of at least eighteen months, on the assumption that in the case of shorter contracts applying this method does not involve significant variations in the calculation of the financial effect. Loans with a duration of less than eighteen months and those that have no fixed maturity date or are revocable are therefore valued at their historic cost.

On the reference date for each set of accounts or interim financial statements, the loans are checked in order to identify those for which there is objective evidence of loss of value owing to events that have occurred after they were first recorded.

Valuation procedures differ depending on whether the loans are deteriorated or performing.
Loans are considered to be deteriorated if they are deemed to be doubtful, substandard or restructured loans, or if they are more than 180 days overdue, in accordance with current Banca d'Italia instructions. These deteriorated loans (with the exception of substandard and/or overdue loans that are each for an insignificant amount) are subjected to a process of analytical valuation consisting in discounting back (at the original effective interest rate) the cash flows expected by way of principal and interest, taking account of any benefits pertaining to the loan. The negative difference between the current value of the loan ascertained in this way and its book value (amortised cost) at the time it is valued constitutes a value adjustment and this is what is recorded in the profit and loss account.

The original value of the loans is readjusted in subsequent financial years only in the event that the reasons that led to the relative loss being recorded no longer exist. Value readjustments may be recorded up to an amount that attributes to the financial asset a value not exceeding the value that it would have had if the amortised cost was applied without prior value adjustments.

Receivables for which there is no individual objective evidence of loss (in general performing loans, including receivables from counterparties resident in risky countries and substandard and/or overdue loans for insignificant individual amounts) are valued by the group method according to standardised category of credit risk based on type of customer and type of product. The value of the contingent loss according to standardised category is calculated by applying percentage loss indices ascertained by analysing the performance of each category over previous periods of at least three years.
The value adjustments ascertained in accordance with the group method are allocated to the profit and loss account. In subsequent periods any additional value adjustments or readjustments are determined using the differential method by reference to the entire loan portfolio valued as a whole.

Receivables assigned are eliminated only if the assignment involves the substantial transfer of the risks and benefits pertaining to them. If this is not the case the receivables continue to be recorded in the accounts even though ownership of them has been legally transferred. The presumption is that all the risks and benefits are substantially transferred if the assignment involves transferring at least 90% of them. On the other hand the presumption is that all the risks and benefits are substantially retained if the assignment involves transferring no more than 10% of them.

If the assignment does not involve either transferring or retaining a substantial percentage of the risks and benefits (in the event that the Group retains more than 10% but less than 90% of the risks/benefits) the receivables are eliminated if the Group retains no control over them at all. Otherwise the fact that some control over the receivables assigned is retained means that they are retained in the accounts in proportion to the level of residual involvement.

The Group still has in its accounts in this category all the receivables pertaining to the securitisation schemes implemented after 31 December 2003, for which it has substantially retained all the risks and benefits because it holds junior securities issued by the special purpose vehicles (SPV). Fuller information on how the securitisation transactions are dealt with is contained in the following paragraph.

Securitisation schemes
As from 2002 the subsidiary Unipol Banca has implemented some securitisation transactions under which it has assigned performing loan portfolios to vehicle companies set up for the purpose.
In the case of securitisation transactions finalised before 31 December 2003, the Group decided to apply the provisions of paragraph 27 of IFRS 1, which establishes that a body using the IAS/IFRS for the first time must apply the derecognition requirements (writing off of assets) provided for in IAS 39 to all transactions occurring after 1 January 2004. In other words, this paragraph emphasises that, if the previous standards allowed derecognition of the assets when a specific transaction took place, the assets previously written off as at 1 January 2004 must not be recorded.
Therefore, deeming the derecognition implemented in the years before 2004 to be valid for all purposes in accordance with the previous accounting standards, the Junior Notes, subscribed on completion of the operation, have been classified in the category of securities available for sale and the derivatives connected with the operation have been defined as trading derivatives (asset swap and clean-up call). In order to fulfil the precepts of the IAS both the securities and the derivatives have been valued.

The fair value of the Junior Notes and the derivatives connected with securitisation schemes for which the effects of the derecognition were maintained, has been calculated by means of a mathematical-statistical algorithm based on a stochastic simulation with the aim of quantifying the effects of random variables such as prepayment and default rates. Thus the incoming and outgoing cash flows expected from the securitisation transactions and, consequently, the discounted-back values of the securities and the derivatives have been ascertained on the basis of 3,000 simulations.

In the case of transactions finalised after 31 December 2003, including the assignment of the first loan portfolio and the issue of the first series of notes, both of which were carried out in December 2003 as part of a scheme that came to an end in the first few months of 2005, the Bank has written off the effects of the derecognition implemented in accordance with the national accounting principles, consolidated the balance sheets and profit and loss accounts of the vehicles including the figures relating to managed portfolios, which were excluded from the accounts drawn up in accordance with the previous accounting standards, and eliminated the Junior Notes held in the portfolio.

Derivatives

Derivatives are initially recorded at the purchase cost representing the fair value and subsequently assessed at fair value. The fair value of derivatives is based on prices gathered from regulated markets or provided by operators, on models used for valuing options (basing hypotheses on market and economic conditions), or on models for discounting back future cash flows.

Derivatives may be classified as 'trading' or 'hedging'.
In the case of hedging operations IAS 39 lays down administratively cumbersome and complex rules for drawing up appropriate documentation to be used to check the effectiveness of the cover from the time it is activated and throughout its entire duration (hedge accounting).
The Group puts the derivatives in the trading category since it is administratively difficult to demonstrate the efficacy of the hedging as laid down by IAS 39.

In accordance with the provisions issued by ISVAP in its Ruling 297 of 19 July 1996 and in line with the guidelines laid down by the Boards of Directors of the companies in the Group, during 2005 derivatives were used only for the purpose of hedging the risk of security items or the exchange risk or in order to optimise management, excluding purposes that were purely speculative.
These purposes were achieved using the specific derivatives provided for in the above-mentioned resolutions of the Boards of Directors and related to securities that were in the portfolio at the time the relative policy was concluded and throughout its entire duration.
In addition, each operation was carried out with banking or comparable counterparties of proven reliability.

Costs related to the capital increase

Costs directly attributable to issuing instruments representing capital are deducted from the capital net of tax effects.

2.5 Cash and cash equivalents – IAS 7

Cash and cash equivalents include cash in hand, cash in current accounts with credit bodies available on demand and term deposits for periods not exceeding 15 days.

2.6 Contingent liabilities and contingent assets – IAS 37

Amounts are set aside for risks and charges only when they are deemed necessary to meet an obligation arising out of a past event and when it is likely that the amount of resources required can be reliably estimated.

2.7 Insurance contracts – IFRS 4

Classification of contracts

Insurance contracts are contracts that transfer significant insurance risks. Such contracts may also transfer financial risks.
An insurance risk is significant if, and only if, there is a reasonable possibility that the occurrence of the insured event will cause a significant change in the current value of the insurer's net cash flows.

Investment contracts are contracts that transfer financial risks but involve no significant insurance risks.
Some insurance and investment contracts may include discretionary profit-sharing.

In the case of Non-Life business all the products in the portfolio as at 31 December 2005 are classified as insurance contracts.

In the case of Life business the principal criteria used for classifying Life products as insurance contracts are:

- the presence of a significant insurance risk, i.e. the reasonable possibility that the occurrence of the insured event will give rise to the payment of significant 'additional benefits' compared with those that would be payable if the insured event had not taken place. The threshold of significant insurance risk is deemed to be 10%;
- the presence of options or guarantees, such as the coefficient of conversion into an annuity with guaranteed rates.

Some contracts provide for discretionary sharing in the company's profits (Discretionary Participation Feature) i.e. the policyholder's right to receive a benefit in addition to the guaranteed minimum. The benefit must comply with specific contractual terms and represent a significant part of the total payments. In particular some contracts subject to revaluation and linked to segregated accounts have been classified as investment products with DPF and have therefore been valued and recorded as insurance contracts.

A contract classified as an insurance contract remains an insurance contract until it expires, an investment contract may be subsequently classified as an insurance contract if the conditions arise.

However, the following types of contract are classified as investment contracts and have no DPFs. For this reason, in accordance with the provisions of paragraph 3 of IFRS 4, contracts of this type do not produce premium income but are valued and recorded in accordance with the rules of IAS 39:

- index-linked, where the sum insured in the event of death corresponds to the value of the asset plus a small percentage;
- unit-linked, where the sum insured in the event of death corresponds to the NAV plus a small percentage;
- mixed, where funding is specific and the technical rate is zero;
- capital redemption, where funding is specific and the technical rate is zero.

In the case of unit-linked products the loading and the acquisition commissions relating to the asset management service are recorded and amortised separately throughout the duration of the contract. In the case of index-linked contracts, since there is no asset management (the contract being merely administered), these deferments are not necessary.

2.8 Non-Life technical provisions

Provision for unearned premiums

The provision for unearned premiums relating to direct insurance is established analytically for each policy using the pro-rata temporis method, on the basis of the gross premiums recorded less acquisition commissions and the other acquisition costs that are chargeable direct. In the case of multiyear contracts the amount of depreciation for the year is deducted.

If the conditions for it apply the provision for unearned premiums also includes the provision for unexpired risks calculated on the forecast of the loss ratio for the current year.

In the case of the Credit class the flat-rate method provided for by the Ministerial Decree of 23 May 1981 for premium income produced before 1992 has been applied, whilst in the case of contracts issued from 1992 onwards the pro-rata temporis method has been applied.

In the case of the Bond class the provision for unearned premiums has been calculated using the pro-rata temporis method combined with the criteria laid down by ISVAP Ruling 1978 of 4 December 2001.

The total amount set aside is intended to meet the charges arising out of the part of the risk relating to subsequent years.

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

Provision for increasing age

The provision for increasing age is calculated at a flat rate of 10% on the contracts in the Health class in the portfolio that have the features provided for by Article 25 of Legislative Decree 175/95.

Provision for outstanding claims

The provision for outstanding claims for direct business is ascertained analytically by estimating the presumed cost of all the claims outstanding at the end of the year and on the basis of prudent technical valuations carried out with reference to objective elements, in order to ensure that the total amount set aside can meet the payout requirements and the relative direct and settlement expenses. Only in the case of Motor TPL claims reported during the year is the provision valued using the criterion of the average cost of sufficiently large groups of similar claims (damage to property and personal injury) backed up by historical data and forecasts specific to the individual Undertakings.

The provision for outstanding claims also includes the amounts set aside for IBNR claims, based on past experience of IBNR claims for previous financial years.

The reinsurers' share of the provision for outstanding claims reflects the sums recovered from them, the level being laid down in the individual treaties or agreements.

Provision arising out of the adequacy test for Non-Life technical provisions

The Non-Life technical provisions have been subjected to the test provided for by IFRS 4 (Liability Adequacy Test – LAT), the outcome of which is that there is no need to add to them apart from what has already been ascertained as a result of the valuation of the provision for unexpired risks.

Procedural note on fixing the level of provisions and assumptions made in the liability adequacy test (LAT)

The process that has led to making the assumptions has been carried out in such a way as to make a neutral valuation (i.e. neither optimistic nor prudent) of the liabilities with the intention of coming up with an estimate that is as realistic as possible.

The source of the figures is internal and the trends are based on annual statistics and have been monitored monthly throughout the year.

As far as possible assumptions have been checked against market statistics.

If any information has been missing, incomplete or unreliable the estimate of the ultimate cost has been based on prudent assumptions.

The very nature of insurance business makes it very difficult to predict the cost of settling a claim with any certainty. The provision for each claim reported is set by a claims handler and is based on the information in her possession and on experience gained in similar cases. The forecasts fed into the system are periodically updated on the basis of new information about individual claims.

The ultimate cost estimate is based on additional amounts ascertained using statistical methods based on the level of the updated forecasts. The various elements that make it so complex vary depending on the class in question.

As the Group's work is concentrated in Italy the major exposure to catastrophic risks is represented by natural disasters such as earthquake and flood.

In the case of this type of risk provision is made for reinsurance to cover claims of up to €250m for each company in the Group, this threshold being judged to be sufficiently prudent when worked out using statistical models to simulate the company's exposure in detail.

In the case of TPL classes provisions for claims reported are estimated by means of the inventory method, and the claims handlers' estimates are combined with the results of statistical methods such as the 'Chain-Ladder' and the 'Bornhuetter-Ferguson' methods and with valuations using the average costs for the financial year (for similar groups with a sufficiently large number of claims).

The two estimates are combined using a formula that gives greater weight to experience. This technique is used in situations in which the figures are not suitable for making projections (recent years and new classes of risk).

These methods extrapolate the ultimate cost according to the year in which the claim is incurred and according to similar groups of risk on the basis of the trends of claims recorded by the Group in the past. Should there be a reason for deeming the trends recorded to be invalid some of the factors are modified and the projection is adapted to fit the information we currently hold.

Some examples of what affects the trends could be:

- changes in the claims-handling procedures involving different approaches to making allocations to reserves;
- market trends showing increases higher than inflation (may be linked to the business cycle or to political, legal or social trends);
- random fluctuations including the impact of 'major' claims.

Claims incurred but not yet reported are estimated on the basis of the historical trend within the company, and the number and the average costs of claims are estimated separately.
As allowed by the regulations in force, the provisions have not been discounted back.

Change in the assumptions made and analysis of the sensitivity of the model
As at 31 December 2005 the estimated value of the cost relating to the years 1998-2004 was €17,850m, a slight drop compared with the valuation as at 31 December 2004 for the same years (€17,860m).
The new figure takes into account the savings recorded on claims that have been settled and of the necessary revaluations of claims that remain outstanding.

The values of the Liability Adequacy Test (LAT) indicate overall that the provisions are sufficient (2.2%) provided that in the type of business concerned (third-party liability classes) inflation is 5%.
The risks arising from insurance contracts are complex and subject to numerous variables that make the task of quantifying the sensitivity of the model very complicated.
In order to assess the sensitivity of the models to the change in the assumptions we have valued the provisions assuming an increase of 1% in the rate of adjustment of the average costs of claims:

Assuming inflation higher than 1% *(figures in €m)*

	Before 1998	1998-2005	Total	Delta %
Book provisions	559	5,109	5,668	
LAT 5%	559	4,985	5,544	-2.2%
LAT 6%	559	5,080	5,639	-0.5%

The incidence of the amount of the 542 major claims (exceeding €800,000 in the case of Motor TPL, €400,000 in the case of General TPL and €350,000 in the case of Fire) on the total provisions of the three classes is 13.0%. If there was a 10% increase in the number of major claims the provisions would increase by €52.8m.
The incidence of claims handled by other leading companies on total provisions is 6.2%. If they were to write-up these claims by 5.0% costs would increase by €17.5m.
In assessing the results of these variations it must be borne in mind that the analyses carried out are of the deterministic type and no account is taken of any correlations.

Trend in claims (claims experience)
The table below, illustrating the trend in claims, shows the estimated first-year costs for each year in which claims were incurred from 1998 until 2005 and the adjustments made in the subsequent years as a result of the claim being settled or the forecast being adjusted as a result of fuller information about the claim being received.

The line showing the variation compared with the first-year provision includes the balance of the adjustments carried out in all the years following the year in which the claims were incurred.
Extreme caution must be exercised when extrapolating the adequacy or inadequacy of provisions on the basis of the following tables.

The Group considers that the provisions for claims reported or yet to be reported incurred by 31 December 2005 to be adequate in the light of current information.

Trend in claims (all classes excluding Assistance)

Figures in €m

Year in which incurred	1998	1999	2000	2001	2002	2003	2004	2005	TOTAL
Estimate of claims accumulated at the end of the year in which they were incurred	2,291	2,468	2,541	2,524	2,625	2,715	2,792	2,830	**20,786**
after one year	2,351	2,440	2,492	2,489	2,546	2,649	2,741		
after two years	2,337	2,464	2,503	2,472	2,540	2,656			
after three years	2,363	2,469	2,479	2,469	2,554				
after four years	2,377	2,501	2,485	2,477					
after five years	2,392	2,515	2,491						
after six years	2,411	2,518							
after seven years	2,414								
Estimate of claims accumulated	2,414	2,518	2,491	2,477	2,554	2,656	2,741	2,830	**20,681**
Accumulated payments	2,222	2,242	2,173	2,094	2,090	1,994	1,781	975	**15,571**
Variation compared with the valuation in year 1	123	50	-50	-47	-71	-60	-51	0	
Outstanding as at 31/12/2005	192	275	317	384	464	661	960	1,855	**5,109**
Effects of discounting back									
Book value	192	275	317	384	464	661	960	1,855	**5,109**

Claims incurred but not reported (IBNR) are estimated to amount to €327m.

2.9 Life business technical provisions

The amount recorded in the accounts is calculated in accordance with the provisions of Arts 24 and 25 of Legislative Decree 174/95 and with the provisions of the Ministerial Decree of 2 July 1987 relating to the minimum level of the provision for additional health and professional premiums and of the provision for operating expenses.

Mathematical provisions
The mathematical provisions are calculated using the forecasting method (the difference between the average current value of the insurer's future liabilities and the average current value of the policyholder's future liabilities) using the same technical bases as those used for calculating the pure premiums with no deduction for policy acquisition expenses, with reference to actuarial assumptions (technical interest rates, demographic assumptions of

elimination through death or disability) and taking account of all the guaranteed benefits, the profit-sharing offered and the contractual options. The mathematical provision also includes the amounts of premium accrued during the financial year and cannot be less than the surrender value on the valuation date.

The value of the provision on the date the accounts are drawn up is ascertained by linear interpolation between the provisions on the policy anniversaries immediately preceding and following this date.

In the case of contracts the return on which is dependent on investments or indices where the policyholder bears the risk and those arising out of pension funds, the technical provisions are calculated with reference to the liabilities provided for in the contract and to the provisions of Article 30 of Legislative Decree 174/95, and in the case of index-linked contracts in particular the mathematical provisions are calculated on the basis of the price of the underlying securities, whilst in the case of unit-linked contracts the mathematical provisions are calculated by multiplying the number of units by the prices of the funds concerned on the date they are calculated.

In the case of pension funds and in particular contracts that offer a guaranteed minimum return on payments when the agreement expires or on retirement, death or disability, the mathematical provision may be increased by a further provision required to cover the risk of including the value of the underlying assets. This supplement is calculated by taking into account any differences between the guaranteed minimum values and the values of the underlying assets during the guarantee period estimated stochastically and by discounting back the result on the date the provisions are calculated.

The mathematical provisions are calculated analytically for each individual company taking into account the contracts in force on the date the accounts are drawn up, their respective inception dates and all the underwritten under the contracts.

For the purposes of the completeness and accuracy of the portfolio the following checks are carried out:

- ascertaining that the portfolio used to calculate the provisions is properly constituted by selecting a sample of all the contracts outstanding at the end of the year and checking the most significant features of the contracts;
- checking the completeness of this portfolio by selecting a sample of all the policy numbers issued in order to discover whether the policy is still in force or has been cancelled;
- checking that the last contracts issued during the financial year are among the contracts outstanding and that the first contracts issued during the following year are not included; if the contract is in force on the date the accounts are drawn up, checking that it has been taken into consideration in the calculation of the mathematical provision; if this is not the case, checking that it has not been included in this calculation.

In accordance with specific provisions issued by the Supervisory Board the mathematical provisions are also supplemented by the following additional provisions:

Supplementary provisions based on demographics

An additional provision has been set up to supplement the provision held as a hedge against liabilities to policyholders whose benefit is in the form of a life annuity or in the form of a lump sum with guaranteed conversion rates into an annuity.

The supplementary provision set up to take account of the demographic base has been calculated by multiplying the annuities subject to revaluation as at 31 December 2005 by the ratio between:

- the annuity rate taken from the RG48 demographic table subdivided according to sex and the life annuity rate taken from the demographic table used to construct each individual tariff concerned (Unipol, Aurora, and Quadrifoglio);
- the annuity rate taken from the IPS55 demographic table for men and the SIMPS 71 annuity at the end of the deferment period (BNL Vita);

and by discounting back this product over the remaining period based on the calculation tables described above (RG48/IPS55) using the technical tariff rate.

Coefficients that reflect each individual company's propensity to choose the annuity offered by are applied to the levels of provision obtained in this way.

These coefficients differ according to the basic type of tariff (annuity or lump sum with annuity option). The percentages used are precautionary compared with those reported by ANIA in the statistical study of the market published in the circular of 16 December 1999 File no 0372 Life Ass. Notice 42 and with the study of 8 July 2003 File no 0264 Life Ass. Notice 27.

Additional provisions

The additional provision is set up as a hedge against the death guarantee contained in the index-linked and unit-linked contracts in Class III.

This additional provision is calculated by applying the death rate for the age of the policyholder (or the average age of the policyholders) taken from the demographic tables contained in the technical note to the sum assured at risk of each contract.

In the case of unit-linked contracts issued until 2000 in particular, Unipol Assicurazioni applies to the sum assured at risk the provision coefficient for term death benefits insurance relating to the age reached by the policyholder and to the remaining period of the policy, calculated using the death rates taken from the demographic table contained in the technical note. For contracts issued after 2000 the death benefits provision is not calculated because the premium is taken weekly from the management fee and expenses for the week.

Provision for expenses

In the case of contracts with a premium payment period shorter than the period of the insurance (single premium, low annual premium, reduced) a provision is set aside for expenses calculated on the basis of the operating expenses held as a hedge against future operating charges.

In the case of index-linked tariffs the provision for operating expenses has been set up using the difference between the value of the net premium and the initial value of the policy less the initial marketing cost incurred by the undertaking; this amount, which is valid throughout the contractual life, has been set aside for the remaining period of each individual contract.

Additional provision for declining yields
These provisions are used as a hedge against the financial effects of fluctuations in the returns on segregated accounts and to take account of the part of the return to be assigned to the contracts that, because of the temporary mismatch, is not covered by the return on the investments which is expected to be obtained during the same period.
This provision is important in the case of the segregated accounts that provide for only one annual rate of return, assigned/paid to policyholders for each subsequent period of twelve months.

Additional provision for financial risks:
Taking account of the levels of financial guarantees and the adjustments made to the benefits provided for under the contracts, in accordance with ISVAP Ruling 1801G of 21 February 2001 the mathematical provisions have been supplemented with an item held as a hedge against the possible discrepancy between the liabilities and the expected rates of return on the assets matching the technical provisions linked to segregated accounts.

Tests have also ascertained that these amounts set aside are also sufficient to satisfy the liability adequacy test provided for in the IAS/IFRS accounting principles.

Provision for shadow accounting
The shadow accounting technique involves the need to record, amongst technical provisions for insurance or investment contracts that offer discretionary profit-sharing, the unrealised capital losses and/or gains on the underlying assets as if they had been realised.
This adjustment is recorded on the balance sheet or in the profit and loss account depending on whether the capital losses or capital gains in question are recorded on the balance sheet or in the profit and loss account.
Net capital losses are allocated to policyholders only after the guaranteed minimum has been checked, and if this is not the case the company continues to bear them in full.
Applying shadow accounting enables the value mismatch between technical provisions and related assets to be mitigated and is therefore deemed to be more representative of the financial effects of the operations in question.

It should be mentioned that this principle was not applied in the reconciliation of the profit and loss account as at 31 December 2004 nor the balance sheet as at 31 December 2003 and 2004 (in accordance with paras 39 and 40 of IFRS 1) attached to the consolidated half-yearly report as at 30 June 2005, nor in the reconciliation relating to the consolidated profit and loss account and balance sheet as at 30 June 2005 submitted in accordance with Article 81 *bis* of the Issuer Regulation. In line with the provisions of IAS 8, shadow accounting has been applied retrospectively in order to make it possible to compare the figures for the previous year with those for the current year.

The reason for changing this recording criterion is the desire to provide a clearer picture of the accounts. The effects on the balance sheet and the profit and loss account are shown in the paragraph *Reconciliations required by IFRS 1 – First-time adoption of the International Financial Reporting Standards.*

Procedures for underwriting and managing risk

Mortality risk

The Unipol Group operates a different policy for underwriting risks according to sales channel and type of tariff. Much attention is paid in particular to underwriting term death benefit contracts where the procedures provide for limits both on the sum assured and on the age of the policyholder. Before this category of policy can be issued a questionnaire must be completed giving details of health, occupation and sporting activities, and, depending on the replies provided, the policy may be issued by the intermediary direct or only after Head Office has added exceptions and possibly applied additional premiums relating to health, occupation or sporting activities. If sums assured or age exceed the underwriting limits assigned to the sales network Head Office is asked to assess the risk by examining, with the help of its medical consultant, the health facts in the particular case. If sums assured exceed certain amounts the risk is assessed in collaboration with the reinsurer.

Only Head Office may issue group death benefits contracts, if necessary in collaboration with the reinsurer. The questions relating to health facts are laid out in a special grid based on brackets of sum assured.

The quality of the underwriting carried out by the companies in the Group is illustrated by comparing the actual death rate in the portfolio with the theoretical death rate in the same portfolio. In 2005 this comparison showed an actual death rate that was approximately a quarter of the theoretical death rate.

As regards of the amounts of death benefits, as already indicated, the Group has recourse to risk premium types of reinsurance cover that are in line both with the nature of the products sold and with retention levels that are appropriate for the equity structure of the individual companies. The Group's principal Life reinsurers are Swiss Re and Munich Re., which are financially very sound.

The Parent Company Unipol Assicurazioni provides risk premium inward reinsurance for Quadrifoglio Vita but then passes on some of the risks underwritten to its reinsurers.

BNL Vita in particular has adopted a reinsurance policy relating to term death benefit contracts that is based on proportional or 'surplus' treaties depending on the type of contract reinsured.

Annuity option

Some Life assurance contracts offer the customer the possibility of opting for a benefit that can be paid in the form of an annuity instead of receiving a capital sum on maturity. The trend for people to live longer means that these contracts expose the Group to the longevity risk. For some years now this risk has been limited in new contracts by postponing the moment when the annuity rate is calculated and the minimum guaranteed rate is fixed to the time when the benefit is paid. More than €22m has been added to the Group's mathematical provisions to take account of contracts already in the portfolio for which the annuity rate is guaranteed and is based on demographic trends that have not been updated. This amount is deemed to be adequate since it is based on propensity rates to exercise the annuity option that are higher than those currently recorded.

Deferment option

The companies in the Group offer customers with some types of policy the possibility of deferring all or part of the payment of the capital sum assured on maturity for a number of years decided by the policyholder.

The deferment option does not involve additional risks apart from the company's commitment to pay the guaranteed minimum. Therefore for some years now the contractual terms stipulate that the deferment option is based on the terms in force at the time it is exercised.

The propensity to exercise this option is assessed by analysing the portfolio lapsing, in order to monitor the liabilities underwritten, with particular reference to the levels of financial guarantee and to the trends in the adjustments made to the benefits provided for in the contracts.

Guaranteed minimum rate option

The companies in the Group market a lot of products with returns linked to the results obtained from segregated accounts. In most cases these products offer guaranteed minimum revaluation rates and therefore the companies in the Group are exposed to the risk that the returns on the assets invested will fall short of those paid to policyholders. In view of the trend in market interest rates and in compliance with provisions issued by the Supervisory Authority, the guaranteed minimum rate offered for the products marketed has been gradually reduced over the last few years until it was down to 2% in 2005.

Therefore the portfolio now contains contracts issued in previous years that provide for guaranteed minimum rates that are higher than those marketed in 2005. In particular, approximately 28% of the consolidated provisions, all of which relate to contracts the returns on which are linked to segregated accounts, offer minimum revaluation rates of 4%, whilst a further 18% of the consolidated provisions guarantee minimum revaluation rates of 3%.

The risk involved in these options is monitored and assessed using methods and instruments that allow the risks underwritten by the Group to be managed quantitatively, thus helping to bring about a reduction in profit volatility and enabling financial resources to be allocated in the best possible way, as shown in paragraph 3 – Financial assets (item 4.6).

In order that an accurate assessment can be made of the impact the financial risks have on the balance sheet and the profit and loss account Asset Liability Management analyses are also carried out, that is the Group's assets and liabilities are looked at together. In this way many of the instruments used for monitoring the exposure to market risks are applied to the assets (securities portfolio) and also to the liabilities (provisions, Company's liabilities net of the policyholders' liabilities).

In particular, the Group's ALM system enables the following analyses to be carried out:

- cash-flow matching: a comparison between the flows in the securities portfolio (coupons and maturing capital) and the flows of liabilities; this analysis enables any problems of liquidity over time to be assessed;
- duration gap: an indicator that enables the sensitivity of the net 'market' value to parallel movements of the rate curve to be analysed;
- sensitivity analysis: an assessment of the repercussions of a variation in one or more risk factors (financial, demographic-actuarial) on assets and liabilities, profits and losses.

The analysis is carried out using both a deterministic approach and stochastic models to ascertain the trend in the principal risk drivers.

The mathematical provisions of the companies in the Group have been combined in order to cope with the risk of a possible discrepancy between the expected rates of return on the assets matching the technical provisions linked to segregated accounts and the liabilities underwritten and in accordance with the provisions of ISVAP Ruling 1801G of 21 February 2001.

The IAS IFRS also stipulate that a Liability Adequacy Test must be carried out in order to check that the technical provisions of the contracts are sufficient to cover the financial benefits offered.

In order to carry out the test on the principal segregated accounts the companies in the Unipol Group used the models already prepared to carry out the analysis in accordance with Ruling 1801G, but extended the valuations until the portfolio contractual maturity, excluding tail-ends.

The following elements were taken into account when the analysis was carried out:

- ✓ guaranteed benefits;
- ✓ trend in the existing portfolio;
- ✓ income and expenditure associated with operating the portfolio and paying out benefits.

The LAT showed that no additional amounts need to be set aside in the consolidated accounts over and above the provisions calculated in accordance with national standards.

In order to assess the effects of a hypothetical variation in interest rates on the level of the provisions for financial risks a sensitivity analysis was carried out based on the following two scenarios:

- 1% increase in rates (+100 bps);
- 1% fall in rates (-100 bps).

The variation would be as follows (in terms of increase or decrease in the technical provisions compared with those currently set aside):

Unipol Group: Provision for financial risks
Sensitivity analysis
Amounts in €m

	+100 bps	-100 bps
Variation (100%)	**-19.1**	**112.5**
Variation (consolidated)	**-4.0**	**66.8**

Pricing, loadings/other charges and ways of remunerating the network

In developing product pricing contracts the companies in the Group generally use the traditional structures that provide for loadings on the premium paid and/or recurrent margins linked to keeping the policy in force. These loadings, intended to cover the policy acquisition and renewal costs and the operating costs, are normally quoted as a percentage (which varies according to the amount paid or the accumulated premiums, the age of the policyholder and the duration of the policy) and/or as a fixed sum.

In the case of index-linked tariffs a fixed issue cost is normally quoted plus an implicit loading based on the difference between the nominal value of the bond and the purchase price of the security matching the technical liabilities underwritten by the company, and there is no provision for sources of income after the contract has been issued.

During the contract period the companies' recurrent margins normally take the form of partial retrocessions of the gross returns on the segregated accounts or on the securities matching specific products and of a fixed minimum return retained by the companies. Where unit-linked products are concerned the recurrent margins, in the form of commissions applied, may be variable or fixed depending on the funds concerned. There are also charges for switching between different funds and these are usually expressed as a fixed sum.

In the case of a considerable proportion of single- or recurrent-premium contracts there is a penalty, expressed as a percentage of the sum assured and/or as a fixed sum, if they are surrendered (in whole or in part), especially in the first few years the policy is in force. In the case of most contracts on which an annual premium is paid there is a penalty if they are surrendered in full, expressed as a reduction in the benefit assured, the rate of which depends on the number of years remaining until the policy matures. This rate is often dependent on how long the policy has been in force and varies according to the guaranteed minimum rate.
If the contract provides for the payment of periodic coupons there may be a charge for the payment of these amounts.

If the policyholder cancels the contract there are charges, expressed as a fixed sum, intended to recuperate the expenses incurred in issuing the contract.

Remuneration of the sales network is governed by framework agreements, which are renewed at various times, between the various companies in the Group. Remuneration of the network based on the individual products marketed is laid down from time to time and depends on the product pricing.
Management fees are normally paid for acquiring new contracts and maintaining those already in the portfolio: these generally translate into an acquisition commission in the case of new contracts and a recurrent commission linked to the existence and level of the policy portfolio.

In particular, contracts on which an annual premium is paid provide for acquisition commissions that are paid in full when the first annual premium is received, though 30% of them are deemed to be due only on receipt of the second annual premium, and renewal commissions paid as from receipt of the second annual premium.

Once certain annual income targets have been reached the sales network is normally paid additional commission or bonuses which are usually based on the acquisition commissions actually paid during the period.

2.10 Financial liabilities – IAS 39
This item includes the financial liabilities recorded at fair value through profit or loss and the financial liabilities valued at amortised cost.

Financial liabilities recorded at fair value through profit or loss
The financial liabilities in this category are subdivided into two further subitems:
- financial liabilities held for trading, which include the negative items on derivatives and the bank trading liabilities;
- financial liabilities designated as at fair value through profit or loss, which include the financial liabilities relating to contracts issued by insurance companies where the investment risk is borne by the policyholders, where the insurance risk is less than 10% and where there is no discretionary profit-sharing.

Financial liabilities valued at amortised cost
This item includes amounts due to other banks and to banking customers, deposits received from reinsurers, debt securities issued, other corporate financing obtained and liabilities on Life contracts with a financial content where the insurance risk is less than 10% and where there is no discretionary profit-sharing (some types of product matched by specific assets).

2.11 Deferred tax assets and liabilities – IAS 12
Whenever there is a temporary difference, deferred tax assets are recorded insofar as there is a probability that taxable income for which they can be used will be achieved, apart from the cases provided for in paragraph 24 of IAS 12.
Whenever there are any tax losses, deferred tax assets are recorded insofar as there is a probability that taxable income for which they can be used will be available in the future.
Deferred tax liabilities are recorded whenever there is a taxable temporary difference, apart from the cases provided for in paragraph 15 of IAS 12.

Deferred tax assets and liabilities must be valued using the tax rates that are expected to apply during the year in which the tax asset will be realised (or the tax liability will be paid off) based on the tax rates (and the tax legislation) laid down in rulings in force or substantially in force on the date the accounts are drawn up.

2.12 Employee benefits – IAS 19
Staff-leaving indemnity comes under the category of benefits following cessation of employment and is classified as a defined benefit scheme.
The amount due for staff-leaving indemnity has therefore been calculated using actuarial techniques and discounted back as at the accounting date, using the 'Projected unit credit method' (a method based on benefits accrued in proportion to length of employment).
The actuarial profits and losses based on the above estimates are paid in full during the year in which they arise.

The effect of the healthcare policy for senior executives, which also comes under the category of benefits following cessation of employment and is a defined benefit, has also been ascertained.

2.13 Receipts and other income

Net premium income
This item includes the earned premiums relating to insurance contracts and financial instruments that include discretionary profit-sharing, net of reinsurance cessions.

Premium income is recorded at the time it is due. Earned premiums are obtained by adding the provision for unearned premiums.

Commissions and fees receivable

This item includes commissions and fees receivable for financial services provided.
It mainly includes loadings for the year on Life contracts where the insurance risk is less than 10% and where there is no discretionary profit-sharing.
As far as unit-linked contracts are concerned, the acquisition loadings relating to the asset management service provided are recorded and deferred throughout the duration of the policy.
This item also includes commissions and fees receivable arising out of banking business.

Net income arising out of financial instruments recorded at fair value through profit or loss

This item includes the profits and losses realised, the interest, dividends, charges and the positive and negative changes in value of the financial assets and liabilities recorded at fair value through profit or loss.

Income arising out of shareholdings in subsidiaries, affiliated companies and joint ventures

This item includes income from shareholdings in subsidiaries, affiliated companies and joint ventures recorded in the corresponding asset item.

Income from financial instruments and other investments

This item includes income arising out of investments that do not come under the previous two categories. Mainly included are interest receivable from 'Loans and receivables' and from securities classified as financial assets available for sale and held to maturity, other investment income, including dividends and rental income from property held for investment purposes, and profits realised as a result of the sale of financial assets or liabilities and of investments in property.

Other receipts

This item includes income arising out of the sale of goods, the provision of services other than those of a financial nature and the use by third parties of the Company's tangible and other assets. It also includes other net technical income relating to insurance contracts, exchange rate differences allocated to the profit and loss account as per IAS 21, profits realised and value readjustments relating to tangible and other assets.

2.14 Costs and other charges

Net charges relating to claims

This item includes the sums paid out during the period for claims, matured contracts and surrendered contracts and the amount relating to changes in the technical provisions relating to contracts that fall within the scope of IFRS 4, net of amounts recovered and of reinsurance cessions.

Commissions and fees payable

This item includes commissions and fees payable for financial services received. It mainly includes commissions relating to Life contracts where the insurance risk is less than 10%

and where there is no discretionary profit-sharing. Acquisition commissions paid for the placement of unit-linked contracts are amortised throughout the contract period to meet deferred acquisition loadings.
This item also includes commissions and fees payable arising out of banking business.

Charges arising out of shareholdings in subsidiaries, affiliated companies and joint ventures
This item includes charges arising out of shareholdings in subsidiaries, affiliated companies and joint ventures recorded in the corresponding asset item.

Charges arising out of other financial instruments and investments in property
This item includes charges arising out of investments in property and financial instruments other than shareholdings and financial instruments classified as 'Assets recorded at fair value through profit or loss'. It mainly includes interest payable on financial liabilities, other investments charges, costs relating to investments in property such as joint-ownership charges and maintenance expenses that do not increase the value of the investment, losses made as a result of the elimination of financial assets or liabilities and investments in property, depreciation and falls in value (impairment).

Operating expenses
This item includes commissions and other acquisition expenses relating to insurance contracts, administrative expenses and amortisation not allocated to charges relating to claims.

Other costs
This item mainly includes other net technical charges relating to insurance contracts, losses realised and depreciation relating to tangible and intangible assets not allocated to other cost items.

2.15 Corporation tax for the financial year

Unipol Assicurazioni and the other subsidiaries that fulfil the requirements of Article 117 et seq. of Presidential Decree 917/86 and of the Ministerial Decree of 9 June 2004 (Navale, Unisalute, Smallpart, Unieuropa) have opted for the Group consolidated taxation system (for the purposes of IRES) in their capacity as consolidated companies. The option is valid for 2004 – 2005 – 2006.
The holding company for taxation purposes is Finsoe spa.
On 23 December 2004 the undertakings listed above signed an agreement with this company regulating the economic, financial and procedural aspects governing the option in question.
Consequently IRAP and the charges/income linked to the transfer to the holding company of the tax profits for the purposes of IRES are recorded under taxes in the profit and loss account on the basis of the taxable income and in accordance with legislation, with account being taken of the exemptions applicable and of the tax credits due, and of the terms of the agreement with the holding company.

Prepaid and deferred taxes, based on the temporary differences between book profit and tax profit of the individual consolidated companies (arising or deducted during the year, relating to sundry assets and the provision for taxation respectively) and on the consolidation adjustments have also been recorded. If there are any tax losses, deferred tax assets are recorded insofar as there is a probability that taxable income for which they can be used will be available in future.

2.16 Earnings per share – IAS 33

The basic net earning per share is calculated by dividing the net profit allocated to shareholders who hold ordinary shares in the Parent Company Unipol Assicurazioni by the weighted average of the ordinary shares outstanding during the financial year.

The diluted net earnings per share are calculated by dividing the net profit allocated to the shareholders who hold ordinary shares in the Parent Company Unipol Assicurazioni by the weighted average of the additional ordinary shares that would be outstanding if all the ordinary shares were converted and thus the equity were diluted.

2.17 Conversion differences

Amounts in the accounts that are expressed in currencies other than the Euro are converted into Euro by applying the exchange rate in force at the end of the year to the items on the balance sheet and in the profit and loss account. The differences arising from the application of these exchange rates are credited or debited to 'Provision for net exchange rate differences' in the consolidated shareholders' equity.

3. NOTES ON THE BALANCE SHEET

Comments and further information on the items on the balance sheet and the changes in the figures compared with the previous year are given below. (The numbering of the notes relates to the numbering used on the compulsory layout of balance sheet and profit and loss account.)

ASSETS

1. Intangible assets

1.1 Goodwill

This item amounts to €1,411.2m (-€179.7m compared with 2004) and €860.3m of it relates to goodwill recorded as a result of interests in companies acquired before 1 January 2004, in particular:

- €768.8m relating to Aurora Assicurazioni, down €230.4m on the previous year as a result of the sale to third parties of a minority interest of 19.98% of the equity;
- €44m relating to BNL Vita, unchanged since the previous year;
- €8m relating to Navale Assicurazioni, there having been a decrease of €11.1m compared with the previous year as a result of a price adjustment on the acquisition of the company provided for in the contract;
- €24.2m relating to Unipol Banca, down €3.3m as a result of a capital increase that led to a decrease in the interest held in the company (which fell from 91.53% in 2004 to 79.53% in 2005). Since the capital increase, which took place on 6 December 2005, was not deposited until January 2006, the Basis of consolidation table appended to this Note still officially shows the previous amounts of participating interest in the Unipol Banca Group;
- €11.8m relating to Linear, €10.9 of which was generated during 2005 when the subsidiary Aurora Assicurazioni acquired 20%;
- other goodwill amounting to €3.5m.

Also included is goodwill generated when banking outlets were acquired (€416.3m), goodwill for deficits arising from merger into the subsidiary Aurora Assicurazioni (€102.3m, up from €41m in 2004, the change being due to the sale of 19.98% of the company) and other goodwill with a specific useful life (Life portfolios and commercial agreements) amounting to €32.3m.

At least once a year the Parent Company must check that the value at which its assets are recorded in the accounts does not exceed the value that can be recouped.
Unipol has carried out the impairment test on the goodwill recorded in the accounts relating to the insurance and banking subsidiaries.
It has therefore become necessary to set up Cash Generating Units (CGU, units that generate cash flows), to allocate the goodwill to them and to ascertain the value that can be recouped in accordance with the methods laid down in these standards.

Below are listed the basic assumptions that have been made:

Cash Generating Units (CGU) identified

Unipol's assets have been segmented as follows:

- Non-Life CGU consisting of Aurora (Non-Life business), Navale, Unisalute and Linear;
- Life CGU consisting of: Aurora (Life business), BNL Vita and Quadrifoglio;
- Bank CGU consisting of the Unipol Banca Group.

Valuation methods used

The method used is a DDM type of method (Dividend Discount Model) which values the capital surplus/deficit in accordance with the minimum requirements laid down by the Supervisory Authority.

The DDM method establishes the value of the economic capital as the discounted value of the dividends that may possibly be distributed to shareholders: the potential dividends may not necessarily coincide with the dividends that will actually be paid out but with the liquid assets remaining after the company has met the Supervisory Bodies' requirements relating to investment contracts and to maintaining the level of the shareholders' equity.

The adjusted shareholders' equity in excess compared with the estimate of the minimum solvency coefficient therefore assumes the nature of the 'capital surplus' that is available in theory.

Net profits used

The net profits of the latest business plans provided by the companies in the Group were used.

Payout used

- Non-Life CGU: The average payouts made by listed composite companies in the three-year period 2002–2004 were analysed and a cautious average market payout of 60% was used (in line with the 2002-2004 average for listed composite companies) rather than the planned payout (around 90%).
- Life CGU: The companies' planned payout was used.
- Bank CGU: The companies' planned payout was used.

Projection period

Five expected dividend flows were discounted back.

Rate of discounting back

A rate of discounting back of 7.50**%** was used, broken down as follows:

- risk-free rate	3.50%
- beta coefficient	0.80
- premium at risk	5%

In the case of the risk-free rate the average figure for the 10-year BTP (Long-Term Treasury Bond) for the period June–December 2005 was used.

A beta coefficient of 0.80 was used, in particular:

- in the case of the insurance companies, the 5-year Beta Bloomberg for listed companies excluding Life-only companies was used;

- and in the case of Unipol Banca it was the 5-year Beta Bloomberg for a sample that was deemed to be significant and included the mid-size listed banks with capital of less than €5bn, excluding specialist banks and those with a beta coefficient lower than 0.60.

The premium at risk was deemed to be 5%, in accordance with common practice among financial analysts and the profession in general.

Growth factor (g)
IAS 36 paragraph 37 specifies that "entities will have difficulty in exceeding the average historical growth rate over the long term (twenty years) for the products, industries, country or countries in which the entity operates, or for the market in which the asset is used".
For example the annual average growth rate of premium income in the insurance sector during the period 2006–2010 is expected to be:
- 3.1% in Non-Life business;
- 6.6% in Life business;
- 5.5% overall.

In banking business the annual average growth rate is expected to be:
- 5.1% in lending to customers;
- 3.8% in customer deposits;
- 9.5% in the net interest income (for 2006/2007);
- 6.8% in the gross operating income (for 2006/2007).

The average variation in GDP is expected to be 3.7% in nominal terms and 1.3% in real terms (source Prometeia 2006 – 2008).
The consumer price index for the period 2006 – 2010 is expected to be approximately 2.2% (source Prometeia 2006 – 2008).
In view of the above it was deemed appropriate to use a g factor of 2%, in line with recent professional valuation practice.

Sustainable dividend
The dividend for the last year of the plan was used.

Calculation of any capital surplus/deficit
The margin to be set up was provided by the companies and was calculated in accordance with current legislation. The margin requirement was adjusted to take account of the payout used in calculating the dividends that can be distributed.

Sensitivity analysis carried out *(para. 134 of IAS 36)*
As regards the parameters defined above:
- rate of discounting back 7.50%,
- g growth factor 2%;

no negative differences arising from impairment (between recoverable value and goodwill recorded) were noted.

A sensitivity analysis of the difference arising from impairment was also carried out based on a grid of rates between 7.25% and 8% and a g factor of between 1% and 3%.

In addition, as regards the goodwill recorded in the accounts of the Unipol Banca S.p.A. Group as a result of company mergers that took place between 1999 and 2004, mention should be made of three operations, which related to the acquisition of banking outlets – 51 from Banca Intesa, 60 from Capitalia and 22 from Antonveneta – and took place in 2001, 2002 and 2004 respectively.
The impairment test was carried out on the goodwill recorded in the accounts as at 31 December 2005 by ascertaining the value in use of the goodwill and comparing it with the relative book value. The goodwill was allocated to Unipol Banca's entire banking activity as a cash generating unit.
The value in use was estimated by discounting back the income flows established on the basis of the following factors:
(i) The latest budget and five-year plan compiled and approved by the Board of Directors, which indicated the following incentives for achieving the result for core banking activity:

- negotiating quantitative targets and relative margins, shared by the Commercial Department and accepted by general consensus of the market;
- expanding short- and medium-/long-term lending to customers;
- increasing customer funds and customer deposits;
- developing new target products;
- gradually expanding the network of branches.

(ii) In accordance with the contents of the plan drawn up and approved by the Board of Directors, the Bank took action to increase volumes and to develop products.
(iii) A growth rate – beyond the specific forecast period and for a period of 20 years – that should be stable and not exceed the long-term growth rates of the entire banking sector as also indicated by the leading financial analysts. The growth rate used was 2.1%.
(iv) A rate of discounting back corresponding to the average of the discount rates used by financial analysts that determine the rate used for estimating banking assets. The rate net of tax (the post-tax rate) used was 7.62%.

This analysis revealed the absence of permanent losses of value (impairment losses) in the goodwill recorded in Unipol Banca's financial statements as at 31 December 2005. In addition there was no evidence of likely changes to the basic assumptions used by the senior executives to ascertain the recoverable value of the goodwill that could affect the results of the analysis by establishing a recoverable value that was less than the book value.

1.2 Other intangible assets

This item, totalling €32.3m (-€2.2m compared with 2004), was made up of expenses for renovating rental property amounting to €29.6m and costs incurred for purchasing software amounting to €2.7m.

2. Tangible assets

As at 31 December 2005 tangible assets, net of depreciation funds, amounted to €371.3m (+€24.1m compared with 2004), €317.3m of which was property used for corporate business (€298.5m in 2004) and €54m was other tangible assets (€48.7m in 2004).

The changes that occurred after 1 January 2005 are set out in the following tables:

Property used for corporate business *(Amounts in €m)*	
Gross book value as at 31/12/04	323.6
Provision for depreciation and for fall in value as at 31/12/04	25.1
Net book value as at 31/12/04	**298.5**
Increases	32.2
Decreases	8.8
Depreciation for the period	4.6
Gross book value as at 31/12/05	338.3
Provision for depreciation and for fall in value as at 31/12/05	21.0
Net book value as at 31/12/05	**317.3**

Other tangible assets *(Amounts in €m)*	*Office furniture and machinery*	*Vehicles*	*Plant and fixtures and fittings*	*Total*
Balance as at 1/01/2005	**129.1**	**2.0**	**39.1**	**170.3**
Expenses relating to acquisitions	0.2	0.0	0.0	0.2
Acquisitions	16.4	0.4	10.5	27.2
Disposals	3.9	0.4	2.1	6.4
Balance as at 31/12/2005	**141.7**	**2.0**	**47.5**	**191.2**
Prov. for depr. as at 1/01/2005	**94.7**	**1.2**	**25.6**	**121.5**
Increases	15.7	0.3	5.2	21.2
Decreases	3.4	0.2	1.8	5.4
Prov. for depr. as at 31/12/2005	**106.9**	**1.3**	**29.0**	**137.2**
Net value as at 1/01/2005	**34.4**	**0.9**	**13.5**	**48.7**
Net value as at 31/12/2005	**34.8**	**0.7**	**18.5**	**54.0**

3. Technical provisions – Reinsurers' share

The balance of this item was €678.2m and was €15.7m down compared with 2004. Details are set out in the relevant annex.

4. Investments

As at 31 December 2005 total investments (property, shareholdings and financial investments) amounted to €35,064.5m (€27,707.3m as at 31/12/2004, +€7,357.2m). The increase was due not only to the rise in the Group's activity but also to the capital increase of €2,560m (already net of expenses incurred).

4.1 Investments in property

As at 31 December 2005 investments in property amounted to €352.3m (-€88.7m compared with 2004).

The following changes occurred after 1 January 2005:

Investments in property *(Amounts in €m)*	
Gross book value as at 31/12/04	458.8
Provision for depreciation and for fall in value as at 31/12/04	17.8
Net book value as at 31/12/04	**441.0**
Increases	66.8
Acquisitions arising out of business mergers	11.7
Decreases	164.5
Depreciation for the period	1.3
Gross book value as at 31/12/2005	371.5
Provision for depreciation and for fall in value as at 31/12/05	19.2
Net book value as at 31/12/05	**352.3**
Current value of investments in property as at 31/12/2005	**400.0**

The current value of investments in property was based on expert valuations commissioned to third parties.
Total net capital gains arising out of disposals of property during the year (also including those realised on property classified as 'Non-current assets or assets held for sale belonging to a group in the course of being sold' in accordance with IFRS 5) amounted to approximately €91m.

4.2 Shareholdings in subsidiaries, affiliated companies and joint ventures

As at 31 December 2005 shareholdings in subsidiaries, affiliated companies and joint ventures amounted to €28.4m (-€33.2m). €52.6m of the variation compared with the previous year was due to the sale of Finec Holding and €19.4m to the acquisition of shareholdings in affiliated companies.

Financial assets (items 4.3, 4.4, 4.5 and 4.6)

Details of financial assets subdivided according to classification and type of investment are recorded in the annex Details of financial assets.

4.3 Investments held to maturity

This category mainly consisted of fixed-income bonds acquired to match Life special tariffs, which the Group could and intended to hold until maturity. As at 31 December 2005 they amounted to €949.4m (€755.2m as at 31/12/2004).

4.4 Loans and receivables

These amounted to €10,926.1m (+€3,908.2m compared with 2004) and were subdivided as follows:

Loans and receivables (Amounts in €m)	31/12/2005 (a)	Comp. %	31/12/2004 (b)	Comp. %	var. % (a/b)
Loans and receivables from banking customers	5,486.0	*50.2*	3,974.3	*56.6*	*38.0*
Interbanking loans and receivables	2,026.9	*18.6*	1,612.6	*23.0*	*25.7*
Deposits with ceding undertakings	26.7	*0.2*	25.1	*0.4*	*6.4*
Other loans and receivables	3,386.5	*31.0*	1,405.8	*20.0*	*140.9*
Total loans and receivables	**10,926.1**	*100.0*	**7,017.9**	*100.0*	***55.7***

The item Other loans and receivables included mortgage loans and credit facilities granted to employees and other bodies, credit facilities on Life contracts, receivables from agents for portfolio recoupments, reverse repurchase agreements and term deposits exceeding 15 days which, as at 31 December 2005, included €2,970m of deposits as a bond for the public offer for BNL (The bond was cancelled on 16/2/2006.)

Loans and receivables accounted for 31.5% of the financial investments.

4.5 Financial assets available for sale

As at 31 December 2005 financial assets available for sale amounted to €9,723.2m and consisted of €2,025.4m of listed shareholdings (+€1,471.9 compared with 2004). The variation was mainly due to the increase in the BNL holding, which as at 31 December 2004 had amounted to €96m compared with €1,255.1m as at 31 December 2005.

Assets available for sale (Amounts in €m)	31/12/2005 (a)	Comp. %	31/12/2004 (b)	Comp. %	var. % (a/b)
Equity securities valued at cost	26.1	*0.3*	288.3	*5.9*	*-90.9*
Listed equity securities recorded at fair value	2,025.4	*20.8*	553.5	*11.4*	*265.9*
Unlisted equity securities recorded at fair value	246.8	*2.5*	49.4	*1.0*	*399.2*
Debt securities	7,421.3	*76.3*	3,957.3	*81.6*	*87.5*
Units in UCITS	3.5	*0.0*	3.0	*0.1*	*19.0*
Total assets available for sale	**9,723.2**	*100.0*	**4,851.6**	*100.0*	***100.4***

The increase in the unlisted equity securities recorded at fair value was due to the reclassification of the Hopa holding, which in 2004 had been classified as unlisted equity securities valued at cost whilst as at 31 December 2005 its fair value had been determined. The unit value of the participating interest Hopa, which was written down by €79.3m, was recorded as €1.8 per share, this value being based on the result of an expert valuation commissioned by the company itself.

The increase in assets available for sale compared with 2004 (+100.4%) was the result of the change in the way in which securities were classified introduced during 2005, as a result of which a corresponding decrease in financial assets held for trading was recorded.

Financial assets available for sale accounted for 28% of the financial investments.

4.6 Financial assets recorded at fair value through profit or loss

As at 31 December 2005 these amounted to €13,085.1m (€14,580m in 2004) and related to assets held for trading of €8,887.8m (€10,919.1m in 2004) and assets designated by the Group to be recorded at fair value of €4,197.3m (€3,660.9m in 2004). This second category included financial assets matching insurance or investment contracts issued by the Group where the investment risk was borne by the policyholders.

Financial assets recorded at fair value through profit or loss
(Amounts in €m)

	31/12/2005 (a)	Comp. %	31/12/2004 (b)	Comp. %	var. % (a/b)
Financial assets held for trading					
Listed equity securities recorded at fair value	381.5	*4.3*	482.5	*4.4*	*-20.9*
Unlisted equity securities recorded at fair value	0.0	*0.0*	0.6	*0.0*	*-100.2*
Debt securities	8,342.4	*93.9*	10,210.6	*93.5*	*-18.3*
Units in UCITS	81.6	*0.9*	69.8	*0.6*	*16.9*
Derivatives	76.0	*0.9*	143.7	*1.3*	*-47.1*
Other financial assets	6.3	*0.1*	12.0	*0.1*	*-47.5*
Total	**8,887.8**	*100.0*	**10,919.1**	*100.0*	***-18.6***
Financial assets designated at fair value through profit or loss					
Listed equity securities recorded at fair value	13.0	*0.3*	9.9	*0.3*	*31.4*
Debt securities	2,514.4	*59.9*	2,387.0	*65.2*	*5.3*
Units in UCITS	1,620.3	*38.6*	1,241.8	*33.9*	*30.5*
Derivatives	14.3	*0.3*	8.4	*0.2*	*70.3*
Other financial assets	35.2	*0.8*	13.8	*0.4*	*155.5*
Assets available for sale	**4,197.3**	*100.0*	**3,660.9**	*100.0*	***14.7***

As regards the valuation of the put options on BNL shares in existence as at 31 December 2005, it should be mentioned that the positive outcome of the entire operation mentioned in the Board Report did not result in the Group having any liabilities.

Financial assets recorded at fair value through profit or loss accounted for 37.7% of the financial investments.

Exposure to financial risks

Financial risk management was developed by periodically monitoring the principal indicators of exposure to the rate risk, the share risk, the credit risk and the liquidity risk.
In view of the Group's financial portfolio, the rate risk was covered on the one hand by adjusting the assets to the liabilities and managing them jointly and on the other hand by keeping the duration of the assets down in order to avoid the negative effects of rate rises.

Rate risk

The portfolios' exposure to the rate risk was monitored by using the following instruments:

- duration and convexity: indicators based both on the traditional assumption of the yield curve being flat (duration and convexity via yield to maturity) and on the yield curve observed on the market;
- sensitivity analysis: a valuation of the repercussions on profits and losses, assets and liabilities of variations in the rate curve. The analysis was carried out using a

deterministic (specific rate curve scenarios and stress testing) and stochastic approach based on dynamic models of the structure according to maturity (variation calculated using the Monte Carlo method).

The Group's exposure to the rate risk was kept at particularly low levels: as at 31 December 2005 the securities portfolio had a duration of 2.91 years.

Share risk

The portfolios' exposure to the share risk was monitored by using the following instruments:

- beta coefficient: an indicator of the portfolio's sensitivity to the share market in the Eurozone;
- sensitivity analysis: a valuation of the repercussions on profits and losses, assets and liabilities of variations in the benchmark market (Eurozone). The analysis was carried out using an approach that was both deterministic and stochastic.

As far as the share risk is concerned the indicator of sensitivity to the share market in the Eurozone (beta coefficient) was 0.65, which is significantly below 1 and indicative of a share exposure with a limited overall risk.

Credit risk

The portfolios' exposure to the credit risk was monitored using the following instruments:

- breakdown of the portfolio according to rating (Moody’s and Standard & Poor’s);
- sensitivity analysis: The effect on the returns (credit spread) of changes in the grading of the securities and the consequent impact on the portfolio value were estimated by means of a transition matrix (with the probability being estimated heuristically) using the Monte Carlo method. The result of the analysis was a calculation of the 'value at credit risk' based on the distribution of probability of the possible values of the portfolio.

It was also possible to quantify the credit risk as a significant indicator: the bond component is almost entirely (98.8%) concentrated in the 'investment grade' segment (Baa or higher according to Moody’s and BBB or higher according to Standard & Poor’s).
In particular, approximately 18% of the debt securities were rated triple A, approximately 62% double A and approximately 17% single A.

Liquidity risk

The portfolios' exposure to the liquidity risk was monitored using the following instruments:

- breakdown of the portfolio according to the level of liquidity of the securities: liquid, little traded or unlisted;
- bid–ask spread: The daily bid–ask spread of each security in the portfolio and its volatility were calculated. The weighted average of the volatility and the range (max-min) provided two indicators of the liquidity risk.

The liquidity risk was limited by using listed securities for almost the entire portfolio. Approximately two thirds of these were represented by securities listed on regulated markets.

Exchange risk
The portfolios were not exposed to the exchange risk since the few securities denominated in currencies other then the Euro were covered by this risk (forward sale).

Sensitivity analysis
In order to assess the exposure of the Group's profits and losses, assets and liabilities to the variation in interest rates a sensitivity analysis was carried out by establishing the effects on the accounts of the following two scenarios:
> 1% increase in rates (+100 bps)
> 1% fall in rates (-100 bps).
The first scenario (an increase in rates) would lead to a fall in profits in the region of €230m and the provisions for profits (losses) on financial assets available for sale would fall by approximately €340m.
The second scenario (a fall in rates) would lead to a rise in the profits in the region of €365m whilst the provisions for profits (losses) on financial assets available for sale would rise by approximately €465m.

Risk management
The aim of risk management is to identify, quantify and manage the principal financial risks to which the Group is exposed. Therefore methods and instruments have been developed to monitor and assess risk.
These instruments enable the risks underwritten by the Group to be managed quantitatively thus helping to bring about a reduction in profit volatility and enabling financial resources to be allocated in the best possible way.

5. Sundry receivables

Total receivables, which amounted to €1,142.9m, were down by €45.9m compared with 2004, as follows:

Sundry receivables
(Amounts in €m)

	31/12/2005 (a)	Comp. %	31/12/2004 (b)	Comp. %	var. % (a/b)
Receivables arising out of direct insurance operations	785.9	68.8	784.7	66.0	0.2
Receivables arising out of reinsurance operations	112.0	9.8	107.1	9.0	4.6
Other receivables	244.9	21.4	297.0	25.0	-17.5
Total sundry receivables	**1,142.9**	100.0	**1,188.8**	100.0	**-3.9**

Other receivables consisted of €100.8m in residual receivables from the Inland Revenue for the amounts paid for substitute tax on the mathematical provisions provided for by Legislative Decree 209 of 25 September 2002 (€111.2m in 2004), €62.3m in other receivables from the Inland Revenue (€172.7m in 2004) and sundry receivables of €81.8m (€46.8m in 2004).

6. Other assets

This item was broken down as follows:

Other assets (Amounts in €m)					
	31/12/2005 (a)	Comp. %	31/12/2004 (b)	Comp. %	var. % (a/b)
Non-current assets held for sale			178.3	30.4	-100.0
Deferred acquisition costs	68.8	12.9	71.4	12.2	-3.6
Deferred tax assets	176.3	33.0	140.0	23.8	26.0
Current tax assets	48.3	9.0	34.7	5.9	39.0
Other assets	241.3	45.1	162.9	27.7	48.1
Total other assets	**534.7**	100.0	**587.3**	100.0	**-9.0**

In 2004 non-current assets held for sale had included €178.3m of property available for sale, and this was sold during 2005. €40.0m of deferred acquisition costs related to Non-Life business (€38.2m in 2004) and €28.8m to Life business (€33.2m in 2004).

Details of deferred tax assets are contained in the paragraph relating to corporation tax.

7. Cash and cash equivalents

At the end of the year these amounted to €860.8m (+€634.1m compared with 31/12/2004).

LIABILITIES

1. Shareholders' equity

1.1 Shareholders' equity pertaining to the Group

The shareholder's equity, excluding the amounts pertaining to minority interests, was divided up as follows:

Shareholders' equity pertaining to the Group (Amounts in €m)					
	31/12/2005 (a)	Comp. %	31/12/2004 (b)	Comp. %	var. % (a/b)
Share capital	2,360.1	42.5	916.4	34.7	157.5
Capital reserves	2,391.3	43.1	1,179.4	44.6	102.8
Accumulated earnings and other reserves	432.5	7.8	251.2	9.5	72.2
Profits/losses on financial assets available for sale	80.5	1.5	17.6	0.7	357.5
Other profits and losses recorded in the equity direct	32.9	0.6	36.6	1.4	-10.1
Net profit for the year	254.5	4.6	241.9	9.2	5.2
Total shareholders' equity pertaining to the Group	**5,551.7**	100.0	**2,643.1**	100.0	**110.0**

As at 31 December 2005 the fully paid-up share capital of the Parent Company Unipol Assicurazioni amounted to €2,360.1m and was made up of 1,460,524,546 ordinary shares and 899,619,864 preference shares with no nominal value.

The movements recorded during the year compared with the previous year are set out in the appended Statement of changes in the shareholders' equity.

The principal changes related to:

- allocation of the profits for 2004 of the Parent Company Unipol Assicurazioni totalling €132.5m;
- increase in the share capital and in the provision for share premium following the operation to increase the share capital resolved by the Extraordinary Shareholders' Meeting held on 29 August 2005 totalling €2,560m, net of the relative costs of €39m;
- a total of 1,394,630,783 new shares were subscribed, 863,037,227 of which were ordinary shares and 531,593,556 preference shares;
- increase in the share capital and in the provision for share premium as a result of the conversion of the warrants totalling €92.3m. A total of 49,054,662 new shares were subscribed, 19,806,992 of which were ordinary shares and 29,247,670 preference shares. Holders of the warrants linked to shares and bonds issued in July 2000 ceased to have the right to subscribe to new ordinary and preference shares on 20 June 2005.

Accumulated earnings and other reserves include the differences arising out of offsetting the book value of the shareholdings against the corresponding fraction of the shareholders' equity of the consolidated companies, after allocations have been made to the asset items of these undertakings and to goodwill. This item also includes the consolidation adjustments made in accordance with the Parent Company's accounting standards and as a result of the elimination of dividends within the group.

The Statement of changes in the shareholders' equity is appended.

Own shares or units

The Parent Company Unipol Assicurazioni did not carry out any operations on its own shares during the year and as at 31 December 2005 there were no shares in the portfolio (i.e. the situation was the same as it had been as at 31/12/2004).

2. Amounts set aside

As at 31 December 2005 amounts set aside came to €37.9m, an increase of €6.3m compared with 2004, and related to amounts allocated to the provision for future charges.

However, no sums were set aside for contingent liabilities deemed possible or unlikely. In this regard, as far as contingent liabilities deemed to be possible are concerned, it should be mentioned that during the year in question there were no significant developments in the action for revocation launched by the special commissioner of Parmalat against the subsidiary Unipol Banca and against all the credit institutions that have had relations with that food-processing group. In February 2006 the Bank was notified of the order issued by the Parma Court, which, in view of the Bank's observations, passed the questions of unconstitutionality raised by the Bank's legal team to the Constitutional Court, thus suspending the action in question.

3. Technical provisions

These totalled €22,249.4m, an increase of €3,598.1m compared with 2004. Their composition and the relative variations are shown in the following table:

Technical provisions *(Amounts in €m)*					
	31/12/2005 (a)	***Comp. %***	**31/12/2004 (b)**	***Comp. %***	***var. % (a/b)***
Provision for Non-Life unearned premiums	1,429.0	*20.0*	1,400.2	*20.9*	*2.1*
Provision for Non-Life outstanding claims	5,710.2	*79.9*	5,294.4	*79.0*	*7.9*
Other Non-Life technical provisions	7.6	*0.1*	6.8	*0.1*	*12.5*
Total Non-Life provisions	**7,146.8**	*100.0*	**6,701.4**	*100.0*	*6.6*
Life mathematical provisions	14,437.4	*95.6*	11,663.1	*97.6*	*23.8*
Provision for Life sums to be paid	92.5	*0.6*	91.5	*0.8*	*1.0*
by policyholders and arising out of pension fund management	560.0	*3.7*	128.5	*1.1*	*335.8*
Other Life technical provisions	12.8	*0.1*	66.9	*0.6*	*-80.9*
Total Life provisions	**15,102.6**	*100.0*	**11,949.9**	*100.0*	***26.4***
TOTAL TECHNICAL PROVISIONS	**22,249.4**		**18,651.3**		***19.3***

4. Financial liabilities

Details of financial liabilities are set out in the relative annex.

4.1 Financial liabilities recorded at fair value through profit or loss

This item is subdivided into financial liabilities arising from trading of €90.6m and financial liabilities to be recorded at fair value through profit or loss of €3,632.4m. The latter category includes investment contracts issued by insurance companies where the investment risk is borne by the policyholders and where the insurance risk borne by the Group does not exceed 10% (mainly unit- and index-linked types of policy).

4.2 Other financial liabilities

Details are set out in the table below:

Other financial liabilities *(Amounts in €m)*					
	31/12/2005 (a)	***Comp. %***	**31/12/2004 (b)**	***Comp. %***	***var. % (a/b)***
Subordinate liabilities	648.1	*9.7*	651.6	*10.5*	*-0.5*
Liabilities arising from financial contracts issued by insurance companies	614.5	*9.2*	594.6	*9.6*	*3.3*
Deposits received from reinsurers	203.2	*3.0*	243.1	*3.9*	*-16.4*
Debt securities issued	531.9	*7.9*	492.4	*7.9*	*8.0*
Payables to banking customers	4,552.3	*67.8*	4,124.5	*66.3*	*10.4*
Interbanking payables	163.3	*2.4*	108.6	*1.7*	*50.4*
Other corporate financing obtained	0.1	*0.0*	10.4	*0.2*	*-99.0*
Total other financial liabilities	**6,713.4**	*100.0*	**6,225.2**	*100.0*	***7.8***

Subordinate liabilities amounted to €648.1m (-€3.5m net change compared with 2004) and related to loans issued by the following companies (nominal value in €m):

- Unipol Assicurazioni 600,000
- BNL Vita 50,000
- Quadrifoglio Vita 24,000

The amount of €648.1m includes 50% of the loans issued by Quadrifoglio and by BNL Vita since these companies are consolidated using the proportional method, the accrued interest payable and the issue expenses.
The two subordinated debenture loans issued by the Parent Company both have a nominal value of €300m and a twenty-year maturity and are listed on the Luxembourg Stock Exchange.
The subordination level is comparable to Tier II (supplementary capital, made up of second-rank capital items).
The first loan, issued in May 2001, has a fixed interest rate of 7% until the exercise date of the early repayment clause (after the tenth year) and a variable rate thereafter.
The second, fully subscribed by institutional investors on 28 July 2003, has an annual fixed rate of 5.66% for the first 10 years and a variable rate thereafter.
The subordinated debenture loans of the other companies in the Group amounted to €74m, €32m of which was issued in 2002, €34m in 2003 and €8m in 2004. They are unlisted and have a five-year maturity.
The subordination level is comparable to Tier II.

Liabilities arising from financial contracts issued by insurance companies rose from €594.6m to €614.5m as at 31 December 2005. They are investment contracts issued by insurance companies where the insurance risk borne by the Group does not exceed 10% (contracts matched by specific assets).

Deposits received from reinsurers fell from €243.1m to €203.2m as at 31 December 2005, a net decrease of €39.9m.

Debt securities issued amounted to €531.9m (€492.4m as at 31/12/2004) and consisted exclusively of securities issued by the subsidiary Unipol Banca.

Payables to banking customers amounted to €4,552.3m (€4,124.5m as at 31/12/2004) and consisted exclusively of amounts payable by the subsidiary Unipol Banca.

Amounts due to other banks totalled €163.3m (€108.6m as at 31/12/2004). This item related to amounts payable by the subsidiary Unipol Banca.

Other corporate financing obtained amounted to €0.1m (-€10.2m compared with 2004). During the year the Parent Company Unipol redeemed a soft mortgage loan relating to the redevelopment of the Terrasini tourist complex (Palermo) in advance.

5. Payables

5.1 Amounts due arising out of operations relating to direct insurance

These amounted to €68.3m (+€13.5m compared with 2004) and related mainly to payables to agents and other intermediaries of €40.8m, amounts due on current account to companies of €16.8m, and other amounts due for operations relating to direct insurance of €10.7m.

5.2 Amounts due arising out of reinsurance operations

This balance amounted to €57.7m, an increase of €13.6m compared with 2004, and consisted almost exclusively of the reinsurance operations carried out by Unipol, Aurora, Navale and BNL Vita.

5.3 Other payables

These rose by €17.2m over the previous year to a total of €285m and were made up of:

Other payables (Amounts in €m)	31/12/2005 (a)	Comp. %	31/12/2004 (b)	Comp. %	var. % (a/b)
Amounts due for taxation borne by policyholders	74.5	*26.1*	71.9	*26.8*	*3.6*
Amounts due for sundry tax charges	23.8	*8.4*	23.5	*8.8*	*1.3*
Amounts due to suppliers	44.7	*15.7*	33.1	*12.4*	*35.0*
Staff-leaving indemnity	90.6	*31.8*	82.7	*30.9*	*9.6*
Amounts due to welfare bodies	13.1	*4.6*	9.4	*3.5*	*39.4*
Sundry payables	38.3	*13.4*	47.3	*17.7*	*-19.0*
Total other payables	**285.0**	*100.0*	**267.9**	*100.0*	***6.4***

6. Other liabilities

These rose by €263.9m over 2004 and were made up of:

Other liabilities (Amounts in €m)	31/12/2005 (a)	Comp. %	31/12/2004 (b)	Comp. %	var. % (a/b)
Current tax liabilities	74.5	*8.1*	42.8	*6.5*	*74.1*
Deferred tax liabilities	223.5	*24.3*	178.2	*27.2*	*25.4*
Commissions on premium income currently being collecte	102.1	*11.1*	134.6	*20.6*	*-24.1*
Deferred fees receivable on non-insurance contracts	55.1	*6.0*	55.9	*8.5*	*-1.4*
Accrued liabilities	9.6	*1.0*	16.6	*2.5*	*-42.2*
Other liabilities	453.5	*49.4*	226.3	*34.6*	*100.4*
Total other liabilities	**918.3**	*100.0*	**654.4**	*100.0*	***40.3***

Current tax liabilities related to payables to the holding company for tax purposes or to the Inland Revenue (in the case of Linear, Unisalute and Aurora, which were not part of the arrangement).
The increase in other liabilities was largely due to a surge in operations in the technical business conducted by the banking undertakings in the Group at the end of the year.

Details of deferred tax liabilities are contained in the paragraph relating to corporation tax.

4. NOTES ON THE PROFIT AND LOSS ACCOUNT

INCOME

1.1 Net premium income

Gross earned premiums amounted to €8,233.5m (+21.2% on 2004).
Premiums written in 2005 reached €8,215.3m, an increase compared with the previous year of 20.5%.

BREAKDOWN OF PREMIUM INCOME
(Amounts in €m)

	Financial year 2005	Comp. %	Financial year 2004	Comp. %	% var. 2005/2004
DIRECT ITALIAN BUSINESS					
Non-Life Premium Income					
Accident and Health (Classes 1 and 2)	561.0	6.9	529.2	7.8	6.0
MV TPL (Class 10)	2,118.5	25.9	2,053.4	30.3	3.2
MV insurance, other classes (Class 3)	335.4	4.1	350.1	5.2	-4.2
Marine, aviation and goods in transit (Classes 4, 5, 6, 7, 11 and 12)	31.5	0.4	39.8	0.6	-20.9
Fire and other damage to property (Classes 8 and 9)	395.7	4.8	413.0	6.1	-4.2
General TPL (Class 13)	351.9	4.3	344.5	5.1	2.1
Credit and bonds (Classes 14 and 15)	38.5	0.5	43.2	0.6	-10.8
Sundry pecuniary losses (Class 16)	45.3	0.6	35.7	0.5	26.6
Legal protection (Class 17)	25.4	0.3	21.8	0.3	16.4
Assistance (Class 18)	45.1	0.6	35.3	0.5	27.5
Non-Life premium income	**3,948.1**	**48.2**	**3,866.1**	**57.1**	**2.1**
Life Premium Income					
I - Life assurance	1,667.4	20.4	1,449.1	21.4	15.1
III - Ins. linked to inv. funds/market indices	194.3	2.4	14.3	0.2	1,258.1
V - Capital redemption operations	2,139.4	26.1	1,392.5	20.6	53.6
VI - Pension funds	236.6	2.9	53.4	0.8	342.7
Life premium income	**4,237.6**	**51.8**	**2,909.3**	**42.9**	**45.7**
Total direct premium income	**8,185.7**	**100.0**	**6,775.4**	**100.0**	**20.8**
INDIRECT BUSINESS					
Non-Life premium income	26.2	88.6	36.6	90.4	-28.5
Life premium income	3.4	11.4	3.9	9.6	-13.0
Total indirect business	**29.6**	**100.0**	**40.5**	**100.0**	**-27.0**
TOTAL PREMIUM INCOME	**8,215.3**		**6,815.9**		**20.5**

Premiums written were subscribed almost entirely in Italy and 36.3% of them (33.3% in 2004) related to the Parent Company.

Breakdown of the Life assurance portfolio
The premium income achieved by Unipol and Aurora was mainly obtained via the network of agencies and Head Office, whilst BNL Vita and Quadrifoglio Vita operated through banking outlets (the network of branches of BNL and BAM respectively). Fifty per cent of

the premium income of Quadrifoglio Vita and BNL Vita was consolidated because this was the proportion held by the Unipol Group in these bancassurance companies.
It should be mentioned that part of the Life premium income of Unipol and Aurora, amounting to 11% of the total Life premium income of the two companies, was also obtained through banking channels, consisting of the branches of Unipol Banca and those of Reti Bancarie (BNL Group) respectively.

On the basis of the above product classification the consolidated direct income for 2005 was split as follows:

Consolidated Life direct income (*)	**Unipol Assicurazioni**	**Aurora Assicurazioni**	**Quadrifoglio Vita**	**BNL Vita**	**MMI Vita**	**Total**
Amounts in €m						
Insurance premiums (IFRS 4)	**1,717**	**1,236**	**333**	**950**	**1**	**4,238**
% var. over 2004	*70.3%*	*24.3%*	*34.8%*	*44.1%*	*insignificant*	*45.7%*
Investment products (IAS 39)	**43**	**35**	**37**	**555**	**0**	**669**
% var. over 2004	*-77.3%*	*-74.1%*	*-76.8%*	*-12.0%*	*insignificant*	*-39.8%*
Total Life income	**1,760**	**1,271**	**370**	**1,504**	**1**	**4,907**
% var. over 2004	*47.2%*	*12.5%*	*-8.9%*	*16.7%*	*insignificant*	*22.0%*
Composition:						
Insurance premiums (IFRS 4)	**97.6%**	**97.2%**	**90.0%**	**63.1%**	**100.0%**	**86.4%**
Investment products (IAS 39)	**2.4%**	**2.8%**	**10.0%**	**36.9%**	**0.0%**	**13.6%**

(*) Figures include 50% of the the income of Quadrifoglio and BNL Vita (consolidated income)

As at 31 December 2005 direct life income for the Unipol Group was €4,907.1m (insurance products plus investment products), an increase of 22% compared with the same period of the previous year. Direct income achieved by the composite companies (Unipol and Aurora) amounted to €3,030.9m (61.8% of the consolidated total) whilst the consolidated direct income achieved by the bancassurance channel amounted to €1,874.8m (38.2% of the consolidated total).

Insurance premiums accounted for 86.4% of total income and investment products for 13.6%.

Income from investment products was mainly concentrated in BNL Vita (in particular index-linked contracts), which accounted for €554.6m of the total of €669.5m.

Direct insurance premiums: Type of income	**Unipol Assicurazioni**	**Aurora Assicurazioni**	**Quadrifoglio Vita**	**BNL Vita**	**MMI Vita**	**Total**
Amounts in €m						
Traditional premiums	1,370	1,173	313	949	1	**3,807**
Financial premiums	112	61	20	0	0	**194**
Pension funds	235	2	0	0	0	**237**
Insurance premiums (IFRS 4)	**1,717**	**1,236**	**333**	**950**	**1**	**4,238**
Investment with DPF	***1,169***	***921***	***312***	***897***	***1***	***3,301***
as a %age	***68.1%***	***74.5%***	***93.5%***	***94.5%***	***100.0%***	***77.9%***

Consolidated direct income from insurance premiums in 2005 was mainly from traditional contracts in Class I (linked to human lifespan) and capital redemption contracts (Class V), which together came to €3,806.8m and accounted for approximately 90% of total income. These figures included the income from both retail and corporate contracts.

Most of the insurance premiums (€3,301m, approximately 78% of premium income) came from investment products with a DPF element (Discretionary Participation Feature, contracts that offer discretionary profit-sharing).

In 2005 Unipol Assicurazioni's income from pension funds benefited from the payments obtained when it began to manage some of the assets of Cometa, the fund of the metal and mechanical industry (€197m).

Also in 2005 the Group's income from insurance was strongly characterised by a large number of single premiums, which accounted for 90% of the consolidated total income whilst the remaining 10% was made up of annual or recurrent premiums mainly for traditional Class I contracts.

1.2 Commissions and fees receivable

At the end of the year commissions and fees receivable amounted to €120.9m (€113.5m in 2004) and were represented by commissions relating to investment contracts issued by Group insurance companies (loadings) amounting to €33.0m (€33.3m in 2004), fees relating to the banking business carried out by the Group banking companies amounting to €82.4m (€70.2m in 2004), and other commissions and fees amounting to €5.5m (€9.9m in 2004).

1.3 Income/charges arising out of financial instruments recorded at fair value through profit or loss

These amounted to €481.5m (€481.4m in 2004) and were split as follows:

Net income arising out of financial instruments recorded at fair value through profit or
(Amounts in €m)

	31/12/2005 (a)	31/12/2004 (b)	var. (a/b)
Interest	413.2	421.7	-2.0
Profits realised	356.6	112.9	215.9
Losses realised	-124.0	-24.0	416.7
Unrealised profits and value readjustments	178.7	134.6	32.8
Unrealised losses and falls in value	-350.2	-130.0	169.4
Other income	39.9	21.1	89.2
Other charges	-32.7	-54.9	-40.4
Total	**481.5**	**481.4**	0.0

1.4 Income arising out of shareholdings in subsidiaries, affiliated companies and joint ventures

This item amounted to €45.5m (€3.4m in 2004), €29.7m of which was due to the capital gain realised on the sale by the Parent Company of a holding in Aurora and €12.9m to the capital gain realised on the sale of its holding in Finec Holding.

1.5 Income arising out of other financial instruments and investments in property

This item amounted to €751.5m (€490.6m in 2004) and was made up of:

Income arising out of other financial instruments and investments in property
(Amounts in €m)

	31/12/2005 (a)	Comp. %	31/12/2004 (b)	Comp. %	var. (a/b)
Interest:	**473.6**	*63.0*	**344.6**	*70.2*	**37.4**
from investments held to maturity	33.1		12.9		*155.9*
from loans and receivables	248.5		151.9		*63.6*
from financial assets available for sale	176.5		167.7		*5.3*
from sundry receivables	2.4		0.5		*343.4*
from cash and cash equivalents	13.1		11.6		*13.1*
Profits realised:	**240.0**	*31.9*	**103.0**	*21.0*	**133.0**
from investments in property	109.1		38.9		*180.9*
from investments held to maturity	1.5		0.0		*0.0*
from loans and receivables	8.2		3.2		*158.3*
from financial assets available for sale	121.2		61.0		*98.7*
Unrealised profits and value readjustments:	**1.7**	*0.2*	**5.0**	*1.0*	**-65.3**
from financial assets available for sale	1.7		5.0		*-65.3*
Other income:	**36.2**	*4.8*	**37.9**	*7.7*	**-4.6**
from investments in property	13.3		16.9		*-20.9*
from investments held to maturity	0.0		0.4		*0.0*
from loans and receivables	3.6		4.4		*-19.0*
from financial assets available for sale	19.1		16.2		*17.6*
from cash and cash equivalents	0.2		0.0		*0.0*
Total	**751.5**	*100.0*	**490.6**	*100.0*	*53.2*

1.6 Other receipts

This item amounted to €94.2m (€108.8m in 2004) and was made up of €16.5m of other technical income, €20.0m of sums released from provisions, €11.7m of exchange rate differences, €23.2m of unanticipated profits (€10.4m of which related to Navale Assicurazioni and was recorded as a result of agreements to acquire the Non-Life companies in the MMI Italia Group) and other receipts amounting to €22.8m.

CHARGES

2.1 Net charges relating to claims

This item totalled €7,206.9m (€5,751.2m in 2004) and was made up as follows:

Net charges relating to claims *(Amounts in €m)*	31/12/2005 (a)	*Comp. %*	31/12/2004 (b)	*Comp. %*	*var. (a/b)*
Amounts paid and variation in technical	**7,424.3**	**103.0**	**6,048.8**	**105.2**	**22.7**
Non-Life amounts paid	2,708.0	*37.6*	2,460.7	*42.8*	*10.0*
Change in provision for Non-Life outstanding claims	418.5	*5.8*	321.2	*5.6*	*30.3*
Change in Non-Life amounts recovered	-306.9	*-4.3*	-10.8	*-0.2*	*2741.7*
Change in other Non-Life technical provisions	0.3	*0.0*	0.9	*0.0*	*-66.7*
Life sums paid out	1,491.6	*20.7*	1,517.9	*26.4*	*0.0*
Change in Life sums to be paid	2.1	*0.0*	6.0	*0.1*	*-65.0*
Change in mathematical provisions	2,814.8	*39.1*	6,147.4	*106.9*	*-54.2*
Change in other Life technical provisions	-50.3	*-0.7*	-5,095.7	*-88.6*	*-99.0*
Change in Class D provisions	346.2	*4.8*	701.2	*12.2*	*-50.6*
Reinsurers' share:	**-217.4**	**-3.0**	**-297.6**	**-5.2**	**-26.9**
Non-Life amounts paid	-219.5	*-3.0*	-196.2	*-3.4*	*11.9*
Change in provision for Non-Life outstanding claims	-12.2	*-0.2*	-76.0	*-1.3*	*-83.9*
Change in Non-Life amounts recovered	33.8	*0.5*	1.2	*0.0*	*2716.7*
Change in other Non-Life technical provisions	-1.5	*0.0*	2.2	*0.0*	*-168.2*
Life sums paid out	-14.5	*-0.2*	-26.8	*-0.5*	*-45.9*
Change in Life sums to be paid	0.9	*0.0*	-1.5	*0.0*	*-160.0*
Change in mathematical provisions	-4.4	*-0.1*	-0.5	*0.0*	*780.0*
Total	**7,206.9**	**100.0**	**5,751.2**	**100.0**	**25.3**

The breakdown of the balance is also detailed in the annex 'Details of technical insurance items'.

2.2 Commissions and fees payable

This item amounted to €42.9m (€40.0m in 2004) and consisted of acquisition costs relating to investment contracts issued by the insurance companies in the Group totalling €26.0m (€22.9m in 2004) and fees payable relating to the business done by the Group banking companies amounting to €16.9m (€17.1m in 2004).

2.3 Charges arising out of shareholdings in subsidiaries, affiliated companies and joint ventures

The balance for neither of the two years was significant.

2.4 Charges arising out of other financial instruments and investments in property

This item amounted to €321.3m (€154.0m in 2004) and was made up of:

Charges arising out of other financial instruments and investments in property *(Amounts in €m)*					
	31/12/2005 (a)	*Comp. %*	31/12/2004 (b)	*Comp. %*	*var. (a/b)*
Interest:	**131.0**	***40.8***	**100.0**	***64.9***	***31.0***
from other financial liabilities	128.3		99.1		
from amounts due	2.8		0.9		
Losses realised:	**41.9**	***13.0***	**6.2**	***4.0***	***574.4***
from investments in property	0.5		0.0		
from investments held to maturity	0.0		0.2		
from financial assets available for sale	41.4		5.9		
Unrealised losses and falls in value:	**130.7**	***40.7***	**40.9**	***26.5***	***219.9***
from investments in property	1.3		2.3		
from loans and receivables	30.4		7.7		
from financial assets available for sale	99.0		30.9		
Other charges:	**17.8**	***5.5***	**6.9**	***4.5***	***157.4***
from investments in property	4.2		3.9		
from loans and receivables	4.9		0.2		
from financial assets available for sale	8.4		0.1		
from other financial liabilities	0.3		2.7		
Total	**321.3**	***100.0***	**154.0**	***100.0***	***108.7***

2.5 Operating expenses

This item amounted to €1,118.4m (€1,035.6m in 2004). Details are set out in the relative annex.

2.6 Other costs

This item amounted to €221.6m (€115.2m in 2004) and was made up of:

Other costs *(Amounts in €m)*					
	31/12/2005 (a)	*Comp. %*	31/12/2004 (b)	*Comp. %*	*var. (a/b)*
Other technical charges	38.2	*17.2*	20.0	*17.4*	*91.0*
Losses on receivables	4.5	*2.0*	5.1	*4.4*	*-11.8*
Other costs	178.9	*80.7*	90.1	*78.2*	*98.6*
Total	**221.6**	*100.0*	**115.2**	*100.0*	*92.4*

Other technical charges, net of reinsurance cessions, amounted to €24.2m for Non-Life business (+€5.9m compared with 2004) and €14.0m for Life business (+€12.3m compared with 2004) respectively.
Other costs included €74m in costs pertaining to 2005 incurred in connection with the BNL operation, €66.4m of which were incurred mainly for the launch of the compulsory bid.

3. Corporation tax

The following table shows the transactions that took place at Group level relating to the payment of and amounts set aside for prepaid and deferred taxes in accordance with the provisions of IAS 12.

Breakdown of 'corporation tax' *(Amounts in €m)*							
	31/12/2005			31/12/2004			
	IRES	IRAP	Total *(a)*	IRES	IRAP	Total *(b)*	*(a/b)*
Current taxation	**136.2**	**35.6**	**171.8**	**129.5**	**40.0**	**169.5**	**1.4**
Prepaid and deferred taxes:							
utilisation of prepaid taxes	31.5	3.1	34.6	35.7	1.0	36.7	-5.7
utilisation of deferred taxes	-19.6	-1.6	-21.2	-10.9	-0.8	-11.7	81.2
amounts set aside for prepaid taxes	-68.6	-7.4	-76.0	-68.9	-8.6	-77.5	-1.9
amounts set aside for deferred taxes	77.7	12.2	89.9	44.6	5.7	50.3	78.7
Total	**157.2**	**41.9**	**199.1**	**130.0**	**37.3**	**167.3**	**19.0**

The consolidated tax rate rose from 38.66% in 2004 to 41.34% in 2005, mainly as a result of the greater weight of dividends written off as part of the consolidation process.

Table of major differences for the purposes of prepaid and deferred taxes *(Amounts in €m)*				
	31/12/2005		31/12/2004	
ASSETS	Amount	Tax effect (*)	Amount	Tax effect (*)
Write-downs of short-term shareholdings	33.2	12.2	30.3	11.4
Provision for credit depreciation	38.5	13.9	27.9	10.2
Difference in provision for outstanding claims	65.6	24.7	29.8	11.2
Excess depreciation	1.7	0.6	2.0	0.7
Write-downs of long-term shareholdings (Leg. Dec. 209/2002)	12.6	4.2	22.4	7.4
Other differences	34.6	11.2	2.7	0.8
Charges that can no longer be capitalised	91.2	34.0	48.1	17.9
Effects of valuing securities under IAS	67.1	22.4	88.3	29.5
Effects of IFRS 4 and other	28.4	10.6	61.5	22.9
Derecognition of securitisation schemes	108.3	40.4	70.9	26.5
Derecognition of provisions for risks	2.2	0.7	2.1	0.7
Other banking differences	4.1	1.5	2.4	0.9
Total	**487.4**	**176.3**	**388.4**	**140.0**

	31/12/2005		31/12/2004	
LIABILITIES	Amount	Tax effect (*)	Amount	Tax effect (*)
Capital gains split into instalments (Art. 86 Pres. Dec. 917/86)	149.0	55.0	70.2	25.7
Value readjustments on short-term shareholdings	8.2	3.1	6.5	2.5
Tax deferment	14.9	5.7	0.0	0.0
Tax clean-up	0.3	0.1	11.5	3.8
Effects of IAS on property	71.4	26.6	92.3	34.4
Derecognition of provisions for equalisation and natural disasters	107.5	40.1	92.6	34.5
Valuation of securities under IAS	134.3	44.6	133.8	44.4
Effects of IFRS 4 and other	97.0	36.5	67.4	25.4
Provision for staff-leaving indemnity	3.2	1.1	7.4	2.5
Derecognition of depreciation on goodwill	27.8	10.4	11.4	4.3
Other banking differences	1.2	0.4	2.3	0.8
Total	**614.9**	**223.5**	**495.4**	**178.1**

(*) effect of IRES 33%, effect of IRAP if due 4.25% or 5.25% taking account of local standards

Earnings per share

Basic

	31/12/2005	31/12/2004
Earnings allocated to ordinary shares	155,043,395	152,278,956
Weighted average of ordinary shares outstanding during the fin. year	721,096,034	577,498,726
Basic earnings per share (EUR per share)	**0.22**	**0.26**

Diluted

	31/12/2005	31/12/2004
Earnings allocated to ordinary shares	155,043,395	152,278,956
Weighted average of ordinary shares outstanding during the fin. year	730,726,724	597,879,218
Diluted earnings per share (EUR per share)	**0.21**	**0.25**

Proposed dividends

Dividends paid by the Parent Company Unipol Assicurazioni in 2004 amounted to €132.5m (€0.1400 per ordinary share and €0.1452 per preference share).
For the financial year 2005 the Board of Directors is proposing to the Ordinary Shareholders' Meeting a dividend of €0.12 per ordinary share and €0.1252 per preference share, €0.04 of which per ordinary and preference share withdrawn from the share premium reserve.
The total amount allocated to dividends is €287.9m, €193.5m of which derives from the operating profit and €94.4m from the share premium reserve.

Reconciliations Required by IFRS 1 First-Time Adoption of the International Financial Reporting Standards

Reconciliations required by IFRS 1 – First-time adoption of the International Financial Reporting Standards

Below is the reconciliation table showing:

- shareholders' equity on the date of transition to IAS/IFRS (1/1/2004)
- profits as at 31 December 2004
- shareholders' equity as at 31 December 2004

drawn up in accordance with the previous accounting standards compared with those drawn up in accordance with the IAS/IFRS, showing the principal accounting standards adopted and the principal adjustments.

The financial statements for 2004 were prepared in accordance with the procedures indicated in IFRS 1 – First-time adoption of the International Financial Reporting Standards. In particular all the standards endorsed by European Regulations before 31 December 2004 were used, including IAS 32, IAS 39 (financial instruments) and IFRS 4 (insurance contracts).
As regards the cash flow statement it must be pointed out that the transition to IAS/IFRS have not involved the companies in the Group making substantial amendments to the concepts of cash flow and cash equivalent. However, the change in the basis of consolidation means that the cash flows relating to the Unipol Banca Group have had to be included and the cash flows relating to the two jointly-controlled companies have had to be reduced by 50%. The impact of this change on the Group's liquid assets is negative mainly because of the elimination of the infragroup current accounts.

Shareholders' equity as at 1 January 2004 reflected the following differences compared with the consolidated accounts as at 31 December 2003, which were drawn up in accordance with the national accounting standards:

- all the assets and liabilities that the IAS/IFRS do not allow to be recorded were eliminated;
- all the assets and liabilities that the IAS/IFRS require to be included were entered and recorded in accordance with the provisions of each relevant accounting standard;
- some items were reclassified in accordance with the provisions of the IAS/IFRS;
- all the majority shareholdings were consolidated on a line-by-line basis irrespective of the type of business activity carried out;
- the jointly-controlled holdings were consolidated using the proportional method.

Options allowed by IFRS 1

Business combinations

As regards the exemptions allowed by IFRS 1, the Group took advantage of not being compelled to apply IFRS 3 – Business combinations – retroactively to the acquisitions/mergers that took place before transition to the IAS/IFRS. The book value of the goodwill in the opening balance sheet drawn up in accordance with the IFRS was the same as the book value of the Difference arising from consolidation ascertained on the basis of the national accounting standards as at 31 December 2003.

Recalculation of the value to be used instead of the cost

On the date of transition to the IFRS the book value as at 31 December 2003 was used for recording property (used for corporate business and held as investments), including any write-ups carried out, since they were considered cost-related items.
For all property, whether used for corporate business or held as investments, the Group decided to use the cost model, as laid down in IAS 16 and IAS 40.

The effects of all the adjustments made were immediately shown in the opening shareholders' equity on the date of first-time application (1/1/2004).

Accounting standards

Criteria and standards for consolidation

The Unipol Group's consolidated accounts are made up by combining the accounts of the Parent Company Unipol Assicurazioni with those of its direct and indirect subsidiaries (IAS 27).
The jointly-controlled companies are consolidated using the proportional method (IAS 31) whilst the associated and affiliated companies are valued using the equity method (IAS 28).
In particular, the subsidiaries belonging to the Unipol Banca banking group have been previously valued by the equity method, in accordance with the national accounting standards, because their activities are different from those carried out by the Parent Company.
In addition, the jointly-controlled companies BNL Vita (50%) and Quadrifoglio Vita (50%) have been consolidated on a line-by-line basis because of the specific nature of the activity they carried out and by virtue of agreements between the shareholders.

Intangible assets – IAS 38

In accordance with the provisions of IAS 38 only those intangible assets that can be identified and controlled by the undertaking, from which the undertaking will derive future financial benefits, can be capitalised.

Therefore the following intangible assets have been recorded in the accounts drawn up again by applying the IAS: goodwill paid for the acquisition of Life portfolios, costs incurred for the acquisition of software, expenses relating to building work on property belonging to third parties and differences arising from consolidation. All the other multiyear costs, which under Italian accounting standards had been recorded, have been eliminated since under the international accounting standards there is no need to capitalise them.

Intangible assets with a specific useful life continue to be depreciated in the IAS accounts but there is a major difference in the valuation of intangible assets with an indefinite useful life such as goodwill. These can no longer be depreciated but must be subjected at least once a year to a test to ascertain any permanent loss of value (impairment test), in which case the permanent loss of value must be allocated to the profit and loss account and may not be readjusted in subsequent years.

Differences arising from consolidation and goodwill paid when acquiring bank branches in the accounts on 31 December 2003 (the date of transition to the IAS) have been maintained at their book value, after being valued using methods provided for in the IAS. Following the positive outcome of the impairment test this goodwill was also confirmed as at 31 December 2004. In the accounts drawn up in accordance with national accounting standards this goodwill had been depreciated over a specific period of useful life (10 or 20 years).

Goodwill paid for the acquisition of Life portfolios has continued to be depreciated using the accounting criteria provided for in the national accounting standards.

Other types of intangible assets such as costs relating to capital increases have been deducted direct from the shareholders' equity, whilst deferred acquisition commissions on Non-Life and Life insurance contracts, depreciated under the accounting criteria provided for in the national accounting standards, have been reclassified as Other assets.

Investments in property – IAS 40
Investments in property have been recorded by applying the criterion of the amortised cost, as allowed by IAS 40 (an alternative to the fair value method). This criterion is substantially in line with the national accounting standards.

Property the recoverable value of which is estimated to be less than the book value (or zero) are depreciated each year on a straight-line basis, based on its recoverable value and presumed useful life. It consists mainly of tourist and hotel complexes, supermarkets and industrial units, in view of their particular nature and purpose.
If the recoverable value of the property is expected to exceed the book value, no depreciation has been carried out. In the case of the Group the property concerned is residential.

In the case of property that is wholly-owned (i.e. both land and buildings) and depreciated, in the accounts drawn up again by applying the IAS the value of the land that can no longer be depreciated has been recorded separately from that of the buildings, and therefore the provision for depreciation of the land has been written off. The value of the land has been determined with the help of expert valuations carried out by an outside company.

Investments in financial instruments – IAS 32 and IAS 39
Changes relating to financial instruments are of particular significance. IAS 39 provides that debt instruments, equity instruments, receivables, payables and derivatives must be classified according to the purposes for which they are held. The following categories are provided for:

- Financial assets recorded at fair value through profit or loss
- Financial assets available for sale
- Financial assets held to maturity
- Loans and receivables

Each of these categories has its own specific recording and valuation criterion and these are significantly different from the classification and valuation criteria for financial instruments provided for by the national accounting standards.

In addition, unlike the provisions of the national standards, which allow any investment in shares to be classified under shareholdings (long-term investments), the international standards allow only investments in subsidiaries, affiliated and jointly-controlled companies to be classified in this way. All other share securities must be classified either as Assets recorded at fair value through profit or loss or as Assets available for sale.

Financial assets recorded at fair value through profit or loss
This category includes both financial instruments held for trading and securities designated by the undertaking as being recorded at fair value through profit or loss.
The fair value is calculated, in descending order of priority, on prices recorded in active markets, prices provided by operators or the internal valuation models generally used in the financial world.
The differences (positive or negative) between fair value and book value are recorded through profit or loss. The fair value of listed securities is represented by the current market value.

The Group has classified in this category share securities other than strategic shareholdings, variable-yield bonds, structured securities where the derivative elements may need to be unbundled, investment funds and derivatives, and financial instruments linked to financial liabilities recorded at fair value.

In addition, all the securities in the portfolio on the date of transition to the IAS (1/1/2004) and paid for by 31 December 2004 have been classified as financial assets held for trading.

Financial assets available for sale
Investments classified as securities available for sale are recorded at fair value. The differences compared with the book value must be recorded in the shareholders' equity in a special reserve for unrealised profits/losses (net of tax).
The fair value of securities available for sale is calculated, in descending order of priority, on prices recorded in active markets, on prices provided by operators or on the internal valuation models generally used in the financial world.
If a security available for sale incurs a permanent loss of value, the unrealised accumulated loss previously recorded in the shareholders' equity is recorded in the profit and loss account.

The Group has classified as Assets available for sale fixed-income bonds (with the exception of those matching Life special tariffs), structured securities where the derivative component cannot be unbundled, strategic shareholdings (less than 20% of the share capital, of commercial or company strategic importance) and securities arising out of the securitisation schemes carried out by Unipol Banca.

Investments in equity instruments not listed on active markets for which it is not possible to make a reliable assessment of the fair value have been recorded at cost (net of any write-downs) and not at fair value.

Financial assets held to maturity

Investments in securities held to maturity are recorded at cost less depreciation, if necessary written down to take account of permanent losses of value. Financial instruments that have no maturity cannot be classified in this category.

The Group has classified as Financial assets held to maturity most fixed-income bonds matching the issue of Life special tariffs.

Loans and receivables

Receivables in this category consist of contracts for which the Group holds a right to the cash flows arising out of the loan agreement. They are characterised by fixed or ascertainable payments and are not listed on an active market.

This item consists mainly of the receivables from customers and banks due to the companies in the banking Group. This category also includes mortgage loans and credit facilities, reinsurers' deposits, reverse repurchase agreements and receivables for agents' recoupments.

In accordance with the provisions of IAS 39 loans and receivables must be initially recorded at their fair value, which corresponds to the amount granted including the transaction costs and the commissions and fees chargeable direct. Nevertheless on first-time application of the IAS/IFRS no account has been taken of these items because it is difficult to obtain the necessary information about the existing portfolio and because they are of little significance.
Following initial recording, receivables classified in the 'Loans and receivables' portfolio have been recorded at 'amortised cost', using the ‘effective interest method'.

Securitisation schemes

In the case of securitisation transactions finalised before 31 December 2003 Unipol Banca has decided to apply the provisions of paragraph 27 of IFRS 1, which establishes that when the bank uses the IAS/IFRS for the first time it must apply the derecognition (writing off of assets) required by IAS 39 to all transactions occurring after 1 January 2004. In other words, paragraph 27 of IFRS 1 emphasises that, if the previous standards allowed derecognition of the assets when a specific transaction took place, the assets previously written off as at 1 January 2004 must not be recorded.

As Unipol Banca considers the derecognition carried out in the years prior to 2004 to be valid for all purposes, it has classified the Junior Notes, subscribed on completion of the operation, as Securities available for sale and defined as trading derivatives the derivatives connected with the operation (asset swap and clean-up call). In order to fulfil the precepts of the IAS Unipol Banca has therefore valued both the securities and the derivatives.

In the case of the securitisation transactions finalised after 31 December 2003, as indicated in IAS 27 and SIC 12, the SPV companies were considered to be controlled by the Group and therefore included in the basis of consolidation. The vehicles' assets and liabilities, profits and losses, including the figures relating to the managed portfolios, which were excluded from the accounts drafted under the previous accounting standards, have been used for the purposes of consolidation.

Derivatives

Derivatives must initially be recorded at the purchase cost representing the fair value and subsequently assessed at fair value. The fair value of derivatives is based on prices gathered from regulated markets or provided by operators, on models used for valuing options (basing hypotheses on market and economic conditions), or on models for discounting back future cash flows.

The derivatives in the portfolio as at 31 December 2004 have all been classified as non-hedging derivates, making it essential to show retrospectively the hedging in existence and active in previous periods. Most of the securities hedged by derivatives have been classified as Financial assets recorded at fair value through profit or loss.

Finally the guidelines for classifying securities issued by the Parent Company Unipol Assicurazioni have been followed by all the companies in the Group, with the sole exception of BNL Vita, control of which is shared equally with BNL SpA.

In fact BNL Vita has classified:

- as Financial assets recorded at fair value through profit or loss: securities on the books as at 1 January 2004 and paid for by 31 December 2004, and all the investments underlying unit- and index-linked products (Class D);
- as Assets available for sale: shares, units in investment funds, fixed-income bonds (excluding one bond classified under Loans and receivables) and variable-yield bonds.

No securities have been classified as Financial assets held to maturity.

Shareholdings – IAS 28

For consolidation purposes shareholdings in affiliated undertakings are valued by the equity method.

Tangible assets – IAS 16

This item includes property used for corporate business, plant and machinery and fixtures and fittings.

The criterion used by the Group for recording and valuing this category of property is the amortised cost, in line with the national accounting standards.

In the accounts drawn up again by applying the IAS, in the case of property where both the land and the buildings are owned the value of the land has been recorded separately from that of the buildings and therefore the provision for depreciation of land has been written off. The value of the land has been determined with the help of expert valuations carried out by an outside company.

All the property used for corporate business is depreciated in accordance with the national accounting criteria, i.e. depreciation is carried out each year on a straight-line basis on the estimated residual useful life.

Tax assets and liabilities – IAS 12

The corresponding tax effect on all the adjustments carried out under the IAS/IFRS has been calculated where necessary – these being temporary differences – based on the tax rates provided for by current legislation. Recording the fiscal effects has generated deferred tax liabilities or prepaid taxes.

Non-current assets held for sale and discontinued operations – IFRS 5

Non-current assets held for sale and discontinued operations as at 31 December 2004 include property subject to a preliminary agreement to sell entered into before 31 December 2004 which, on the basis of the provisions of IFRS 5, must be transferred to this category even though it comes under investments in property since it is valued at the amortised cost. This property is valued at cost or the presumed realisation value, whichever is the lower.

Technical provisions relating to insurance contracts – IFRS 4

As regards Non-Life business, all the products in the portfolio as at 31 December 2004 have been classified as insurance contracts, therefore the corresponding technical provisions as at 1 January 2004 and all the other technical insurance items as at 31 December 2004 (assets and liabilities, profits and losses) have also been valued in accordance with the national standards laid down by the Supervisory Authority (ISVAP). Therefore no differences have emerged between the accounts drawn up in accordance with the national standards and the same accounts drawn up again by applying the IAS. The only exception relates to additional provisions for natural disasters and equalisation provisions, which are not allowed under the IAS and have therefore been eliminated.

As regards Life business, analysis of the products in the portfolio as at 31 December 2004, based on a threshold of significant insurance risk of 10%, has produced the following classification:

- all the products in Class III (unit- and index-linked) have been classified as financial contracts, under financial liabilities at fair value, and therefore recorded in accordance with the rules of IAS 39. As far as profits are concerned this valuation was nevertheless substantially in line with that adopted in the national accounts. The insurance component has also been unbundled from the investment component;
- products matched by specific assets with no mortality risk have been classified as financial contracts under financial liabilities and recorded at amortised cost in accordance with the rules of IAS 39;
- investment contracts offering discretionary profit-sharing have been classified as insurance contracts and therefore valued in accordance with the national standards;
- all other products, where the insurance risk exceeds 10%, have been classified as insurance contracts and therefore recorded in accordance with the national standards.

As regards products in Class III, in particular unit-linked products, the loading and the acquisition commissions relating to the asset management service have been recorded and amortised separately throughout the duration of the policy. In the case of index-linked contracts, since there is no asset management (the policy being merely administered), these deferments are not necessary.

Adequacy tests on Non-Life and Life technical provisions have confirmed the adequacy of the Group's technical provisions.

Provision for shadow accounting

The provision for shadow accounting makes it possible to record the unrealised capital losses and/or gains on the assets matching the technical provisions for insurance or investment contracts that offer discretionary profit-sharing, as if they had been realised.

This adjustment is recorded in the shareholders' equity or in the profit and loss account depending on whether the capital losses or capital gains in question are recorded in the shareholders' equity or in the profit and loss account.
Net capital losses are allocated to policyholders only after the guaranteed minimum has been reached, otherwise the company continues to bear them in full.
Applying shadow accounting enables the value mismatch between technical provisions and related assets to be mitigated.

It should be mentioned that this standard was not applied in the reconciliation of the profits as at 31 December 2004 and the shareholders' equity as at 31 December 2003 and 2004 (in accordance with para. 39 and para. 40 of IFRS 1) appended to the consolidated half-yearly report as at 30 June 2005 or in the reconciliation relating to the consolidated profits and shareholders' equity as at 30 June 2005 provided under Article 81 bis of the Issuer Regulation. In line with the provisions of IAS 8, shadow accounting has been applied retrospectively in order to make it possible to compare the figures for the previous year with those for the current year.

The reason for changing this recording criterion is the desire to present a clearer picture of the accounts.

Employee benefits – IAS 19

Staff-leaving indemnity comes under the category of employee benefits and is classified as a defined benefit plan.
The amount due for staff-leaving indemnity has therefore been calculated using actuarial techniques and discounted back as at the accounting date.
The effect of the healthcare policy for senior executives, which also comes under the category of employee benefits and is a defined benefit, has also been ascertained.

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The table below shows the reconciliations of the consolidated shareholders' equity as at 31 December 2003 with the shareholders' equity under the IAS as at 1 January 2004, the consolidated shareholders' equity and profits as at 31 December 2004 and the corresponding values drawn up again by applying the IAS/IFRS:

Reconciliation tables

(Amounts in €m)

	Shareholders' equity 01/01/04	Profit 31/12/04	Shareholders' equity 31/12/2004
Consolidated accounts i.a.w. national accounting standards	2,723.7	272.9	2,901.4
Amount pertaining to minority interests	229.9	61.6	298.5
Amount pertaining to the Group	**2,493.8**	**211.3**	**2,602.9**
Derecognition of multiyear costs and amounts of depreciation	0.8	4.5	6.0
Derecognition of depreciation on goodwill	0.0	66.3	107.8
Valuation of financial instruments	-91.6	-63.4	-171.4
Derecognition of provisions for natural disasters and equalisation	53.6	11.6	63.7
Adjustments under IFRS 4 - Life assurance contracts	104.2	-6.5	53.3
Value adjustments to staff-leaving indemnity and other provisions	2.6	-4.7	0.0
Other value adjustments	3.2	0.1	-14.8
Value adjustments for fiscal effects	-68.4	18.2	-61.2
Amount pertaining to minority interests	-13.6	4.5	56.8
Amount pertaining to the Group	**2,484.6**	**241.9**	**2,643.1**
Amount pertaining to minority interests	204.3	23.5	242.2
Total Shareholders' Equity and Profit determined in accordance with the IAS/IFRS	**2,688.9**	**265.4**	**2,885.3**
Value adjustments to the previous reconciliation	**35.0**	**-2.9**	**5.4**
amount pertaining to the Group	*35.7*	*-2.4*	*7.6*
amount pertaining to minority interests	*-0.7*	*-0.5*	*-2.2*

Bologna, 29 March 2006

The Board of Directors

Notes to the Accounts – Annexes

Company **Compagnia Assicuratrice UNIPOL S.p.A.**

Share capital subscribed **€ 2,360,144,410** Paid-up **€ 2,360,144,410**

Registered Offices in BOLOGNA - Via Stalingrado 45

Companies' Register in Bologna 00284160371

CONSOLIDATED ACCOUNTS

NOTES TO THE ACCOUNTS - ANNEXES

2005 Financial Year

(Amounts in €m)

Balance sheet according to type of business

€m		Non-Life Business		Life Business		Banks		Intersector elimination		Total	
		2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
1	**INTANGIBLE ASSETS**	**837.8**	**1,016.7**	**146.9**	**148.1**	**437.7**	**435.8**	**21.0**	**24.6**	**1,443.4**	**1,625.3**
2	**TANGIBLE ASSETS**	**350.0**	**328.2**	**0.1**	**0.1**	**21.2**	**18.9**			**371.3**	**347.2**
3	**TECHNICAL PROVISIONS - REINSURERS' SHARE**	**546.3**	**531.0**	**132.0**	**162.9**					**678.2**	**693.9**
4	**INVESTMENTS**	**8,896.2**	**6,185.4**	**20,088.4**	**16,335.2**	**7,771.8**	**5,795.3**	**-1,691.9**	**-608.6**	**35,064.5**	**27,707.3**
4.10	Investments in property	350.5	439.2	1.8	1.8					352.3	441.0
4.20	Shareholdings in subsidiaries, affiliated companies and joint ventures	525.8	381.4	318.9	283.5	2.4	2.7	-818.7	-606.0	28.4	61.6
4.30	Investments held to maturity	46.2	51.2	903.2	704.1					949.4	755.2
4.40	Loans and receivables	3,025.0	630.0	1,236.9	801.1	7,532.1	5,586.9	-867.9	-0.2	10,926.1	7,017.9
4.50	Financial assets available for sale	2,846.7	810.4	6,819.9	3,982.3	56.7	58.9			9,723.2	4,851.6
4.60	Financial assets recorded at fair value through profit or loss	2,102.0	3,873.2	10,807.7	10,562.4	180.6	146.9	-5.3	-2.5	13,085.1	14,580.0
5	**SUNDRY RECEIVABLES**	**918.2**	**915.1**	**226.3**	**274.2**			**-1.6**	**-0.5**	**1,142.9**	**1,188.8**
6	**OTHER ASSETS**	**197.4**	**305.8**	**141.5**	**130.2**	**197.3**	**153.5**	**-1.5**	**-2.2**	**534.7**	**587.3**
6.10	Deferred acquisition costs	39.9	38.3	28.8	33.1					68.8	71.4
6.20	Other assets	157.4	267.6	112.7	97.0	197.3	153.5	-1.5	-2.2	466.0	515.9
7	**CASH AND CASH EQUIVALENTS**	**714.8**	**416.2**	**1,079.0**	**620.7**	**62.8**	**52.8**	**-995.8**	**-862.9**	**860.8**	**226.7**
	TOTAL ASSETS	**12,460.6**	**9,698.6**	**21,814.2**	**17,671.3**	**8,490.8**	**6,456.3**	**-2,669.8**	**-1,449.6**	**40,095.8**	**32,376.5**
1	**SHAREHOLDERS' EQUITY**									**6,042.9**	**2,885.3**
2	**AMOUNTS SET ASIDE**	**34.5**	**27.6**	**1.3**	**1.9**	**2.1**	**2.1**			**37.9**	**31.6**
3	**TECHNICAL PROVISIONS**	**7,146.8**	**6,701.4**	**15,102.6**	**11,949.9**					**22,249.4**	**18,651.3**
4	**FINANCIAL LIABILITIES**	**486.5**	**515.6**	**4,636.1**	**4,507.9**	**7,184.6**	**5,631.4**	**-1,870.9**	**-867.7**	**10,436.4**	**9,787.1**
4.10	Financial liabilities recorded at fair value through profit or loss	0.5	8.4	3,652.2	3,515.5	70.4	38.1			3,723.0	3,562.0
4.20	Other financial liabilities	486.1	507.2	984.0	992.4	7,114.3	5,593.2	-1,870.9	-867.7	6,713.4	6,225.2
5	**PAYABLES**	**325.1**	**305.0**	**52.1**	**46.1**	**36.9**	**15.7**	**-3.2**		**410.9**	**366.7**
6	**OTHER LIABILITIES**	**379.2**	**273.7**	**223.3**	**213.7**	**316.0**	**167.5**	**-0.2**	**-0.5**	**918.3**	**654.4**
	TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES									**40,095.8**	**32,376.5**

Profit and loss account according to type of business

€m		Non-Life Business		Life Business		Banks		Intersector elimination		Total	
		2005	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**
02:24	Net premium income	3,681.9	3,448.8	4,217.3	2,882.8					7,899.2	6,331.7
1.1.1	*Gross earned premiums*	*3,992.4*	*3,875.8*	*4,241.1*	*2,918.1*					*8,233.5*	*6,793.9*
1.1.2	*Earned premiums ceded*	*-310.5*	*-427.0*	*-23.8*	*-35.3*					*-334.2*	*-462.3*
04:48	Fees and commissions receivable	2.2	1.5	38.2	43.2	91.0	68.8	-10.5		120.9	113.5
07:12	Income and charges arising out of financial instruments recorded at fair value through profit or loss	142.4	133.8	338.1	340.2	1.4	7.4	-0.3		481.5	481.4
09:36	Income arising out of shareholdings in subsidiaries, affiliated companies and joint ventures	60.5	5.9	21.6	14.6	0.0		-36.7	-17.1	45.5	3.4
1.5	Income arising out of other financial instruments and investments in property	252.1	102.6	300.6	256.3	229.9	146.5	-31.0	-14.8	751.5	490.6
1.6	Other receipts	55.7	60.2	28.7	40.9	12.8	10.1	-2.9	-2.4	94.2	108.8
1	**TOTAL RECEIPTS AND INCOME**	**4,194.8**	**3,752.8**	**4,944.4**	**3,577.9**	**335.1**	**232.9**	**-81.5**	**-34.3**	**9,392.8**	**7,529.3**
2.1	Net charges relating to claims	2,620.6	2,504.2	4,586.5	3,247.9			-0.1	-0.9	7,206.9	5,751.2
2.1.2	*Amounts paid and change in technical provisions*	*2,820.0*	*2,773.0*	*4,604.4*	*3,276.7*			*-0.1*	*-0.9*	*7,424.3*	*6,048.8*
2.1.3	*Reinsurers' share*	*-199.4*	*-268.8*	*-18.0*	*-28.8*					*-217.4*	*-297.6*
2.2	Fees and commissions payable	2.2	1.5	26.4	22.8	16.6	15.7	-2.3		42.9	40.0
2.3	Charges arising out of shareholdings in subsidiaries, affiliated companies and joint ventures	0.0	0.5	0.0			0.1			0.0	0.6
2.4	Charges arising out of other financial instruments and investments in property	169.5	62.2	44.9	34.6	136.0	72.9	-29.0	-15.7	321.3	154.0
2.5	Operating expenses	845.1	773.5	120.5	131.4	166.1	131.2	-13.3	-0.5	1,118.4	1,035.6
2.6	Other costs	150.2	84.4	61.1	20.4	10.4	10.4	-0.1		221.6	115.2
2	**TOTAL COSTS AND CHARGES**	**3,787.5**	**3,426.3**	**4,839.4**	**3,457.2**	**329.1**	**230.2**	**-44.8**	**-17.1**	**8,911.2**	**7,096.6**
	PROFIT (LOSS) FOR THE FIN. YEAR BEFORE TAXATION	**407.3**	**326.5**	**105.0**	**120.7**	**6.1**	**2.7**	**-36.7**	**-17.2**	**481.6**	**432.7**

Basis of consolidation

Name	Status	Method (1)	Type of business (2)	% Direct holding	% Total holding (3)	% Votes available at the ordinary Shareholders' Meeting (4)	% consolidation
Compagnia Assicuratrice Unipol Spa	86 Italy	G	1				
Aurora Assicurazioni Spa	86 Italy	G	1	66.66	66.66		100.00
Compagnia Assicuratrice Linear Spa	86 Italy	G	1	80.00	93.33	100.00	100.00
MMI Vita Spa	86 Italy	G	1		99.80	100.00	100.00
Navale Assicurazioni Spa	86 Italy	G	1	99.80	99.80		100.00
Unisalute Spa	86 Italy	G	1	92.44	96.47	98.48	100.00
Unipol Banca Spa (*)	86 Italy	G	7	82.86	89.53	92.86	100.00
Unipol Merchant - Banca per le Imprese Spa	86 Italy	G	7		73.25	81.82	100.00
Unipol Fondi Ltd	40 Ireland	G	11		89.53	100.00	100.00
Unipol SGR Spa	86 Italy	G	8		89.53	100.00	100.00
Nettuno Fiduciaria Srl	86 Italy	G	11		89.53	100.00	100.00
Grecale Srl	86 Italy	G	11		83.02	100.00	100.00
Midi Srl	86 Italy	G	10	100.00	100.00		100.00
Unifimm Srl	86 Italy	G	10	100.00	100.00		100.00
Dimensione e Sviluppo Immobiliare Spa	86 Italy	G	11		89.57	100.00	100.00
Smallpart Spa	86 Italy	G	9	100.00	100.00		100.00
SRS Spa	86 Italy	G	9	75.21	91.74	100.00	100.00
Quadrifoglio Vita Spa	86 Italy	P	1	50.00	50.00		50.00
BNL Vita Spa	86 Italy	P	1	50.00	50.00		50.00

(*) On 5/1/06 the holding fell to 79.53% when the capital increase of December 2005 was registered.

(1) Consolidation method: Consolidated on a line-by-line basis = G, Consolidated using the proportional method = P, Consolidated on a line-by-line basis as per coordinated management = U

(2) 1=Italian insurers; 2= EU insurers; 3=non-EU insurers; 4=insurance holding companies; 5=EU reinsurers; 6=non-EU reinsurers; 7=banks; 8=asset management companies; 9=sundry holdings; 10=property companies; 11=other

(3) is the product of the percentage holdings relating to all the companies that may come somewhere along the chain between the undertaking that draws up the consolidated accounts and the company in question. If the latter is a direct participating interest of several subsidiaries the individual products must be added up.

(4) Total percentage of votes available at the ordinary Shareholders' Meeting if different from the direct or indirect holding

Details of unconsolidated shareholdings

Name	Status		Type of business (1)	Type (2)	% Direct holding	% Total holding (3)	% Votes available at the ordinary Shareholders' Meeting (4)	Book value (€m)
Unieuropa Srl	86	Italy	11	a		98.00		0.4
Unisalute Servizi Srl	86	Italy	11	a		96.47	98.48	0.2
BNL Servizi Assicurativi Srl	86	Italy	11	a		50.00		0.1
Hotel Villaggio Città del Mare Spa	86	Italy	11	b	49.00	49.00		3.6
A.P.A. Spa	86	Italy	11	b		46.50		0.6
Assicoop Ferrara Spa	86	Italy	11	b		47.40		0.2
Assicoop Firenze Spa	86	Italy	11	b		44.00		0.3
Assicoop Imola Spa	86	Italy	11	b		47.34		0.9
Assicoop Modena Spa	86	Italy	11	b		43.32		2.5
Assicoop Ravenna Spa	86	Italy	11	b		49.00		2.2
Assicoop Romagna Spa	86	Italy	11	b		48.00		0.6
Assicoop Sicura Spa	86	Italy	11	b		40.00		2.2
Assicoop Siena Spa	86	Italy	11	b		49.00		0.3
Assicura Spa	86	Italy	11	b		35.00		1.0
ZIS Fiera 2 - Consorzio	86	Italy	11	b		31.72		0.3
Nuovi Investimenti Spa	86	Italy	9	b		46.33	49.00	4.1
Euresa Holding SA	92	Luxembourg	4	b	24.05	24.05		3.0
Pegaso Finanziaria Spa	86	Italy	9	b		45.00		3.2
SCS Azioninnova Spa	86	Italy	11	b		29.30	40.00	1.1
Promorest Srl	86	Italy	11	b		32.96	45.00	1.5

(1) Consolidation method: Consolidated on a line-by-line basis = G, Consolidated using the proportional method = P, Consolidated on a line-by-line basis as per coordinated management= U

(2) 1=Italian insurers; 2= EU insurers; 3=non-EU insurers; 4=insurance holding companies; 5=EU reinsurers; 6=non-EU reinsurers; 7=banks; 8=asset management companies; 9=sundry holdings; 10=property companies; 11=other

(3) is the product of the percentage holdings relating to all the companies that may come somewhere along the chain between the undertaking that draws up the consolidated accounts and the company in question. If the latter is a direct participating interest of several subsidiaries the individual products must be added up.

(4) Total percentage of votes available at the ordinary Shareholders' Meeting if different from the direct or indirect holding

Details of tangible and intangible assets

€m	At cost	At reassessed value or at fair value	Total book value
Investments in property	352.3		352.3
Other property	317.3		317.3
Other tangible assets	54.0		54.0
Other intangible assets	32.3		32.3

Details of financial assets

€m	Investments held to maturity		Loans and receivables		Financial assets available for sale		Financial assets recorded at fair value through profit or loss: Financial assets held for trading		Financial assets recorded at fair value through profit or loss: Financial assets recorded at fair value through profit or loss		Total book value	
	2005	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**
Equity securities and derivatives valued at cost					26.1	288.3					26.1	288.3
Equity securities at fair value					2,272.2	603.0	381.5	483.1	13.0	9.9	2,666.8	1,096.0
listed securities					*2,025.4*	*553.5*	*381.5*	*482.5*	*13.0*	*9.9*	*2,420.0*	*1,045.9*
Debt securities	949.4	755.2	68.3	42.3	7,421.4	3,957.3	8,342.4	10,210.6	2,514.4	2,387.0	19,295.9	17,352.4
listed securities	*213.8*	*755.2*			*7,165.3*	*3,916.7*	*6,792.0*	*10,016.8*	*950.2*	*1,947.2*	*15,121.3*	*16,635.9*
Units in UCITS					3.5	3.0	81.6	69.8	1,620.3	1,241.8	1,705.4	1,314.6
Loans and receivables from banking customers			5,486.0	3,974.3							5,486.0	3,974.3
Interbanking loans and receivables			2,026.9	1,612.6							2,026.9	1,612.6
Deposits with ceding undertakings			26.7	25.1							26.7	25.1
Financial items receivable from insurance contracts									12.6	6.3	12.6	6.3
Other loans and receivables			3,215.3	183.0					-1.2		3,214.1	183.0
Non-hedge derivatives							76.0	143.7			76.0	143.7
Hedge derivatives									14.3	8.4	14.3	8.4
Other financial investments			102.9	1,180.5			6.3	12.0	23.8	7.4	133.0	1,199.9
Total	**949.4**	**755.2**	**10,926.1**	**7,017.9**	**9,723.2**	**4,851.6**	**8,887.8**	**10,919.1**	**4,197.3**	**3,660.9**	**34,683.8**	**27,204.7**

Details of assets and liabilities relating to contracts issued by insurance companies where the investment risk is borne by customers and arising out of pension fund management

€m	Benefits linked to investment funds and market indices		Benefits linked to pension fund management		Total	
	2005	**2004**	**2005**	**2004**	**2005**	**2004**
Assets on the balance sheet	3,837.1	3,544.6	358.4	118.8	4,195.5	3,663.4
Assets within the Group*		-2.5				-2.5
Total Assets	**3,837.1**	**3,542.1**	**358.4**	**118.8**	**4,195.5**	**3,660.9**
Financial liabilities on the balance sheet	3,611.0	3,504.6			3,611.0	3,504.6
Technical provisions on the balance sheet	225.8	9.7	358.4	118.8	584.2	128.5
Liabilities within the Group *						
Total Liabilities	**3,836.8**	**3,514.2**	**358.4**	**118.8**	**4,195.2**	**3,633.1**

* Assets and liabilities eliminated on consolidation

Details of technical provisions - reinsurers' share

€m	Direct business		Indirect business		Total book value	
	2005	**2004**	**2005**	**2004**	**2005**	**2004**
Non-Life provisions	**539.4**	**519.2**	**6.9**	**11.9**	**546.3**	**531.0**
Provision for unearned premiums	61.0	59.3	0.1	0.1	61.0	59.4
Provision for outstanding claims	478.4	459.9	6.8	11.8	485.2	471.7
Other provisions						
Life provisions	**131.2**	**162.0**	**0.8**	**0.8**	**132.0**	**162.9**
Provision for sums to be paid	3.9	4.8	0.1	0.2	4.1	5.0
Mathematical provisions	126.8	156.7	0.7	0.7	127.5	157.4
Technical provisions where the investment risk is borne by policyholders and provisions arising out of pension fund management						
Other provisions	0.4	0.5	0.0	0.0	0.4	0.5
Total technical provisions - reinsurers'share	**670.6**	**681.2**	**7.7**	**12.7**	**678.2**	**693.9**

Details of technical providers

€m	Direct business		Indirect business		Total book value	
	2005	**2004**	**2005**	**2004**	**2005**	**2004**
Non-Life provisions	**7,085.5**	**6,648.4**	**61.2**	**53.0**	**7,146.8**	**6,701.4**
Provision for unearned premiums	1,422.4	1,391.6	6.5	8.6	1,429.0	1,400.2
Provision for outstanding claims	5,655.5	5,250.1	54.7	44.3	5,710.2	5,294.4
Other provisions	7.6	6.8			7.6	6.8
provisions allocated as a result of the liability adequacy test						
Life provisions	**15,088.6**	**11,936.4**	**14.0**	**13.5**	**15,102.6**	**11,949.9**
Provision for sums to be paid	90.9	90.1	1.6	1.5	92.5	91.5
Mathematical provisions	14,425.0	11,651.0	12.4	12.0	14,437.4	11,663.0
Technical provisions where the investment risk is borne by policyholders and provisions arising out of pension fund management	560.0	128.5			560.0	128.5
Other provisions	12.8	66.9			12.8	66.9
provisions allocated as a result of the liability adequacy test						
deferred liabilities to policyholders	*-63.3*	*-26.8*			*-63.3*	*-26.8*
Total technical provisions	**22,174.1**	**18,584.9**	**75.3**	**66.5**	**22,249.4**	**18,651.3**

Details of financial liabilities

	Financial liabilities recorded at fair value through profit or los				Other financial liabilities		Total book value	
	Financial liabilities held for trading		Financial liabilities recorded at fair value through profit or loss					
€m	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**
Participating financial instruments								
Subordinate liabilities					648.1	651.6	648.1	651.6
Liabilities arising from financial contracts issued by insurance companies			3,632.0	3,504.4	614.5	594.6	4,246.5	4,099.0
arising from contracts where the investment risk is borne by the policyholders			*3,632.0*	*3,504.4*			*3,632.0*	*3,504.4*
arising from pension fund management								
arising from other contracts					*614.5*	*594.6*	*614.5*	*594.6*
Deposits received from reinsurers					203.2	243.1	203.2	243.1
Financial items payable on insurance contracts								
Debt securities issued					531.9	492.4	531.9	492.4
Payables to banking customers					4,552.3	4,124.5	4,552.3	4,124.5
Interbanking payables					163.3	108.6	163.3	108.6
Other corporate financing obtained					0.1	10.3	0.1	10.3
Non-hedge derivatives	90.6	57.4					90.6	57.4
Hedge derivatives								
Sundry financial liabilities		0.0	0.5	0.1			0.5	0.2
Total	**90.6**	**57.4**	**3,632.4**	**3,504.6**	**6,713.4**	**6,225.2**	**10,436.4**	**9,787.1**

Details of technical insurance items

€m		2005			2004		
		Gross amount	Reinsurers' share	Net amount	Gross amount	Reinsurers' share	Net amount
Non-Life business							
NET PREMIUM INCOME		**3,992.4**	**-310.5**	**3,681.9**	**3,875.8**	**-427.0**	**3,448.8**
a	Premiums written	3,974.3	-312.8	3,661.5	3,923.6	-422.0	3,501.6
b	Change in provision for unearned premiums	18.1	2.3	20.4	-47.7	-5.0	-52.8
NET CHARGES RELATING TO CLAIMS		**2,820.0**	**-199.4**	**2,620.6**	**2,772.0**	**-267.8**	**2,504.2**
a	Amounts paid	2,708.1	-219.5	2,488.6	2,461.7	-196.2	2,265.5
b	Change in provision for outstanding claims	418.5	-12.2	406.3	320.2	-75.0	245.2
c	Change in amounts recovered	-306.9	33.8	-273.1	-10.8	1.2	-9.6
d	Change in other technical provisions	0.3	-1.5	-1.2	0.9	2.2	3.1
Life Business							
NET PREMIUM INCOME		**4,241.1**	**-23.8**	**4,217.3**	**2,918.1**	**-35.3**	**2,882.8**
NET CHARGES RELATING TO CLAIMS		**4,604.4**	**-18.0**	**4,586.5**	**3,276.9**	**-29.0**	**3,247.9**
a	Sums paid	1,491.7	-14.5	1,477.2	1,517.9	-26.9	1,491.0
b	Change in provision for sums to be paid	2.1	1.0	3.0	6.3	-1.7	4.6
c	Change in mathematical provisions	2,814.8	-4.4	2,810.3	6,147.3	-0.5	6,146.9
d	Change in technical provisions where the investment risk is borne by policyholders and provisions arising out of pension fund management	-50.3	0.0	-50.3	-5,095.8	0.1	-5,095.7
e	Change in other technical provisions	346.2		346.2	701.2	0.0	701.2

Investment income and charges

€m		Interest	Other income	Other charges	Profits realized	Losses realized	Total income and charges realized
Balance on investments		**871.3**	**121.4**	**-50.1**	**596.6**	**-165.9**	**1,373.3**
a	Arising out of investments in property		13.3	-4.2	109.1	-0.5	**117.8**
b	Arising out of holdings in subsidiaries, affiliated companies and joint ventures		45.5	0.1			**45.6**
c	Arising out of investments held to maturity	33.1			1.5		**34.6**
d	Arising out of loans and receivables	248.5	3.6	-4.9	8.2	0.0	**255.4**
e	Arising out of financial assets available for sale	176.5	19.1	-8.4	121.2	-41.4	**267.0**
f	Arising out of financial assets held for trading	330.6	38.1	-20.5	336.9	-117.1	**568.0**
g	Arising out of financial assets designated as at fair value through profit or loss	82.6	1.8	-12.2	19.7	-6.9	**85.0**
Balance on sundry receivables		**2.3**	**0.0**				**2.3**
Balance on cash and cash equivalents		**13.1**	**0.2**	**0.0**			**13.3**
Balance on financial liabilities		**-128.2**		**-0.3**		**0.0**	**-128.6**
a	Arising out of financial liabilities held for trading						
b	Arising out of financial liabilities designated at fair value through profit or loss					0.0	**0.0**
c	Arising out of other financial liabilities	-128.2		-0.3			**-128.5**
Balance on payables		**-2.7**					**-2.7**
Total		**755.8**	**121.6**	**-50.4**	**596.6**	**-165.9**	**1,257.7**

Unrealised profits		Unrealised losses		Total unrealized income and charges	Total income and charges 2005	Total income and charges 2004
Unrealised capital gains	Value readjustment	Unrealised capital losses	Reduction in value			
178.2	**2.3**	**-382.1**	**-98.9**	**-300.5**	**1,072.8**	**966.8**
		-1.3		**-1.3**	**116.6**	**49.5**
			-0.1	**-0.1**	**45.4**	**2.8**
					34.6	**13.1**
0.0		-30.4		**-30.4**	**225.0**	**151.6**
1.7		-0.2	-98.8	**-97.3**	**169.7**	**213.0**
52.8	2.3	-193.7		**-138.6**	**429.5**	**464.6**
123.6		-156.5		**-32.9**	**52.1**	**72.2**
					2.3	**0.5**
					13.3	**11.6**
					-128.6	**-157.3**
					0.0	**-55.4**
					-128.5	**-101.9**
					-2.7	**-0.9**
178.2	**2.3**	**-382.1**	**-98.9**	**-300.5**	**957.1**	**820.8**

Details of insurance business expenses

€m		Non-Life business 2005	Non-Life business 2004	Life business 2005	Life business 2004
Gross commissions and other acquisition expenses		742.1	693.3	81.1	82.2
a	Acquisition commissions	497.8	497.6	33.9	42.2
b	Other acquisition expenses	129.4	99.4	29.8	20.8
c	Change in deferred acquisition expenses	0.6	-1.5	3.0	3.4
d	Renewal commissions	114.2	97.9	14.3	15.8
Commissions and profit sharing received from reinsurers		-78.2	-117.0	-5.6	-6.2
Investment management expenses		16.0	26.1	8.7	36.5
Other administrative expenses		165.2	171.2	36.3	18.9
Total		**845.1**	**773.5**	**120.5**	**131.4**

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

The Company legal representatives (*)

The Chairman .... (**)

Pierluigi Stefanini .... (**)

.... (**)

The Statutory Auditors

Umberto Melloni ....

Luigi Capè ....

Carlo Cassamagnaghi ....

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

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

Statutory Auditors’ Report

Statutory Auditors' Report on the Consolidated Accounts for the Financial Year 2005

Dear Shareholders,

With reference to the Consolidated Accounts the Board of Statutory Auditors:

- has ascertained that the accounting standards and the valuation criteria have been applied correctly, and in particular that the basis of consolidation, the regulations on determining the basis of consolidation and the date to which the figures apply have been complied with;
- has ascertained that the Parent Company's organisational and procedural structure is suitable for managing the flows of information and the operations arising from consolidation;
- has ascertained that the Parent Company has responded to CONSOB's requests for accounting information relating to the business performance of the various categories of activity and to the business outlook;
- The report issued today by the external auditors, KPMG S.p.A., contains no criticisms and gives no indication of any irregularities.
- declares that the certification of the subsidiary companies complies with the provisions of Legislative Decree 58/98 and with those of CONSOB Ruling 11971/99;
- has ascertained that none of the shareholders carries out any of the management and coordination work, in accordance with Article 2467 *et seq.* of the Italian Civil Code.;
- has ascertained that the Group accounts have been drawn up by applying all the IAS/IFRS issued by the IASB and validated by the European Union (EC Regulation 1606/02), and that these standards have also been applied for drawing up the comparative figures in the accounts for 2004. Therefore the figures for the financial years 2005 and 2004 are compared on the same basis of consolidation. The reconciliations provided for by IFRS 1 (first-time adoption of the International Financial Reporting Standards) are also shown and are accompanied by explanatory notes.

Bologna, 13 April 2006

For the Board of Statutory Auditors

Umberto Melloni, Chairman

Luigi Capè

Carlo Cassamagnaghi

External Auditors’ Report

KPMG

KPMG S.p.A.
Revisione e organizzazione contabile
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(Translation from the Italian original which remains the definitive version)

Report of the auditors in accordance with article 156 of legislative decree no. 58 of 24 February 1998 and article 102 of legislative decree no. 209 of 7 September 2005

To the shareholders of
Compagnia Assicuratrice Unipol S.p.A.

1 We have audited the consolidated financial statements of the Unipol Group as at and for the year ended 31 December 2005, comprising the balance sheet, income statement, statement of changes in equity, cash flow statement and notes thereto. These financial statements are the responsibility of Compagnia Assicuratrice Unipol S.p.A.'s management. Our responsibility is to express an opinion on these financial statements based on our audit. These are the first set of consolidated financial statements prepared in accordance with the International Financial Reporting Standards endorsed by the European Union.

2 We conducted our audit in accordance with the auditing standards recommended by Consob, the Italian Commission for Listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and are, as a whole, reliable. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The responsibility for the audit of the financial statements of certain subsidiaries and associates, representing 34% and 12% of consolidated assets and consolidated gross premiums, respectively, rests with other auditors.

The consolidated financial statements present the prior year corresponding figures for comparative purposes prepared using consistent accounting policies. Furthermore, the notes to the consolidated financial statements disclose the effects of the adoption of the International Financial Reporting Standards endorsed by the European Union. As disclosed in such notes, management changed the information about the effects of the adoption of IFRS provided in the IFRS 1 reconciliation schedules, which were approved by the board of directors and published as an appendix to the half year report at 30 June 2005. We audited such schedules and issued our report thereon on 23 September 2005.

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We have examined the disclosure about the adoption of IFRS provided in the notes to the extent that we considered to be necessary to express an opinion on the consolidated financial statements at 31 December 2005.

3 In our opinion, the consolidated financial statements of the Unipol Group as at and for the year ended 31 December 2005 comply with the International Financial Reporting Standards endorsed by the European Union. Therefore they are clearly stated and give a true and fair view of the financial position of the Unipol Group as at 31 December 2005, the results of its operations, changes in its equity and its cash flows for the year then ended.

Bologna, 13 April 2006

KPMG S.p.A.

(Signed on the original)

Massimo Tamburini
Director of Audit