UNIPOL GRUPPO FINANZIARIO

2009 CONSOLIDATED FINANCIAL STATEMENTS

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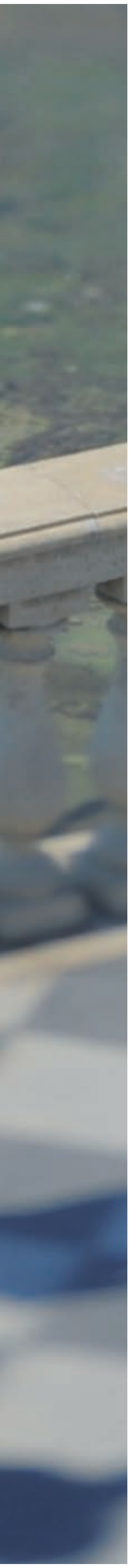
GRUPPO
FINANZIARIO



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Unipol Gruppo Finanziario S.p.A.

Registered and Head Offices at Via Stalingrado 45, Bologna – Share capital €2,391,426,100.00 fully paid-up – Tax Code and Bologna Company Registration No. 00284160371 – R.E.A. No. 160304

Consolidated Financial Statements

at 31 December 2009

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Company bodies

	Honorary Chairman	Enea Mazzoli
Board of Directors	Chairman	Pierluigi Stefanini
	Vice Chairman	Vanes Galanti
	Chief Executive Officer	Carlo Salvatori
	Members of the Board	
	Jean Dominique Antoni	Ivan Malavasi
	Francesco Berardini	Massimo Masotti
	Sergio Betti	Enrico Migliavacca
	Rocco Carannante	Pier Luigi Morara
	Pier Luigi Celli	Sergio Nasi
	Gilberto Coffari	Marco Pedroni
	Piero Collina	Giuseppe Politi
	Sergio Costalli	Francesco Vella
	Jacques Forest	Marco Giuseppe Venturi
	Fabrizio Gillone	Luca Zaccherini
	Claudio Levorato	Mario Zucchelli
	Secretary to the Board of Directors	Roberto Giay
Board of Statutory Auditors	Chairman	Roberto Chiusoli
	Standing Auditors	Giorgio Picone Domenico Livio Trombone
	Alternate Auditors	Cristiano Cerchiai Giovanni Battista Graziosi
General Manager		Carlo Cimbri
Manager in charge of financial reporting		Maurizio Castellina
Independent auditors		KPMG spa

Introduction

Macroeconomic background

In 2009 the serious crisis which, following the explosion of the property bubble, had besieged the financial markets in 2008, was finally overcome.

Mediobanca estimates total funds supplied to banks from European governments and the United States to be €3,271bn. To these resources, designed to prop up the financial sector, should be added the economic stimulus packages launched by a number of countries (just under USD1,400bn was provided by the United States and China alone). Even monetary policy has played its part with interest rates falling to an all-time low. Equally important were the non-conventional quantitative easing policies employed by central banks, destined to reduce the total amount of illiquid assets on the market and increase liquidity. Thanks to this raft of measures devised to help the financial system, the risk of an economic depression and recessionary fall has been brief and less serious than previously estimated by many observers. The key decision in 2009 was resolute public sector intervention aimed at sustaining both the financial system and, to a lesser degree, the economic cycle. The results have proved satisfactory: productive activity has increased progressively throughout the course of the year. The United States' GDP, which over the course of the year has seen a contraction of 2.4% has recorded progressive quarterly growth, with +2.2% in the third quarter and +5.7% in the final quarter of 2009. The stagnation in international commerce (-11.9% in 2009) has damaged those economies which rely more heavily on the export cycle, for example Germany and Japan, which recorded a decrease of 5% in GDP, with Italy recording a fall of -4.9%. France (-2.2%) and Spain (-3.6%) are showing more positive signs. Growth in the emerging Asian markets continues, led by China with an increase of 8.7% of gross domestic product. China is now in a position to overtake Japan to become the world's second largest economy in 2010.

The improvement in terms of economic trends has provided financial markets with stimulus, having recovered from the lows experienced in March 2009. Low interest rates, public sector commitment to support banks and strategic productive sectors (for example, incentives offered for the replacement of second-hand cars), the lack of tension on prices, have given rise to expectations, perhaps a little too optimistically, of economic development. Prices of raw materials are a good reflection of market sentiments, picking up from their lowest-ever level reported at the beginning of the year without prompting a sense of return to the prices reported in mid-2008 (the highest oil price fluctuation ranged between 70 and 80 dollars per barrel). The average consumer price index was negative in the United States (-0.3%) and only modest in the Eurozone (+0.3%), whilst in Italy it reached +0.8%. Nevertheless, developed countries need to do their sums, bearing in mind two phenomena that emerged throughout the course of 2009 which will be of importance in the future: the burden of public finances and the rise in unemployment.

As far as the first issue is concerned, Dubai's property market crash is a perfect example; with its involvement in the public holding Dubai World, this has been a real eye-opener in terms of the default risk of the Emirates. The problem was only solved through the intervention of neighbouring Abu Dhabi. A far worse indicator can be found in the crisis concerning the allocation of public funds in Greece. Downgrading carried out by the main credit rating agencies has shed light on the situation, revealing a combination of structural problems indicative of an undynamic economy and loss of competitivity due to its adhesion to a Common European Monetary Union.

The consequences of Greece's troubles have had an impact on the single European currency, which, in the latter part of 2009, lost strength against the dollar. The issue of trust has spread to other Eurozone economies (Ireland, Spain, and Portugal), deepening the spread between government security yields in the aforementioned countries and those in Germany. On the other hand, there is now some apprehension concerning public finances in a number of countries: the OECD predicts that by the end of 2009 the correlation between public debt and GDP will put the USA at 83.9% and Japan at 189.3%. In Italy, owing to its more robust banking system offering modest public sector intervention and owing to the noticeable prudence of the government's countercyclical policy, public debt on gross national product rose from 105.8% in 2008 to 115.4% by the end of 2009.

There is little doubt that the most alarming phenomenon is the negative situation regarding unemployment. In both the USA and the Eurozone 2009 ended with almost 10% of the population unemployed and looking for work. These statistics are cause for concern with regard to both the related social costs and unemployment itself; the latter could have recessionary impact on the economic system in terms of a contraction of the internal market. As a result of such anxieties in all developed countries there has been a significant increase in the propensity of families to save. For the USA, UK and Spain this could prove valuable in helping to restore the imbalance resulting from the crisis which broke out in August 2007. The huge surplus savings in Asian markets, America's excess debt and the strong concentration of income in most nations are all serious obstacles to a harmonious development of the global economy.

In light of these circumstances, Italian GDP has seen a contraction of 5%, explained by the fall in investment in machinery, tools and means of transport (-17.7%), the reduction in construction investment (-7.9%) and a fall in the purchase of consumer goods (-1.8%). Foreign sales activity has perpetuated recessionary trends, explained by a greater fall in exports (-19.1%) (absolute value) than in imports (-14.5%). The annual average number of persons employed has fallen by 1.6% compared with 2008: by the end of the year there will be just under 2.2 million unemployed in Italy. Interventions by public authorities in charge of countercyclical policy and restriction of the standard taxable amount have led to a rise in the deficit, equivalent to 5.3% of GDP.

Financial markets

In response to official rates being fixed at 0.25% in the USA (from the end of 2008) and 1% in the Eurozone (from May 2009), the forward interest rate curve has been lowered significantly: the 3-month Euribor rate dropped from 2.89% at the end of 2008 to 0.66% at the end of 2009; the dollar Libor rate fell from 1.43% to 0.25%. More prominent changes were evident in long-term rates, with the USA's 10-year Bond yield ending the year at 3.84%, whilst Germany's 10-year Bund yield ended the year at 3.39%. As a whole European bond markets have recorded a positive performance over the period of 4.3%. The USA's performance in contrast has been negative at -3.7% in dollars and -6.7% in euros. Economic growth and the return of stress and illiquidity to the credit markets have brought considerable benefits in terms of corporate bond prices; the spread of 5-year European bonds fell during the course of 2009 to 102 points, down from 177 to 75 basis points; for issuers, the reduction was equivalent to 43 centimes, down from 118 to 75.

Stock markets, having witnessed a continued fall in the first quarter, recorded a particularly positive performance in the second and third quarters of 2009, taking advantage of monetary policies and the renewed growth of the main emerging economies. In 2009 share indices rose at a rate of approximately 20% (+23% S&P500 index, +19% Nikkei 225 and the FTSE Italy, +27% on the MSCI World index). It should be noted, however, that by the end of 2009 the Asian stock exchange indices had not returned to previous levels prior to the collapse of Lehman Brothers in September 2008.

Raw materials are also on the rise (+34.6% CRB index); particularly oil, which has risen from 39 to 77.8 dollars a barrel (+97%) and gold (+27.6 in dollars per ounce).

The dollar/euro exchange rate reached a maximum of 1.50 in November 2009, up from 1.40 at the end of 2008. Subsequently, the dollar has picked up and continues to progress (1.36 at the end of February).

At the start of 2010 the major global stock exchanges have registered significant improvements, followed by a partial recovery. At the end of the first two-month period, the following results are reported: -0.95% S&Poor's 500, -7.98% DJ Eurosto 50, -3.99% Nikkei 225 and -8.75% FTSE Italy. In the same period, 3-month bonds remained stable at (0.25%) for USA and (0.60%) for the Eurozone. Ten-year government bonds fell in the Eurozone, the USA and the UK. In the first few months of 2010 bond markets recorded a positive overall performance of between 0.5% and 1.8%.

Consumer savings

Following economic decline in 2008 the wealth of families has recovered in 2009 thanks to greater propensity to save and above all else the recovery of the financial markets. On the other hand, spending has fallen (-1.7%), with people apprehensive about losing their jobs because of the economic crisis. In this context, margins to stimulate a considerable increase and return to prior consumer credit are reduced. All the same, in response to the low level of interest rates, some signs of borrowing to acquire property are appearing, as demonstrated by the increase in bank mortgage loans, up by 6.1% in December.

Recent financial upheavals have led families to adopt strict saving patterns. They have taken advantage of products which ensure capital guarantee and minimal yield, for example, life insurance policies, in particular separately-managed businesses, which, according to the latest statistics provided by ISVAP recorded a previously unheard of number of premiums worth approximately €77.5bn in 2009. Following the debacle of 2008 which saw funds negative to the tune of over €130bn, the unit trust division managed to contain the damage (-€3bn in 2009). By examining the data throughout the course of the year the funds system has seen a trend in growth, with positive net cash flow over the entire last six months of the financial year. The Bank of Italy's most recent data on net fund assets indicates that in the third quarter and based on a return to spending by savers, net growth in terms of resources is over €10bn.

Insurance business

The global insurance industry has proved strong in light of the storm whipped up by the financial system. The insurance markets, reinsurance markets included, have continued on as normal. The sector has fallen victim to the drastic fall in the prices of many of the securities in portfolio; nonetheless, the gearing of overall capital

levels of the insurance companies has remained acceptable, with few exceptions (Aig, Yamato Life) in the face of this extraordinary situation.
In Italy, the 2009 financial year has been characterised by the dichotic trend of the two main groupings of businesses: compared with the Life business that recorded an all-time high in premium income (approximately €77.5bn), the Non-Life businesses as a whole recorded a contraction close to 2%.
Behind the exceptional result achieved by the Life business in 2009 is an economic situation characterised by two catalysts in terms of premiums earned: the low level of interest rates and the increase in the propensity for families to save. This has enabled both banks and networks of financial advisers to benefit. Data by ANIA in relation to new individual insurance policies demonstrate how banks have seen new business develop by 66% compared to 2008, whilst financial advisers have generated a rate of growth exceeding 250%. With continued reference to new individual insurance policies, the agency channel had to be content with a modest increase of 6%. Financial market conditions have influenced the success of traditional products (separately-managed businesses and contracts with specific funds) most of which appear in Class I (new products +164%) and Class V (+106%). The poor appeal of linked products is not surprising: new products in Class III fell by almost 62% when compared with 2008.
In 2009, the result of the main Non-Life technical account, being the Motor TPL continued to deteriorate. Even after efforts made by introducing government-backed schemes in previous years, the competitive climate signified a reduction in the average premium, which proved unsustainable for the sector's technical result. Income contracted by 4% in the first nine months of 2009 in comparison with the same period in 2008. With regard to the claims rate of the motor TPL, data provided by ANIA on the first three quarters of 2009 shows both an increase in the frequency of claims (+0.05%), in addition to a slight increase in average cost (+0.4%). Combined with the significant weakening of the technical result for the business, an increase in the number of fraudulent claims linked to social tensions at this difficult economic time is not uncommon.
Alongside this is the crisis in the automobile market, although some of its negative impacts have been softened by incentives introduced by the government. The fall in car registrations and the discounts offered by car dealers have slowed down the premiums earned by the motor property damage business (-2.6% in the first three quarters). These factors, together with an increase in accidents caused by meteorological events have contributed to the incapacity to generate income by this class, traditionally a reliable source for Italian companies in terms of technical results.
As early as the start of the second half of 2009 the Non-MV Non-Life business with links to companies felt the negative impacts of the downward spiral in the economic cycle. The progressive decline in activity entailed a reduction in the volume of insurable items, in particular within the transport insurance. Companies' economic problems were reflected in the cost reductions made, including insurance costs. Credit and bond insurance classes were penalised by a general reduction of the credit rating of companies. To top off this difficult situation an increase in the volume of accident claims occurred, due to wilful acts committed as a result of the exasperation caused by the difficulties faced by many companies. Even within this sector, atmospheric events contributed to the rise of the ratio claims/premiums.
Worrying details have also emerged from the personal insurance segment. The climate of insecurity, linked with occupational risks, is causing families to prudently hold back on the purchase of consumer goods. In the retail sector too, fewer Non-Life policies were taken out; Italians see the aforementioned policies as an expense and not as something to improve quality of life and are therefore reluctant to spend their savings on them. Similarly, as far as collective policies are concerned, owing to the difficult situation companies find themselves in, little room is left for consistent growth of company allocation in favour of supplementary health funds.
As a whole, Non-Life premium income in Italy should inch towards 2% in 2009, with the MV sector experiencing the largest contraction (-3.3%). The remaining Non-MV Non-Life sectors will maintain their performance, which is comparable to a period of stagnation.
If the resurgence in the financial markets in the last three quarters of 2009 has injected life into company accounts, the steep fall in the technical results of the main Non-Life businesses constitutes an obstacle which will be difficult to overcome in terms of the sector's income. The financial year ends with the majority of Italian insurance companies intent on modifying tariffs (not only in MV TPL) in order to record their economic performance with sustainability in mind.

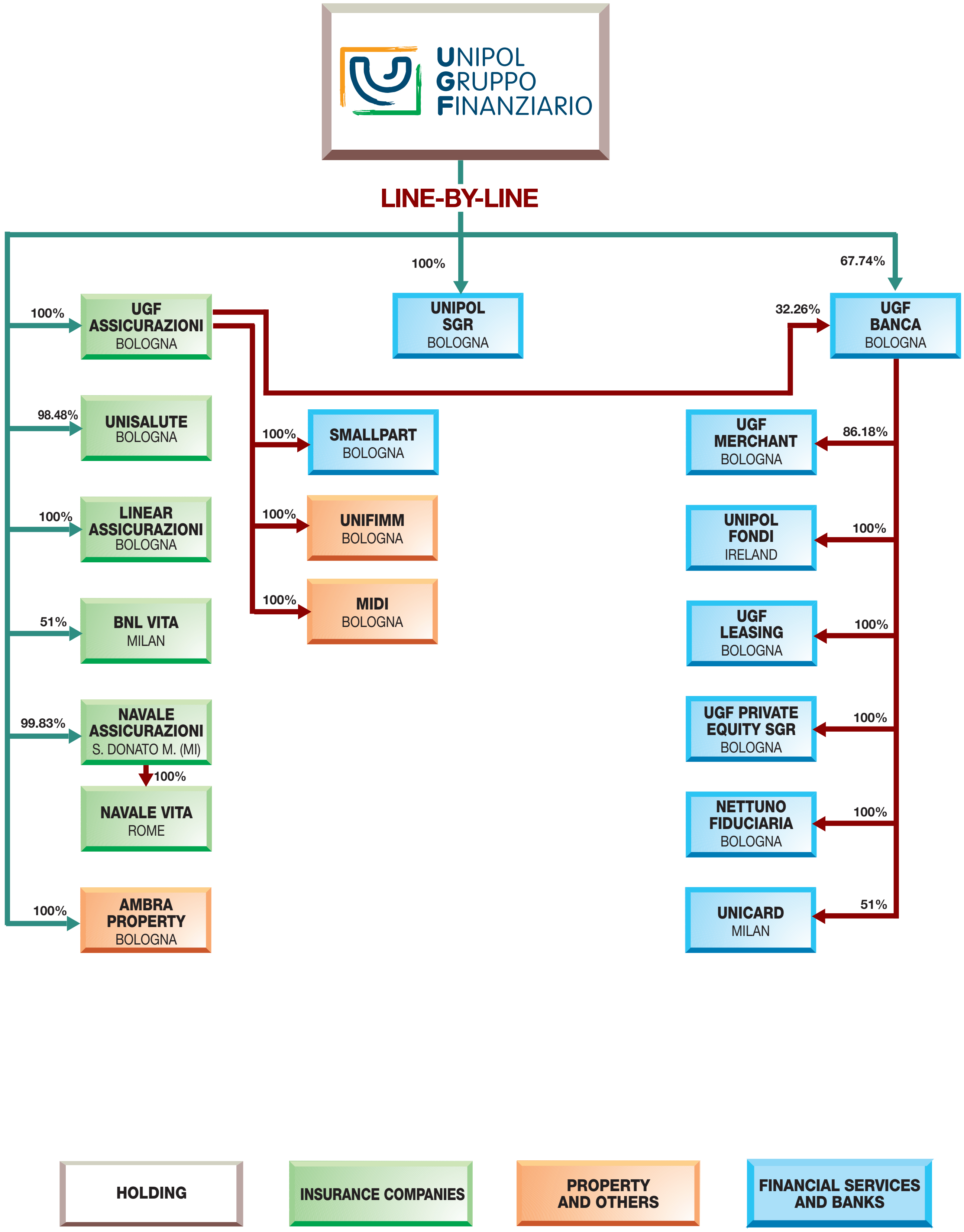
Banking and assets under management

Once the credit risk of the major banks was overcome thanks to public sector intervention, the credit institutes' process of financial resetting continued. In Italy in particular, the credit sector showed signs of an increase in customer deposits. Direct deposits rose by 9.3%, with bonds up by 11.2%. The total loans to the economy only rose by 0.5%, which underlines how loans to non-financial companies have seen a fall of 2.4%. These figures indicate the effort made by Italian banks to restore the balance between assets and liabilities. The loan excess index reached 90.8% in December, a far cry from the 104% obtained at the end of 2007. Nevertheless, it would be wrong to ignore the effects of the credit crunch on the figures; on the

contrary, the strength of credit within the Italian economy based on the correlation between the stock of loans and GDP has risen from 1.09 in 2007 to reach an estimated 1.17 by the end of 2009.
The modest growth in loans can be substantially explained by the weakness of the economic cycle, although increased selectivity criteria governing credit-granting procedures, in addition to the rise in the risk premium for borrowers by the banks should be mentioned here.
As far as rates are concerned, the need to increase customer deposits and the urgency to extend the duration of liabilities by way of the large output of bonds have signified a drastic reduction of the mark-down. The steep fall in profitability has not been compensated by an increase in loan mark-up. 2009 saw a reduction in the securities spread of bank rates, remaining stagnant at just over 2% in the last quarter.
The Italian credit institutions have ridden out the financial storm better than their counterparts in other countries thanks to the minimal exposure to toxic securities. In fact, the mix of Italian bank loans is structurally centred towards businesses and families. Paradoxically, this overriding factor may become a weakness at the stage where businesses find themselves in crisis. Disturbing signs of the deterioration of credit quality is evidence of the above. At the end of 2009, net doubtful loans in the Italian banking system surpassed 2%. Owing to the fragile economic situation, the increase in bank risks is concentrated predominantly on businesses; consumers are also apprehensive due to the rise in unemployment.
The factors discussed are a discouraging prospect in terms of interest margin. The margin on services shows more encouraging signs thanks to increased operations on securities from the second quarter of the year. Nevertheless, on the bank's financial statements the effects of non-performing loans will be significant; adequate coverage should be provided when adjustments are made. The outlook for 2009 indicates a laborious process for Italian banks in finding growth opportunities. According to estimates from ABI, the sector's ROE will decrease from 4.4% in 2008 to 2.4% in 2009.

Pension funds market
The positive trend of financial markets throughout 2009 has signified a recovery in pension fund results, which have managed to achieve on average a return of 8% on an annual basis.
In terms of new subscribers, the results have been more or less divided. Occupational pension funds have experienced a small trend in growth: some 17,000 new subscribers are equivalent to a development rate of close to 1%, which confirms the lack of confidence of workers when faced with these welfare options. Open-ended pension funds offered more promise, with a rise of 4% and approximately 31,000 new subscribers. Nevertheless, the sector which demonstrated the greatest growth trend was PIP insurance policies, which was in a position to achieve growth of 17% thanks to 225,000 new subscribers.
With reference to annual contributions, sector funds have cashed in €4.3bn (+2.5% on 2008), whilst open-ended pension funds have cashed in just under €1.7bn, an increase of over 48% on the previous year. Behind these figures is a significant increase of per capita contributions to collective schemes (from €1,200 to €1,900), following the introduction of the compulsory (in part or completely) transfer of post-employment benefits (TFR). The growth in cash flows directed at PIP (+19% across the year) essentially reflects the increase in subscribers.
The occupational pension funds system is more or less regularly operating with over 2 million subscribers (which represent only 15% of potential subscribers) and managed assets worth €19bn. The delay regarding the public sector's supplementary pension system aimed at public employees must be noted: in fact, apart from the Espero pension fund (education) scheme, there are currently no other fund schemes. The value of open-ended funds reached €6.5bn, whilst PIP's managed assets have now reached almost €9bn, with overall supplementary pension schemes managing more than €34bn.
Current debate focuses on other measures with the aim of raising the subscription rate to these schemes. Amongst the possible options are the following: the right to reverse the choice in respect of the TFR transfer, compulsory contractual employer's contributions, the freedom to spread the employer's contributions amongst the various types of supplementary pension schemes and finally, the broadening of tax advantages (reduction of income tax, a change in payment from deductibility to deduction).

CONSOLIDATION SCOPE AT 31 DECEMBER 2009



GROUP HIGHLIGHTS

(amounts in €m)

	31/12/2009	31/12/2008
Non-Life direct insurance premiums	4,260	4,357
% variation	*-2.2*	*1.6*
Life direct insurance premiums	5,240	3,519
% variation	*48.9*	*-1.7*
of which Life investment products	*19*	*20*
% variation	*-3.4*	*19.3*
Total direct insurance premiums	9,501	7,876
% variation	*20.6*	*0.3*
Banking business - direct customer deposits	9,540	8,728
% variation	*9.3*	*-4.1*
Annual Premium Equivalent (APE) Life business - Group share	374	273
% variation	*37.1*	*-7.9*
Loss ratio - Non-Life business - direct business	86.0%	76.3%
Combined ratio - Non-LIfe - direct business	108.0%	98.6%
Net gains on investments/financial income (excl. assets/liabilities at fair value)	147	651
% variation	*-77.5*	*-43.5*
Pre-tax profit/(loss)	-973	134
% variation		*-77.9*
Profit/(loss)	-769	107
% variation		*-74.5*
Profit/(loss) attributable to owners of the Parent	-772	93
% variation		*-76.2*
Comprehensive income expense	218	-559
% variation		*-164.0*
Investment and liquid cash and cash equivalents	40,531	36,285
% variation	*11.7*	*-8.8*
Technical provisions	28,286	25,298
% variation	*11.8*	*-3.0*
Financial liabilities	12,198	10,895
% variation	*12.0*	*-7.8*
Equity attributable to owners of the Parent	3,585	3,433
% variation	*4.4*	*-31.2*

Annual Premium Equivalent	New Life production expressed in APE is a measure of the volume of new policies and is the sum of the periodic premiums of new production and a tenth of the single premiums. This indicator is used for evaluating business together with the in-force value and the Group's new Life business value.
Loss ratio (direct business)	This is the principal indicator of the profitability of an insurance company's operations. It is the ratio between the cost of direct claims and direct premiums for the period.
Combined ratio (direct business)	This indicator measures the percentage of the Non-Life technical account and is made up of the sum of the expense ratio (the ratio of total operating expenses to direct premiums) and the loss ratio.

These indicators (APE, loss ratio, expense ratio and combined ratio) are not calculated as laid down in the accounting rules, but in accordance with economic and financial practices.

Management report

The economic and financial situation in which the Group operated throughout the 2009 financial year was characterised by a worsening economic crisis and a deterioration in business results in terms of Non-Life insurance, historically the most important business segment in terms of the Group's economic performance. The financial markets, after a negative start of the financial year, showed signs of recovery and greater stability.

All the above has significantly influenced the Group's financial trends in 2009.

The recovery of financial markets and the funds optimisation interventions carried out by the Group have meant that the financial year ended with notable financial strengthening. This is borne out by consolidated comprehensive income of €218m compared with -€559m in 2008 and a solvency level equal to approximately 1.4 times the solvency margin required, an improvement on the solvency level recorded at the end of 2008 (approximately 1.3 times the minimum required).

The results of the Group's main companies have also benefited from the recovery in the value of securities, in particular the performance of UGF SpA; the holding company was positive by €129m, with significant recovery when compared to the negative results achieved in the previous financial year.

With regard to the consolidated performance, this was heavily influenced by the impairment losses of shares, with a reduction of €798m, in addition to further impairment losses of €101m linked to Lehman Brothers senior bonds, following the reduced recovery rate to 25% of the nominal amount when compared to 50% of the nominal amount in 2008.

In terms of the effect of the impairment losses on equities classified as available for sale assets, it is noted that on 3 March 2010 the Bank of Italy, CONSOB and ISVAP, following the collaboration agreement on applying the International Financial Reporting Standards (IFRS) and with reference to the prior communication held on 6 February 2009 and the publication of the IFRIC (*International Financial Reporting Interpretations Committee*) *Update* document in July 2009, published a document (Joint Document) with the following objective: '2009 and 2010 - Information to be provided in financial reports on impairment tests, on the contractual clauses of financial payables, on debt restructuring and on the 'Hierarchy of fair value', in order that financial reports clearly and fully represent the risks and uncertainties that the companies face in a timely manner, the available assets to face such situations and their capacity to generate revenue.

The document has specific areas which should be more clearly defined by companies, namely:

- (i) impairment test of goodwill, other intangible assets with an indefinite useful life and investments;
- (ii) measurement of equities classified as available for sale;
- (iii) classification of financial liabilities when contractual clauses are not respected and consequently the benefits are lost.

In addition, the Joint Document provides specific details on information to be provided with regard to debt restructuring and lists the new disclosure requirements concerning 'the hierarchy of fair value.'

In particular, in relation to point (ii) companies are invited to adopt impairment procedures on equities as observed by IFRIC in the document quoted in July 2009, which, although it does not specifically interpret IAS 39, paragraph 58, does offer specific guidelines on the application methods of the aforementioned. In particular, with regard to the path taken by IFRIC, the Joint Document draws the attention of Directors to the fact that, once 'significant' and 'sustainable' quantitative benchmarks have been established, the crossing of at least one of the aforementioned benchmarks is an indicator of an impairment of the equity classified as available for sale (AFS), therefore it is not possible to use other qualitative checks, for example analytical evaluation to establish the value. It is advised that once one of the two significant or sustainable benchmarks have been surpassed, the impairment loss on equities classified as AFS must be included in the income statement, excluding any other valuation consideration.

As a result of applying the above objective criteria, the Group has eliminated qualitative valuations from the impairment policy already adopted and has objectively and separately applied the 'significant' quantitative parameter (an impairment loss greater than 20% for the Group) and the 'sustainable' quantitative parameter (a market price always inferior to the initial subscription in the last 36 months for the Group).

As a result of applying the above objective criteria, impairment losses to be transferred from the Reserve for available-for-sale assets to the income statement have emerged without modifying equity of €798m (gross of the net tax effect and reserve for shadow accounting).

Turning to analysis of the Group's business performance, Life business has performed well in light of the financial situation and selling products with guaranteed capital and minimum yield, particularly welcome by customers in the current financial situation. Direct Life premiums achieved €5,240m, +48.9% compared with €3,519m in 2008. Subsidiary BNL Vita contributes significantly with a volume of premiums worth €3,051m, almost double the value when compared to the 2008 financial year (€1,535m). The performance of the Group's own networks must also be noted; UGF Assicurazioni and UGF Banca's outlets are part of this classification, which have seen a 19% increase overall on the previous year. Pension fund income was €403m, of which €359m originated from guaranteed occupational pension funds.
The APE (Annual Premium Equivalent) reached €374m, an increase of 37.1%.

As already mentioned, the Group's Non-Life business felt the negative effects already prevalent in this sector for two years which instigated a general exacerbation of the claims rate, linked to both structural and financial factors.
Direct premiums have seen a slight contraction (-2.2%), reaching €4,260m due to the introduction of a highly selective policy with actions undertaken to reform the portfolio and with a focus in the final part of the year. The MV classes show steady performance of -3.8%, reflecting the erosion of the average premium caused by the increase in price competitivity and the distorting effects of the no claims bonus scheme introduced in 2007.
A significant increase in the cost of accidents linked to serious personal injuries or deaths, as a result of independent decisions made by Courts, without reference standards, was recorded. In terms of geographical area, some areas in Southern Italy continue to show increased frequency and numbers of personal injuries, a phenomenon common across the entire insurance market as recently observed by ANIA.
The premiums of the Non-MV classes improved (+0.2% on 2008) helped by contributions from specialist companies. This helped to soften the effects of the economic crisis somewhat, which also had repercussions on the claims growth of a significant amount. In addition, a further worsening in the volume of claims due to atmospheric conditions and natural disasters was recorded, confirming the worrying trend linked to climate change. In light of this, it must be highlighted that the effects of the earthquake in Abruzzo in April 2009 were well contained for the Group.
These factors mean that the Group is faced with greater claims and reserves were prudently measured. As a consequence of this, the claims/direct business premium ratio reached 86% at the end of 2009 in comparison to 76.3% at the end of 2008.
The Group had already undertaken the necessary action to face up to these factors and to restore economic balance in 2009. Interventions concerning tariffs, as well as strict decisions and action taken when selecting the portfolio, in particular with business affairs regarding vehicle fleets, public sector tenders and customers who had reported multiple claims were implemented. With regard to claims management, organisational and procedural revisions have been implemented to reduce settlement times and in order to contain the average cost of claims, particularly those concerning personal injuries. The beneficial outcomes of these actions can already be seen from the beginning of 2010.
The expense ratio for direct business at 31 December is 22%, down compared with 22.4% taken from the same period in 2008. This can be explained by resolute action implemented to keep costs down and the payment of lower commissions owing to the reduction of the variable portion linked to the technical results.
Therefore at the end of 2009 the Group recorded a combined ratio for direct business of 108% (98.6% in 2008).

Within banking business, despite the difficult situation the sector finds itself in, UGF Banca marked its return to a net positive result of approximately €6m after its substantial loss in 2008.
Throughout 2009 UGF Banca's direct customer deposits rose by 9.2%, from €8.7bn at the end of 2008 to €9.5bn at the end of 2009. Customer deposits, particularly from third party customers saw an increase of 20%, well above market performance, which experienced moderate growth of 8.9% throughout the course of the year. Medium- to long-term deposits, such as where bonds were preferred, up by 28%. This also enabled an improvement in the duration balance between deposits and loans.
Loans to customers increased by 8.7%, with operations implemented to significantly reduce exposure to risk sectors. In April a residential mortgage securitisation transaction was put in place worth €600m.
The current economic crisis continues to significantly impact net doubtful loans, with the subsidiary UGF Merchant being particularly affected, reflecting negatively on performance for the year and consequently on the results of the Banking Group.

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The year just ended is the last year in which UGF's Chief Executive Officer Carlo Salvatori will act in this capacity; at the Board of Directors meeting on 17 December last year, he announced his decision to leave the Group after the Meeting to approve the 2009 financial statements.

Chairman Pierluigi Stefanini and the Board of Directors expressed their thanks to the CEO for all his valuable work carried out throughout the period 2006-2009.
In a negative financial context, Salvatori focused on management reorganisation, redefining strategies and financial strengthening, even to the extent of maintaining the correct solvency of the financial conglomerate.
To this can be added the recent issue by the parent UGF of a senior bond loan for €750m with the aim of optimising the Group's debt structure, which would allow for refinancing and an extension of average term. The loan, issued on 11 December of last year, fully subscribed, has a term of seven years and is listed on the Luxembourg Stock Exchange.
The subsidiary UGF Banca's capital strengthened throughout the course of 2009, thanks to both a share capital increase of €201m and bond issues, amongst which a hybrid financial instrument for €300m subscribed through a private placement.
Under the guidance of Carlo Salvatori the Group, which has just emerged from an intense period of growth and a brief, but traumatic period of extraordinary work for the acquisition of BNL, was able to reorganise itself in line with redefined strategies, the value of internal resources and innovation of business values.
It is also worth remembering that in the first part of 2009 reorganisation of its companies and departments in light of the 2006-2009 Business Plan was completed.
As from 1 February 2009, having obtained the necessary legal authorisations, UGF Assicurazioni S.p.A became operational, a result of the merger of Aurora Assicurazioni into Unipol Assicurazioni. The sales networks remained distinct and continue to benefit from the commercial strength of the brand names Unipol and Aurora and their respective areas of expertise.
On the same date, a UGF S.p.A. business unit relating to the management of dedicated services within the insurance sector was contributed to UGF Assicurazioni. The merger became effective from 1 February 2009 and for tax and accounting purposes from 1 January 2009. The contribution became effective for statutory accounting and tax purposes from 1 February 2009, following the effective merger.
Thus today the Group is composed of a services and holding company¸ UGF SpA, which controls one of the largest insurance companies in Italy (UGF Assicurazioni), channel/product specialist companies (Linear, Unisalute and Navale), a bancassurance company (BNL Vita) and UGF Banca, the parent of the Banking Group with the same name.

The Group Bank's organisation and structure were revised; top management was revamped and the mission statement reconfirmed. Today it boasts a highly advanced and efficient strategic/commercial model shared with UGF Assicurazioni's agencies. Bank and Company integration has signalled the reorganisation of UGF Banca in six areas, redefined operational methods and ensured increased synergy between bank branches and insurance agencies. The new organisation was launched with a significant number of meetings in various locations.

The Group worked hard to requalify and innovate the areas of IT, finance, audit, compliance and risk management, personnel management and organisation. The Group's management organisational model saw a large number of projects; some have been completed, others are still in progress. These will enhance the Group's levels of excellence which it is set to achieve.

By means of a detailed process which involved almost all personnel, the Group has produced an Code of Ethics and a Charter of Values which act as essential reference points with regard to life within the Group. These are values which form part of the Group's identity and which govern actions, even where tough decisions are concerned; they serve the purpose of both protecting customers and the Company's image in addition to ensuring the safety of customer's invested capital in policies, as the Lehman Brothers situation demonstrates.

The end of the internal reorganisation process was marked by the convention held in September 2009, which also saw the introduction of a major publicity campaign, which recounted the history of the Group for the first time. The campaign involved an event which was held at the Cesena Stadium, where more than 10,000 people, including Group personnel, agents and consultants from all over the country were present.
It was more of a show than a convention, a performance able to evoke emotions and a chance to communicate the information in the Charter of Values which had just been finalised, thanks to skilful organisation, the presence of numerous artists and the participation of top management meetings which emphasised the strong desire to meet the Group's business objectives by means of responsible methods and with the aim of long-term sustainability.
The publicity campaign subsequently caught the eye of television, the press, the internet, cinema and bill posts; the objective was to promote the new brands and establish the Group's role as a leader in the Italian insurance and finance sector. With the slogan 'A MISURA DEL TUO DOMANI' (IN CHARGE OF YOUR DESTINY), the desire to transmit a message which reflected the UGF Group's values using a novel idea and

visual language, bringing the message home to more people and answering their wishes at a time of great uncertainty and global change is prominent.

2010 therefore looks to be a year of great change.

At the Board of Directors Meeting held on 17 December 2009 the majority shareholder communicated the decision to propose at the next general shareholders' meeting the current General Manager Carlo Cimbri for the position of Chief Executive Officer of UGF, recognising his capabilities and managerial qualities suited to the professional and valued customs of the Group, his intellect and outlook which are necessary to the management of UGF's future development.

The year began with introductory activity involving the acquisition of the Arca Vita Group; the transaction was completed on 24 December 2009 and the necessary authorisation procedures had already begun. This business deal was destined not only to replace the bancassurance partnership of BNL Vita and BNP Paribas, due to expire at the end of 2011, but also to reinforce the development of the Group's activity in the bancassurance sector, the Life and Non-Life sectors, by initiating a long-term relationship with Italian banking institutions; Banca Popolare in Emilia Romagna ('BPER') and Banca Popolare in Sondrio ('BPSO'), being the main banking establishments in the country in terms of their significant value and market affinity.
The contract, which is valid for ten years, outlines, subordinate to the authorisation of the relevant Authority, UGF's acquisition of the majority of the Arca Insurance Group and exclusive distribution of Life and Non-Life insurance products via branches across the banking network which is already in operation alongside the Arca Group.
The ARCA Insurance Group, of which Arca Vita (active in the Life business) and Arca Assicurazioni (active in the Non-Life business) are part, distributes its insurance products via over 2,000 branches, predominantly the most popular establishments (including BPER and BPSO with approximately 1,600 branches), in addition to a specific agency channel, represented by approximately 160 insurance agencies.
More specifically, UGF is to acquire 60% of the share capital of Arca Vita S.p.A at a price of approximately €277m from companies which form part of the BPER Banking Group and from BPSO and Arca Vita is to acquire an additional 28.95% of Arca Assicurazioni S.p.A's share capital, of which it already retains 64.08%, equal to approx. €43m from BPER and from BPSO. The amounts for the acquisition of the aforementioned shares are subject to adjustments, time delays, based on the achievement of development objectives specified at the contractual stage.
When finalising the terms of partnership, UGF, BPER and BPSO also subscribe to:

- a shareholder agreement to govern the business aspects of the partnership and Arca Vita and Arca Assicurazioni's rules of corporate governance;
- an agreement governing the mutual call options which can be exercised by the parties in case of termination of the partnership.

With reference to 2010, the first half year will see the Group working on the development of the new 2010-2012 Business Plan, a reference point for UGF Group's strategies for the coming years.
The development of the Plan, based on the guidelines provided by the General Manager Carlo Cimbri will involve various 'themed areas' with the participation of all company areas. The approach used therefore relies on strong involvement and adhesion to the management project; management will directly aim to achieve results set out for the following three-year period.
The 2010-2012 Business Plan will be presented to the relevant Company bodies, for approval the following May and it will be subsequently presented within the Group, the market and the financial community.

Salient aspects of business operations

The Consolidated Financial Statements at 31 December 2009 closed with €218m (-€559m in 2008) of comprehensive income, of which -€769m related to the profit for the year (€107m in 2008) and €987m relating to other comprehensive income (-€666m in 2008).

Amongst the most important aspects that characterised Group performance the following are worthy of note:

- direct insurance premiums, gross of outwards reinsurance, were €9,501m (€7,876m in 2008, +20.6%), €19m of which related to Life investment products (€20m in 2008); direct Non-Life premiums amounted to €4,260m (-2.2%) and Life premiums €5,240m (+48.9%);
- premiums, net of outwards reinsurance, amounted to €9,420m, €4,213m of which was from Non-Life business (€4,105m in 2008) and €5,207m from Life business (€3,486m in 2008);
- bank customer deposits amounted to €9,540m (+9.3% compared with 2008);
- net charges relating to claims, net of outwards reinsurance, amounted to €9,173m, €3,671m of which was from Non-Life business (€3,151m in 2008) and €5,502m from Life business (€3,644m in 2008), and included €301m of net gains on financial assets and liabilities at fair value (net charges of €228m in 2008);
- the net loss ratio in Non-Life business was 86% (76.3% in 2008);
- operating expenses, net of commissions received from reinsurers, amounted to €1,366m (€1,290m in 2008); in Non-Life business they amounted to €932m (€927m in 2008) and in Life business they were €127m (€119m in 2008);
- investments and cash and cash equivalents amounted to €40,531m (€36,285m at 31/12/2008);
- technical provisions and financial liabilities amounted to €40,485m compared with €36,193m at 31 December 2008;
- net gains on investments and financial income from financial assets and liabilities (excluding those at fair value) amounted to €147m (€651m in 2008), gross of the impairment loss on equity instruments classified as available for sale financial assets worth €798m (€96m in 2008), net income amounting to €945m (€747m in 2008);
- pre-tax loss amounted to -€973m (€134m in 2008). Net of the tax credit for the year of €205m and profit attributable to non-controlling interests of €3m, the loss attributable to owners of the Parent was €772m (€93m in 2008), mainly due to the impairment loss on available-for-sale financial assets following the modification of the impairment policy specified above;
- the loss for the final quarter of 2009 alone amounted to €799m (the final quarter of 2008 having closed with a loss of €94m).
- comprehensive income is €218m compared with €559m in the previous year, due in particular to the improvement of €998m in gains or losses on available-for-sale financial assets (negative to the tune of €666m in 2008).

Below is a summary of the consolidated income statement for 2009 broken down by business sector: insurance (Non-Life and Life), banking, holding and services, compared with figures for 2008. It is noted that, following the contribution by the holding UGF, of all activity linked to the management of dedicated services in the insurance sector to UGF Assicurazioni, comparison of the figures pertaining to the Holding and Services sector with those recorded in the previous financial year would not be significant.

Condensed consolidated income statement broken down by business segment

Amounts in €m

	NON-LIFE BUSINESS			LIFE BUSINESS			INSURANCE SECTOR			BANKING SECTOR			Holding and Services SECTOR			Intersegment eliminations		CONSOLIDATED TOTAL		
	Dec-09	Dec-08	*var. %*	Dec-09	Dec-08	*var. %*	Dec-09	Dec-08	*var. %*	Dec-09	Dec-08	*var. %*	Dec-09	Dec-08	*var. %*	Dec-09	Dec-08	Dec-09	Dec-08	*var. %*
Net premiums	4,213	4,105	*2.6*	5,207	3,486	*49.4*	9,420	7,591	*24.1*	0	0		0	0		0	0	9,420	7,591	*24.1*
Net commissions	0	0		1	2		1	2		101	80	*27.4*	0	0		-23	-14	79	67	*17.8*
Financial income/expense (excl. assets/liabilities at fair value)	164	340	*-51.8*	641	510	*25.6*	805	850	*-5.4*	159	42	*280.1*	1	63	*-98.0*	-20	-209	945	747	*26.6*
Net interest income/(expense)	*145*	*249*		*550*	*621*		*696*	*870*		*226*	*252*		*-13*	*16*		*0*	*-1*	*909*	*1,137*	
Other income	*21*	*85*		*14*	*30*		*35*	*115*		*1*	*1*		*14*	*55*		*-20*	*-80*	*30*	*91*	
Realised gains and losses	*27*	*111*		*76*	*-7*		*103*	*104*		*22*	*13*		*4*	*10*		*0*	*-128*	*128*	*-1*	
Unrealised gains and losses (excluding impairment losses on AFS shares)	*-29*	*-105*		*1*	*-134*		*-28*	*-239*		*-90*	*-225*		*-4*	*-18*		*0*	*0*	*-122*	*-481*	
Impairment losses on AFS equities	*-529*	*-37*	*1,341.6*	*-242*	*-59*	*311.1*	*-771*	*-96*	*706.9*	*-8*			*-19*					*-798*	*-96*	*735.0*
Net charges relating to claims	-3,671	-3,151	*16.5*	-5,502	-3,644	*51.0*	-9,173	-6,795	*35.0*	0	0		0	0		0	9	-9,173	-6,786	*35.2*
Operating expenses	-932	-927	*0.6*	-127	-119	*6.6*	-1,059	-1,046	*1.3*	-269	-234	*15.0*	-118	-311	*-62.0*	80	300	-1,366	-1,290	*5.9*
Commissions and other acquisition costs	*-803*	*-778*		*-77*	*-70*		-880	-849		*0*	*0*		*0*	*0*		6	1	-874	-847	
Other expenses	*-129*	*-149*		*-50*	*-49*		-179	-198		*-269*	*-234*		*-118*	*-311*		74	299	-492	-443	
Other income/expense	-60	-60	*1.5*	-29	-29	*0.0*	-90	-89	*1.0*	1	0	*546.8*	60	261	*-77.1*	-52	-270	-81	-98	*-17.5*
Pre-tax profit/(loss)	-815	270		-51	148		-867	418		-16	-112		-76	14		-15	-185	-973	134	
Income taxes																		205	-27	
Profit (loss) for the year																		-769	107	
attributable to owners of the Parent																		*-772*	*93*	
attributable to non-controlling interests																		*3*	*15*	
Other comprehensive income/(expense)																		987	-666	
Total consolidated comprehensive income/(expense)																		218	-559	
attributable to owners of the Parent																		*149*	*-553*	
attributable to non-controlling interests																		*69*	*-6*	

Insurance business

Premiums and investment products

Total premiums and investment products for 2009 amounted to €9,529m, an increase of 20.6% compared with the situation for 2008. Life business recorded an increase of 48.8%, whilst Non-Life business fell by 2.2%.

Premiums at 31 December 2009 may be broken down as follows:

- Non-Life premiums 45% (55.4% in 2008)
- Life premiums 54.8% (44.3% in 2008)
- Life investment products 0.2% (0.3% in 2008).

In compliance with the requirements of IFRS 4 (presence of a significant insurance risk) all the Non-Life premiums of the companies in the Group were classified as insurance premiums.

As regards Life business, investment products at 31 December 2009 related to Class III (unit- and index-linked policies), Class V (capitalisation policies) and Class VI (pension funds).

Consolidated premiums
Amounts in €m

	31/12/2009	*comp. %*	31/12/2008	*comp. %*	*var. %*
Non-Life direct premiums	4,260		4,357		-2.2
Non-Life indirect business	25		24		6.5
Total Non-Life premiums	4,285	45.0	4,381	55.4	-2.2
Life direct premiums	5,221		3,499		49.2
Life indirect business	4		4		-13.3
Total Life premiums	5,225	54.8	3,503	44.3	49.1
Total Life investment products	19	0.2	20	0.3	-3.4
Total Life business premiums	5,244	55.0	3,523	44.6	48.8
Total premiums	9,529	100.0	7,904	100.0	20.6

Almost all the policies issued were signed in Italy.
Premiums for the final quarter alone were worth €2,462m (€2,393 in the final quarter of 2008, +2.9%).
Direct premiums amounted to €9,501m (+20.6% compared with 2008), €9,481m of which was premium (€7,856m in 2008) and €19m investment products (€20m in 2008).

Income breakdown per class of business, with the breakdown indices and the variation compared with the previous year, is set out in the following table:

Breakdown of premiums per class of business *Amounts in €m*					
	31/12/2009	*comp. %*	31/12/2008	*comp. %*	*var. %*
DIRECT ITALIAN BUSINESS					
Non-Life business premiums					
Accident and Health (classes 1 and 2)	694	*7.3*	681	*8.7*	*1.9*
Motor vehicles - TPL (class 10)	2,167	*22.9*	2,260	*28.8*	*-4.1*
Motor vehicles - Property damage (class 3)	355	*3.7*	361	*4.6*	*-1.8*
Marine, Aviation and Transport (classes 4, 5, 6, 7, 11 and 12)	29	*0.3*	32	*0.4*	*-11.1*
Fire and miscellaneous damages (classes 8 and 9)	445	*4.7*	446	*5.7*	*-0.3*
General TPL (class 13)	393	*4.1*	394	*5.0*	*-0.2*
Credit and Bond (classes 14 and 15)	35	*0.4*	42	*0.5*	*-16.6*
Pecuniary losses (class 16)	59	*0.6*	56	*0.7*	*5.3*
Legal protection (class 17)	31	*0.3*	32	*0.4*	*-2.4*
Support and Assistance (class 18)	52	*0.6*	52	*0.7*	*0.8*
Total Non-Life business	4,260	*44.9*	4,357	*55.5*	*-2.2*
Life business premiums					
I - Whole and temlife insurance	3,943	*41.6*	1,993	*25.4*	*97.8*
III - Unit-linked/index-linked policies	365	*3.8*	870	*11.1*	*-58.1*
V - Capitalisation	523	*5.5*	229	*2.9*	*128.5*
VI - Pension funds	390	*4.1*	406	*5.2*	*-4.0*
Total Life business	5,221	*55.1*	3,499	*44.5*	*49.2*
Total Life and Non-Life business direct premiums	9,481	*100.0*	7,856	*100.0*	*20.7*
Life investment products					
III - Unit-linked/index-linked policies	5	*0.1*	7	*0.1*	*-23.8*
V - Capitalisation	1	*0.0*	0	*0.0*	*0.0*
VI - Pension funds	13	*0.1*	13	*0.2*	*-1.6*
Total Life investment products	19	*0.2*	20	*0.3*	*-3.4*
Life business direct premiums					
I - Whole and temlife insurance	3,943	*41.5*	1,993	*25.3*	*97.8*
III - Unit-linked/index-linked policies	370	*3.9*	877	*11.1*	*-57.8*
V - Capitalisation	524	*5.5*	229	*2.9*	*129.1*
VI - Pension funds	403	*4.2*	419	*5.3*	*-3.9*
Total Life business direct premiums	5,240	*55.2*	3,519	*44.7*	*48.9*
Total direct premiums	9,501	*100.0*	7,876	*100.0*	*20.6*
INDIRECT BUSINESS					
Non-Life business premiums	25	*87.2*	24	*84.7*	*6.5*
Life business premiums	4	*12.8*	4	*15.3*	*-13.3*
Total indirect premiums	29	*100.0*	28	*100.0*	*3.5*
TOTAL REVENUE	9,529		7,904		*20.6*

The classification of premiums by class set out above complies with the provisions of Article 2 of Legislative Decree 209 of 7 September 2005 - Insurance Code (para. 1 in the case of Life business and para. 3 in the case of Non- Life business).

The following table below shows direct business premiums at 31 December 2009, broken down by sector and separated into Non-Life premiums, Life premiums and investment products:

Direct income *Amounts in €m*	Non-Life premiums	Life premiums	Total	*comp. %*	Investment products	Total income	*comp. %*
Traditional composite companies	3,677	2,170	5,847	*61.7*	19	5,867	*61.8*
Non-Life specialist companies	583	0	583	*6.1*	0	583	*6.1*
Bancassurance companies	0	3,051	3,051	*32.2*	0	3,051	*32.1*
Total direct business premiums	4,260	5,221	9,481	*100.0*	19	9,501	*100.0*

Life business

Life business premiums at 31 December 2009 totalled €5,244m, a large increase compared with 31 December 2008 (+48.8%).

Direct business premiums amounted to €5,240m (+48.9% compared with 31/12/2008). There was a significant increase in Class I – traditional policies (+97.8%) and Class V – capitalisation policies (+129.1%) and a decrease in Class III – index- and unit-linked policies (-57.8%) and Class VI – pension funds (-3.9%).
Direct Life business premiums amounted to €5,221m at 31 December 2009 whilst investment products amounted to €19m. At 31 December 2008, Life premiums had been €3,499m and investment products €20m.

New business in terms of APE, net of portions pertaining to non-controlling interests, amounted to €374m at 31 December 2009, a significant increase of +37.1% compared with 2008 (pro rata figures on a like-for-like basis, that is net of Quadrifoglio Vita, which was sold during 2008). In particular BNL Vita's APE grew from €156m to €315m (+101.6%), €160m of it attributable to owners of the Parent, whilst UGF Assicurazioni's contribution to the Group figure was €214m (+10.5% compared with 2008).

Pension funds

As for UGF Group occupational pension funds, 2009 saw the launch of mandates to manage the *Espero Pension Fund* (the pension fund for schools), the guaranteed subfund for the *Previprof Pension Fund* (employees in professional firms) and the *BNL Pension Fund,* and several agreements for providing annuities following last year's successful bid for the Assofondipensione mandate were signed.
Asset management continued as normal and at 31 December 2009 there was a total of 26 occupational pension funds mandates (15 of which were for 'with guaranteed capital sum and/or minimum return'). At the end of 2009 total assets under management for occupational pension funds amounted to €1,960m.
In the open-ended pension funds business the assets of Unipol Futuro, Unipol Previdenza, Unipol Insieme, Aurora Previdenza and BNL Pensione Sicura had reached €210m and 21,300 members.

* * *

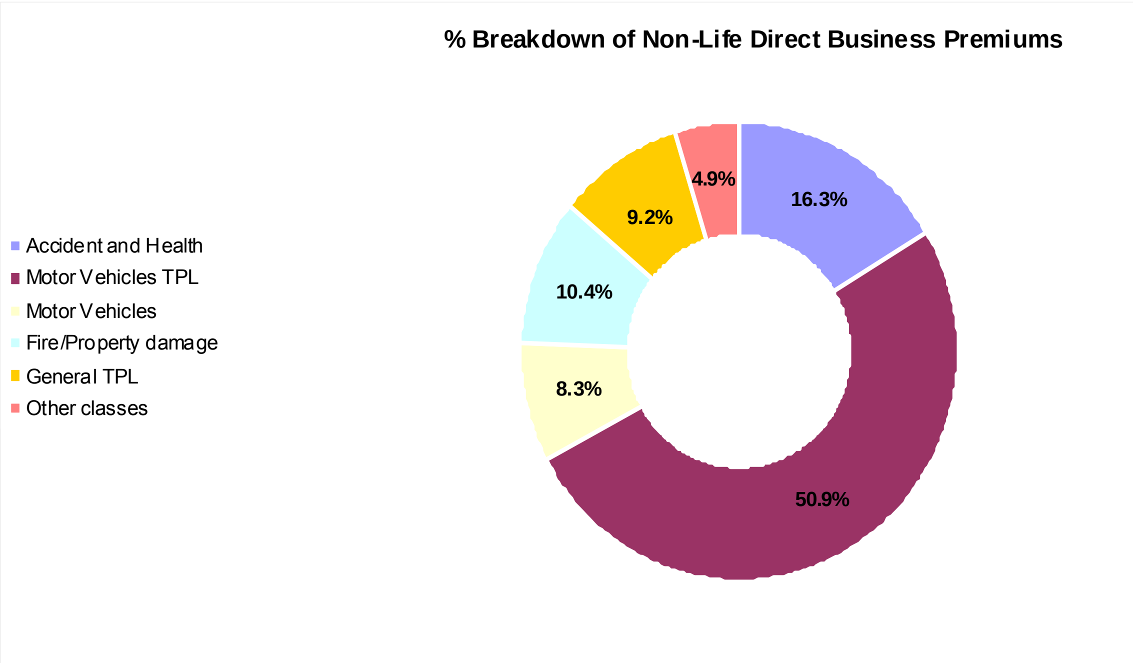
The traditional composite company UGF Assicurazioni achieved Life direct income of €2,188m, an increase of 10.7% compared with 31 December 2008.
Life premiums amounted to €2,169m (€1,958 at 31/12/2008) whilst investment products amounted to €19m (€20m at 31/12/2008).
Particularly impressive was the increase in Class V – capitalisation policies at +120.1%. Also registering an increase was Class I – traditional policies (+8.2%), while Class VI – pension funds registered a fall of 3.9%. Class III – unit- and index-linked policies saw a marked reduction (-95.8%).

Premiums from Life policies achieved via UGF Banca outlets was €195m at 31 December 2009 (€140m at 31/12/2008). It should be mentioned that the agreement entered into in 2004 with Banco Popolare for the sale of Life products expired on 20 May 2009 and has not been renewed (business at 31/12/2008 achieved via BPI branches was €133m).

The bancassurance company BNL Vita achieved direct premiums of €3,051m (+98.7% on 31/12/2008). Income in Class I and Class V was well up, reflecting customers' preferences for traditional products, which are less exposed to financial risks, whilst in Class III – Unit- and index-linked policies – it was down 50.4%. Class VI – Pension funds (+2.9%) continued to record less significant volumes.

Non-Life business

Total premiums in the Non-Life portfolio amounted to €4,285m at 31 December 2009 (-2.2% compared with 31/12/2008).
Direct business premium income alone amounted to €4,260m (-2.2%). Indirect business premiums amounted to €25m (+6.5%).
All the main classes were down with the sole exception of Accident and Health, which was up +1.9% at the end of the year. MV TPL fell by 4.1%, Fire and Miscellaneous damages by 0.3% and General TPL by 0.2%.



Direct premiums for the composite company **UGF Assicurazioni**, which amounted to €3,677m, fell by 3.5% largely owing to the MV classes because of both the steps taken to reorganise this class by means of a selective underwriting policy, in particular for company fleet vehicles, and the fall in the average premium mainly caused by greater price competition.
In the case of Non-MV classes the fall in premium income was largely due to the financial crisis that the country was going through and which had a negative effect on premium income.

The **specialist companies** (Linear, Unisalute and Navale Assicurazioni) wrote direct premiums of €583m (+6.8%).
Linear had direct premiums of €160m, down 3.4% compared with the previous year, owing to both the 2.4% drop in the portfolio and a fall in the average MV TPL premium.
UniSalute achieved direct premiums of €155m, an increase of 17.9% compared with 31 December 2008, but with a fall of 0.5% in the Non-Life classes linked to health (Accident, Health and Support and Assistance) since 30 September 2009. Its market share therefore rose substantially, to more than 6%.
The Non-Life company **Navale Assicurazioni** achieved direct premiums of €268m at 31 December 2009, 7.7% up on 31 December 2008. Growth was different in each type of business: compared with an 18.3% increase in MV business there was a 5% fall in basic classes mainly owing to the drop in General TPL (-8.7%), Fire (-15.1%), Other Damage to Property (-4.1%) and Goods in Transit (-20.3%). The Company was adversely affected during 2009 by the substantial expansion of geographical areas that turned in a negative performance in MV TPL and by the heavy loss ratio in several major General TPL policies held by health services and public authorities. Work was begun on measures to rebalance portfolios, including divestment of policies, and this work will continue during 2010.

Reinsurance

Inwards reinsurance

Total Non-Life and Life inwards reinsurance premiums amounted to €29m in 2009, an increase of +3.5% compared with 2008 and was made up of €25m of premiums from the Non-Life business and €4m from the Life business.

Outwards reinsurance

Automatic proportional types of cession were taken out to protect the Group against Non-Life technical risks in the Bond, Credit and Other damage to property classes.
On the other hand, in accordance with market practice and procedures, non-proportional types of cover were adopted to protect exposures arising out of the portfolios retained in the following classes: both MV and General Third-Party Liability, Motor vehicles – own damage or loss, Accident, Goods in transit and Other damage to property caused by Hail.
A specific non-proportional type of cover was arranged to reduce the Group's net exposure to the risks retained in the Fire class, including natural disasters.
Automatic proportional types of cover were adopted for reinsuring Life risks.
In order to reduce the counterparty risk to a minimum, the reinsurance of Group undertakings was placed with leading professional reinsurers rated very sound by the world's leading rating agencies.

In the case of Group direct business ceded premiums totalled €124m compared with €295m in the previous year, of which €106m came from Non-Life ceded premiums and €17m from Life ceded premiums.
With no major individual claims during the year, the mix of Non-Life direct cessions generated a positive result overall for reinsurers. The Group's Non-Life retention index rose to 97.5% from 93.6% in the previous financial year.
The result of the direct cessions carried out in Life business was also positive for reinsurers. The Group's Life retention index rose to 99.7% from 99.5% in the previous year whilst the overall retention index (Non-Life and Life) rose to 98.7% from 96.3% in the previous year.

Performance of the insurance business

Overall, the Group's insurance business ended with a pre-tax loss of €867m. Life business made a loss of €51m (€148m profit in 2008) whilst Non-Life business made a loss of €815m (€270m profit in 2008). The impairment losses carried out on the equity instruments classified as available-for-sale assets as a result of the instructions issued by the national Regulators had an exceptionally severe effect, the loss being transferred from the corresponding equity reserve to the income statement.
Impairment losses on shares and bonds amounted to €555m in Non-Life business and to €274m in the case of Life business, to which must be added €38m of additions to technical provisions on policies where the underlying assets were Lehman Brothers securities.

Total operating expenses incurred in 2009 (acquisition and renewal commissions and other acquisition, asset management and administrative expenses), net of commissions received from reinsurers, totalled €1,059m (+1.3% compared with 2008).
The expense ratio for Non-Life direct business, that is the ratio of operating expenses including commissions received from reinsurers and investment management expenses to direct premiums, was slightly down (22% compared with 22.4% in 2008).
The loss ratio for Non-Life direct business (i.e. the ratio of charges relating to claims for direct business to the relevant direct premiums) was 86% compared with 76.3% in 2008.

As already shown in the first part of this report the worsening of the loss ratio was linked to various factors. MV classes were affected by the fall in premiums associated with the increase in claims, as a result of which steps to reform the portfolio and raise tariffs were initiated during the year. In particular, decisions made by the courts in the absence of specific legislation and the increase in the reported claims in several parts of southern Italy led to an increase in the cost of claims that included serious personal injury.
Non-MV classes were particularly badly affected by climate change, which had led to more severe weather damage, and by the economic crisis that the country is experiencing and which had a negative affect on both premiums and serious claims.

There was a total of 576,952 direct claims, excluding MV TPL and Health, which cover claims reported on group policies with the specialist company Unisalute, slightly down (-4.4%) compared with the previous year.

As for MV TPL direct indemnity, the companies in the Group had recorded only a small increase (+0.8%) in the number of reported claims (total non-CARD and debtor CARD claims) by December 2009 compared with 2008. 82% of these claims came under the knock for knock agreement (debtor CARD claims).
75.5% of Card claims were handled by Group companies alone (i.e. excluding claims where there was contributory negligence, which were partially dealt with by the counterpart companies) compared with 76.9% in 2008, the average amount paid out falling by 1%.

The combined ratio, based on direct business, was 108% at 31 December 2009 (98.6% at 31/12/2008). The indicator is derived from the sum of the loss ratio (86%) and expense ratio (22%).

Banking business

The banking sector is made up of the UGF Banca Group and Unipol SGR.
Since 1 February 2009 Unipol SGR has no longer managed the financial assets of the companies in the Group, this work having been transferred to UGF Assicurazioni.

The UGF Banca Banking Group (formerly Unipol Banca Banking Group) changed its name on 20 February 2009 as part of the Group's brand architecture project. Similarly several companies in the Banking Group changed their company name: Unipol Merchant – Banca per le Imprese S.p.A. became UGF Merchant – Banca per le Imprese S.p.A., Cooperleasing S.p.A. became UGF Leasing S.p.A., Unipol Private Equity Sgr S.p.A. became UGF Private Equity Sgr S.p.A.

As well as strongly mirroring the performance and growth of the Parent UGF Banca, not only because of its size but also because it is the channel through which the services provided by the companies in the Group are sold to the public, the Banking Group's performance during 2009 was affected by the performance of the principal subsidiary, UGF Merchant, which recorded a total of €40m of impairment losses on receivables and securities and therefore ended the year with a loss.

UGF Banca strengthened its equity structure during 2009 by increasing its share capital by €201m and issuing €375m of subordinate debt instruments, €300m in the form of Upper Tier 2 and €75m Lower Tier 2. These measures not only brought about an immediate improvement in equity ratios but laid the groundwork for the growth that the bank is expected to make over the next few years.

Direct customer deposits amounted to €9.5bn (€8.7bn in 2008), €4bn of it in retail business and €5.4bn in corporate business, including the funds attributable to the companies in the UGF Group or those associated with it.
Customer indirect deposit funds amounted to €21.7bn at 31 December 2009 (€20.3bn in 2008), €19.9bn of which were assets under administration (+7.7%) and €1.8bn funds under management (+3.4%).
Attention is drawn to the huge improvement in the placement of Life policies compared with 2008: Life premiums of €195m were more than 38% up.

Lending to customers amounted to €9.8bn at the end of 2009. The increase over 2008 was 7.4% whilst amounts due from banks amounted to €452m compared with €325m at the end of 2008 (+39.2%).
However, it should be mentioned that the Banking Group's exposure to several customers mainly operating in the property and construction sectors remained significant: in the case of these items, many of which were classified as substandard, the Banking Group also had several mortgage liens capable of covering the Group's credit risk. However, given the state of the market in these sectors the Group also began to monitor the credit risk of this exposure more closely by 'actively managing' agreements and continuously monitoring the value of the guarantees.

The year ended with a pre-tax loss of €16m (€112m in 2008) owing to both the loss made by the subsidiary UGF Merchant and the adjustment to the impairment policy adopted by the Group. At an individual level UGF Banca ended 2009 with a pre-tax profit of €20m (-€116m as at 31/12/2008).

The following table shows the principal items in the income statement for banking business, set out in accordance with the layout specified for banks.

Banking business *Amounts in €m*			
	31/12/2009	31/12/2008	*var. %*
Net interest income	226	252	*-10.1*
Net commission income	102	80	*27.2*
Other net financial income	22	7	*229.4*
Total income	350	338	*3.5*
Net impairment losses on financial assets	-97	-216	*54.9*
Net financial income	253	122	*106.7*
Operating expenses	268	235	*14.4*
of which: accruals to provisions for risks and charges	*5*	*8*	
Cost/income	75.1%	67.0%	*12.1*
Pre-tax loss	-16	-112	*-86.0*

Total income reached €350m, an increase of 3.5%. This growth was attributable exclusively to the increase in income from services since, despite the considerable increase in funds, the huge fall in market rates led to an inevitable drop in net interest income (-10.1%). Therefore net commission income was up (+27.2%) because of the marketing of new products (Credit Protection and Personal Loan protection).
2009 saw a 14.4% increase in costs. This increase related both to personnel expenses, as a result of an increase in staff levels in the last few months of 2008 following the splitting of UGF Banca into divisions with the setting up of the Business Centres, and to other administrative expenses, which included several extraordinary costs that were a feature of the year and included work in preparation for changing the IT outsourcer, which took place on 4 January 2010. The cost/income ratio was 75.1% (67% in 2008).

Analysis of the loan and securities portfolio at 31 December 2009 led to amounts of €97m being accrued (€216m in 2008), €8m of them for impairment losses on equity instruments classified as available-for-sale assets.

Holding and Services business

Holding and services business was carried out by the holding company UGF and (to a not particularly significant extent) by the subsidiary Ambra Property, which owns and manages the UNA Way Bologna Fiera hotel.

1 February 2009 saw the completion of the project to reorganise the functions and companies within the UGF Group with the contribution to the subsidiary UGF Assicurazioni of Group insurance services and the merger of Aurora Assicurazioni into Unipol Assicurazioni, which at the same time took the name of UGF Assicurazioni. €57m of assets and €48m of liabilities were transferred.

Holding and Services business made a pre-tax loss of €76m at 31 December 2009. (At 31/12/2008 it had made a €14m profit thanks to the gain of €27m made on the sale of 50% of Quadrifoglio Vita and to €51m of dividends received from Group companies.)

The figures that were the major feature of business performance are as follows:

- €48m of income for the provision of core services (€257m in 2008);
- €30m of other revenues and income (€13m in 2008), €11m of it for staff seconded to Group companies;
- €137m of personnel expense, other production costs and other operating expense for holding company business (€314m in 2008);
- €14m in income from investments by way of dividends received from Group companies (€78m in 2008);
- €7m of net income/expense from financial assets (€25m in 2008). Following impairment testing, impairment losses of €19m were recognised on shares classified as available-for-sale assets;
- €38m of interest expense and other charges on financial liabilities (€39m in 2008).

Investments and cash and cash equivalents of Holding and Services business (including €19m of owner-occupied property relating to Ambra Property) amounted to €5,613m in 2009 (€5,036m in 2008), €4,377m of it investments in subsidiaries, up by €202m, €136m for the UGF Banca share capital increase and €66m for payments to subsidiaries for share capital increases.

Financial liabilities amounted to €1,228m (€617m at 31/12/2008), €922m of it for two senior bond loans issued by the company during 2009, the principal features of which were as follows:

- €180m – senior bond loan, nominal amount €175m, unlisted, issued in July 2009, three-year term, fixed interest of 5.25%;
- €742m – senior bond loan, nominal amount €750m, listed on the Luxembourg Stock Exchange, issued in December 2009, at 99.314, seven-year term, fixed interest of 5%.

This item also included €306m relating to two loans payable following the substitution of the subsidiary UGF Assicurazioni as issuer of the UGF 7% and UGF 5.66% subordinated bond loans (nominal amount €300m each).

The loans, which at the request of UGF Assicurazioni are repayable, in whole or in part, at sight (and in any case at least three days before the date of repayment of the credit facilities to the noteholders), are remunerated at the three-month Euribor rate plus 100 basis points.

Intersegment eliminations

Intersegment eliminations related to the derecognition of revenue and costs between Group companies belonging to different segments. To be specific the negative balance of €15m related to the derecognition of dividends within the Group.

Property and financial management

Investments and cash and cash equivalents

2009 was characterised by the financial markets apparently going in opposite directions: after a very negative first quarter owing to the after-effects of the international financial crisis resulting from the collapse of Lehman Brothers, the following three quarters were characterised by a substantial upturn, which led to financial markets ending the year on a positive note.
One of the reasons for the upturn in financial markets was the reversal of the main retail and manufacturing indicators in the principal industrialised economies, leading operators to expect an improvement in the economy and paving the way for a rise in share prices.
The fact that the authorities continued to apply expansionary economic fiscal and monetary policies and the improvement in bank and company profitability provided the final stimulus for the upturn in the financial markets.
The downward trend in rates on Interbank deposits (Euribor) that had begun at the end of 2008 continued in the final quarter, the three-month Euribor rate ending the quarter at 0.66% compared with 0.71% on 30 September, 1.10% on 30 June, 1.51% at the end of March and 2.89% at the end of 2008.
The origin of this trend was to be found in the strongly expansionary monetary policy maintained by the European Central Bank by:

- reducing the repo rate to 1% from 2.50% at the beginning of the year;
- injecting more cash into the system by carrying out repo operations, including long-term operations.

The yields on long maturity dates remained relatively high because of investors' apprehension about the possible inflationary implications, in the medium term, of the steady expansion in the money supply.
The 10-year swap rate fell from 3.74% to 3.58% during the year whilst the rate on Italian gilts with the same maturity date fell from 4.38% to 4.14% over the same period.
Finally, the credit market was the asset class that turned in the best performance: the 5-year itraxx index, representing the credit spread relating to the main issuers in euro belonging to the financial and industrial sector, fell from 177.5 to 75.8 b.p. over the year.
The corporate bond market benefited from the extra capital pumped into the western banking system, from the improvement in the general macroeconomic conditions and, finally, from the extra cash in the financial system.

The Group's investment policies in the bond sector during 2009 were based on strategies aimed at:

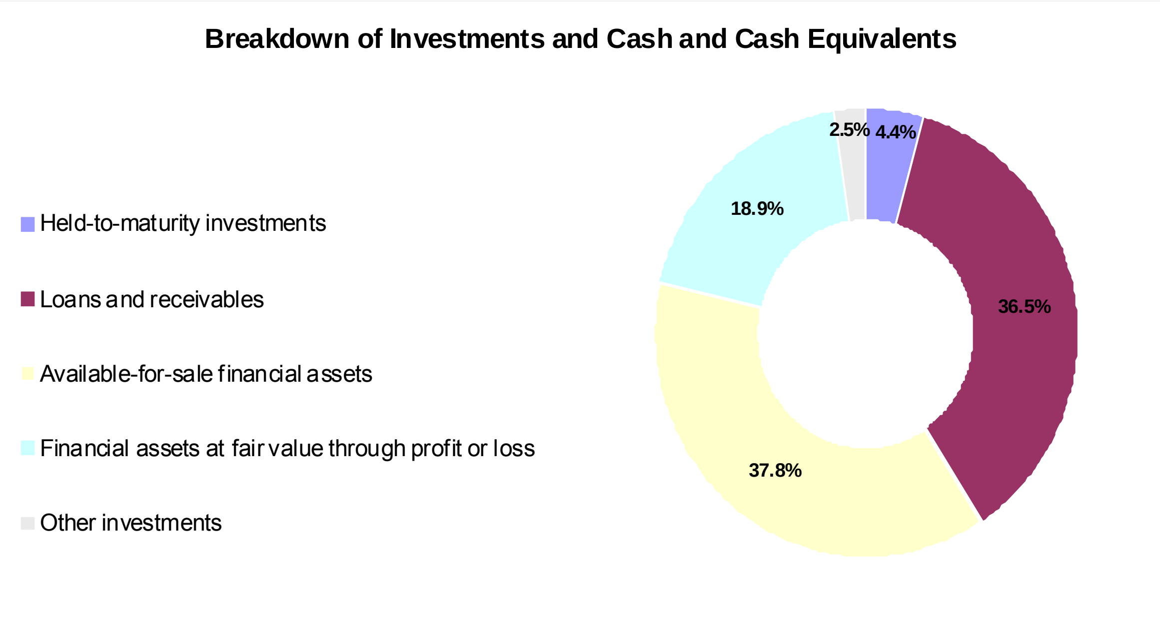
- protecting the portfolio in a climate of extremely volatile and cash-starved markets;
- keeping it in line with liabilities to policyholders.

Fixed-rate corporate bonds were acquired during the year, mainly with terms of between two and six years, the criteria for selection being diversification of the risk and the quality of the issuer. Where market terms were suitable a process of reducing concentration on some issuers was begun.
The increased exposure to the credit market was the result of limiting proportions and was concentrated on Life portfolios.
Operating in government bonds was focused on reducing the proportion of floating rate securities and acquiring fixed rate securities, mainly Italian, with terms of between three and ten years. This work mainly concerned Life portfolios, the aim being to optimise cash flow matching in line with liabilities to policyholders.
Long-term treasury bonds, the profitability of which is linked to inflation, were purchased for the Non-Life portfolio.
Overall the portfolio duration was slightly longer than at the end of 2008.
A good level of liquidity of approximately €1.65bn was maintained in the Group portfolio at the end of December, most of it deposited with UGF Banca, with a view to managing assets prudently.

In the first quarter of 2009 management of the share portfolios was based on defensive strategies carried out by selling options in order to take advantage of the high level of volatility in the markets and by gradually hedging the market risk. This made it possible to limit the negative effects of falls in share prices. Almost all the transactions in derivatives with underlying shares were concluded in the second quarter.
The third quarter of 2009 also saw the conclusion of the hedging operation on Banca MPS shares with a total underlying value of approximately €60m. Some trading activity was also launched with the aim of providing a profit.
With the international economic upturn there was a moderate increase in the weighting of the share component in the fourth quarter of 2009, concentrated in Life separately-management businesses (rising from 4% to approximately 6.2%). This increase was carried out selectively, the focus being on securities

characterised by good visibility of expected results, substantial generation of cash flow and therefore ability to maintain generous dividends in the long run.
The share portfolio was mainly made up of securities belonging to the Eurostoxx50 or to the main European indices, which were characterised by a high level of liquidity and a good profile in terms of profitability represented by the dividends expected.
Exposure in markets other than those in the Eurozone was marginal, with the exchange rate risk mostly being hedged.

At 31 December 2009 the level of the Group's investments and liquid assets reached a total of €40,531m, an increase of €4,246m compared with the position at 31 December 2008 (+11.7%).
Investments and liquid assets in the insurance sector amounted to €31,614m (€27,947m at 31/12/2008) and accounted for 78% of total investments (77% at 31/12/2008), whilst those in the banking sector amounted to €10,512m (€10,077m at 31/12/2008). Investments in the Holding and Services sector amounted to €5,613m (€5,036m at 31/12/2008). The above-mentioned values are gross of eliminations within the Group totalling €7,208m (€6,776m in 2008).



The Group's investments subdivided according to type and comparisons with the position at 31 December 2008 are set out in the following table:

Investments and Cash and Cash Equivalents *Amounts in €m*					
	31/12/2009	*comp. %*	31/12/2008	*comp. %*	*var. %*
Property (*)	741	*1.8*	742	*2.0*	*-0.1*
Investments in subsidiaries, associates and interests in joint ventures	44	*0.1*	39	*0.1*	*11.6*
Held-to-maturity investments	1,780	*4.4*	1,813	*5.0*	*-1.9*
Loans and receivables	14,786	*36.5*	13,712	*37.8*	*7.8*
Debt securities	4,443	*11.0*	4,151	*11.4*	*7.0*
Loans and receivables from banking customers	9,786	*24.1*	9,009	*24.8*	*8.6*
Interbanking loans and receivables	371	*0.9*	275	*0.8*	*35.0*
Deposits held at ceding companies	22	*0.1*	21	*0.1*	*1.5*
Other loans and receivables	164	*0.4*	255	*0.7*	*-35.6*
Available-for-sale financial assets	15,314	*37.8*	11,588	*31.9*	*32.1*
Financial assets at fair value through profit or loss	7,645	*18.9*	8,046	*22.2*	*-5.0*
held for trading	465	*1.1*	869	*2.4*	*-46.5*
at fair value through profit or loss	7,180	*17.7*	7,177	*19.8*	*0.0*
Cash and cash equivalents	221	*0.5*	345	*0.9*	*-35.7*
Total investments and cash and cash equivalents	40,531	*100.0*	36,285	*100.0*	*11.7*

(*) includes commercial properties and those available for sale (IFRS 5)

Property

The Group's property assets, including property for own use and property available for sale, amounted to €741m (€742m at 31/12/2008). Depreciation and divestments during the year were offset by increases in long-term investments in progress.

Operations in property during 2009 were characterised by various transactions aimed at streamlining the property assets that today mainly consist of property for the use of the Group. In addition to the sale of several properties deemed not of strategic importance for the Group's core activities, work continued on developments on various building plots long owned by the Group and by Midi srl and Unifimm srl. Midi srl completed construction work on the first site, to be used as Group offices, and it was occupied during the year by the administrative departments, whilst the second site, also to be used by the Group direct, will be completed in Autumn 2010.

Unifimm began work on a tower for third-party use in a former industrial area of Bologna next to the motorway and planned work in the same complex on a 150-room hotel and an area of approximately 6,000 square metres for small shops and services. It is hoped that the tower under construction, the final height of which will be 125 metres, will be awarded the 'gold' certification of the prestigious LEED (*Leadership in Energy and Environmental Design*) international environmental sustainability system.

Shareholdings in subsidiaries, associates and joint ventures

Investments in subsidiaries, affiliated companies and joint ventures totalled €44m at 31 December 2009 and were almost exclusively in associates (€39m at 31/12/2008). The variation was mainly due to the €4m quota capital increase of Promorest Srl provided by the indirect subsidiary UGF Merchant.

Investments held to maturity

Investments held to maturity amounted to €1,780m (€1,813m at 31/12/2008).

Loans and receivables

Loans and receivables amounted to €14,786m compared with €13,712m at 31 December 2008. The main contribution to this item was from banking business, with €9,786m of loans to customers (€9,009m at 31/12/2008) and €371m of loans to banks (€275m at 31/12/2008).

Debt securities amounted to €4,443m (€4,151m at 31/12/2008). €273m of assets was transferred during the year from the category Financial assets recorded at fair value through profit or loss and reclassified as Loans and receivables. The securities were reclassified with effect from the date of the transfer.

Available-for-sale financial assets

Available-for-sale financial assets amounted to €15,314m (€11,588m at 31/12/2008). The equity reserve for gains or losses on available-for-sale assets (portion attributable to owners of the Parent) was negative to the tune of €393m (-€1,325m at 31/12/2008).

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss at 31 December 2009 amounted to €7,645m (€8,046m at 31/12/2008).
They were made up of €465m of assets held for trading (€869m at 31/12/2008) and €7,180m of assets at fair value, where the investment risk is borne by the policyholder (€7,177m at 31/12/2008).
As already mentioned, €273m of assets was reclassified as Loans and receivables during the year. The securities were reclassified with effect from the date of the transfer. If this reclassification had not taken place another €4m of fair value gains would have been recorded through profit and loss.

Cash and cash equivalents

Available cash and cash equivalents amounted to €221m (€345m at 31/12/2008).

Net gains on investments and net financial income

Details of net gains on investments and net financial income are set out in the following table:

Net gains on investments and net financial income
Amounts in €m

	31/12/2009	comp. %	31/12/2008	comp. %	var. %
Investment property	17	*5.3*	9	*0.9*	*99.2*
Gains on investments in subsidiaries, associates and joint ventures	0	*0.1*	27	*2.8*	*-99.0*
Net gains on held-to-maturity investments	48	*14.9*	36	*3.8*	*33.9*
Net gains on loans and receivables	484	*149.2*	481	*50.6*	*0.7*
Net gains/(losses) on available-for-sale financial assets	-257	*-79.3*	497	*52.4*	*-151.7*
Net gains/(losses) on financial assets held for trading	31	*9.4*	-108	*-11.4*	*-128.2*
Cash and cash equivalents	1	*0.4*	9	*1.0*	*-86.0*
Total net gains on financial assets, cash and cash equivalents	324	*100.0*	950	*100.0*	*-65.9*
Net gains/(losses) on financial liabilities held for trading	-3		8		*-133.7*
Net losses on other financial liabilities	-175		-308		*-43.2*
Total net losses on financial liabilities	-178		-299		*-40.6*
Total net gains (excluding instruments at fair value)	147		651		*-77.5*
Net gains/(losses) on financial assets at fair value	637		-293		*-317.5*
Net gains/(losses) on financial liabilities at fair value	-336		64		*-621.6*
Total gains/(losses) on financial instruments at fair value	301		-228		*-231.9*
Total net gains on investments and net financial income	448		423		*6.0*

Net gains (excluding those on financial instruments at fair value) amounted to €147m (€651m at 31/12/2008).
As already mentioned, impairment losses on equity instruments classified as available-for-sale financial assets amounted to €798m at 31 December 2009 because of the adjustment carried out to the Group's policy.
In addition, as regards bonds, the recovery rate of Lehman Brothers investment bank financial instruments fell during the year from 50% to 25%, with a negative financial effect of €61m – €2m on Financial assets held for trading, €26m on Investments held to maturity, €14m on Loans and receivables and €19m on available-for-sale assets. In the previous year impairment losses on Lehman Brothers securities had amounted to €135m.
Added to these impairment losses were further charges of €40m, €38m of which for additions to technical provisions relating to index-linked policies based on Lehman Brothers securities and €2m of impairment losses for instalments and derivatives.

The impairment policy adopted by the Group for available-for-sale financial assets is described in chapter 2 of the Notes to the Financial Statements – Accounting Policies, whilst details of the analysis carried out on the securities portfolio are contained in chapter 4 – Notes on the Income Statement.

Net gains/losses on loans and receivables include €88m of fair value losses on loans to customers of the UGF Banca Group (€213m in 2008).

Net gains and investments and net financial income from financial assets and liabilities at fair value through profit or loss were €301m (loss of €228m at 31/12/2008);

Equity

Equity attributable to owners of the Parent, including the loss for the year, amounted to €3,585m at 31 December 2009 (€3,433m at 31/12/2008).
The increase was mainly due to the higher net gains on available-for-sale financial assets, from -€1,325m at 31 December 2008 to -€393m at 31 December 2009. Group losses for 2009 were €772m.
Equity attributable to non-controlling interests amounted to €241m (€273m at 31/12/2008).

At 31 December 2009 the Parent's share capital was €2,391,426,100 and was made up of 1,479,885,786 ordinary shares and 911,540,314 preference shares.

There were 86,642 Treasury shares, with a value of €138,239.34, at 31 December 2009, unchanged since the previous year.

Reconciliation schedule between the Group net loss for the year and equity showing the corresponding figures for the Parent

RECONCILIATION SCHEDULE
Amounts in €m

	Share capital and reserves	Profit/(loss) for the period	Equity at 31/12/2009
UGF - IFRS compliant balances	4,474	-50	4,424
Differences between net carrying amount and equity and loss for the year of consolidated investments	-1,275	-700	-1,975
Goodwill arising on consolidation	1,120		1,120
Difference posted to other asset items (buildings, etc.)	16	-1	16
Valuation of companies measured by the equity method	5	0	6
Elimination of infra-group dividends	16	-16	0
Other adjustments	1	-5	-4
Consolidated balances - Group	4,357	-772	3,585
Non-controlling interests	238	3	241
Total	4,595	-769	3,826

Technical provisions and financial liabilities

Technical provisions and financial liabilities *Amounts in €m*	31/12/2009	31/12/2008	var. %
Non-Life technical provisions	7,518	7,391	*1.7*
Life technical provisions	20,768	17,908	*16.0*
Total technical provisions	28,286	25,298	*11.8*
Financial liabilities at fair value	2,104	2,377	*-11.5*
Investment contracts - insurance companies	1,987	2,155	*-7.8*
Other	117	222	*-47.3*
Other financial liabilities	10,094	8,517	*18.5*
Investment contracts - insurance companies	52	137	*-61.8*
Subordinated loans	1,612	1,278	*26.2*
Payables to banking customers	5,122	5,565	*-8.0*
Interbank payables	422	694	*-39.3*
Other	2,886	843	*242.3*
Total financial liabilities	12,198	10,895	*12.0*

Technical provisions amounted to €28,286m at 31 December 2009, an increase of 11.8% compared with 31 December 2008 and were made up of €7,518m of Non-Life technical provisions (+1.7%) and €20,768m of Life technical provisions (+16%).
The increase in Life technical provisions was due to the good business performance.

Total financial liabilities amounted to €12,198m (12% compared with 31/12/2008).

Financial liabilities at fair value through profit or loss amounted to €2,104m (-11.5%) and mainly consisted of investment contracts issued by insurance companies where the investment risk was borne by the policyholders (€1,987m).

Other financial liabilities amounted to €10,094m (+18.5%) and were made up of €5,122m of payables to banking customers (-8%), €1,612m of subordinated loans (+26.2% as a result of UGF Banca issuing three loans with nominal amounts of €300m, €49m and €25m), €52m of investment policies issued by insurance companies (-61.8%), €422m of Interbank payables (-39.3%) and €2,886m of Other (+242.3%).
The increase in Other was due both to UGF issuing two senior bond loans for nominal amounts of €750m and €175m respectively and to the classification under this item, as from 2009, of securitisation securities previously classified as Payables to banking customers. Securitisation securities amounted to €882m at 31 December 2009 (€1,147m in 2008). On a like-for-like basis increases in Payables to banking customers and Other were +15.9% and +45% respectively compared with the previous year.

Personnel

At 31 December 2009 the insurance companies in the Group had 4,344 employees, 39 of whom were on fixed-term contracts. The number of full-time equivalent (FTE) employees was 4,078. There was an increase of 2,298 in the number of employees after 31 December 2008 following the contribution by the Parent UGF of the insurance services business line to the subsidiary UGF Assicurazioni.

At the same date banking business had 2,350 employees (+58 since 31/12/2008), 58 of whom were on fixed-term contracts. There were 2,311 full-time equivalent employees.

The Parent UGF and the other minor companies had a total of 463 employees (456 FTE), one of whom was on a fixed-term contract, a decrease of 2,190.

The Group had a total of 7,157 employees at 31 December 2009 (+166 since 31/12/2008).

Personnel	31/12/2009	31/12/2008	*var.*
Unipol Gruppo Finanziario and other companies	463	2,653	*-2,190*
Total insurance sector	4,344	2,046	*2,298*
Total banking sector	2,350	2,292	*58*
UGF Group	7,157	6,991	*166*

Training

The Group carried out 29,941 days or 218,569 hours of training during the year.
Training for the Group's insurance employees totalled 8,869 days, 7,304 of which were classroom based and 1,565 distance learning.
Training for the Group's banking employees totalled 21,072 days, 18,362 of which were classroom based and 2,710 distance learning.

Below is a summary of the main projects carried out, many of which were part of training courses financed by the Fondo Banche Assicurazioni (FBA).

<u>Insurance and banking:</u>
- UGF Master Executive, run by LUISS (Libera Università Internazionale degli Studi Sociali – International Free University for Social Studies) in Rome (17 participants studying for a total of 6,800 hours);
- 'Expertise in Action', a 15-week training course financed by the FBA fund in which 671 employees took part (102 Managers and 569 Executives) in 36 locations; the seminar alternated between training in the classroom and in the open air, covering topics already dealt with such as communication and delegating as well as group activities such as business games and orienteering. It was taught by Palo Alto School.
- 'The role of the Senior Executive: new skills for a changing world.' This course also took place at the Palo Alto School and was financed by Fon.Dir.

<u>Insurance:</u>
- Technical/claims-settlement training, totalling 1,974 days;
- Training Commercial Area Managers aimed at improving their managerial skills, particularly their ability to delegate and their knowledge of the role;
- 'Applying the total cost of ownership in the contractual process', 'How to measure performance compared with objectives' and 'Advanced negotiating techniques', a training course involving the employees in the Administrative, Management Control, Purchasing and Property departments. The course was provided by the procurement-management company I-Faber.

<u>Banking:</u>
- Training and CPD for banking employees in offering and placing insurance products and services, based on current ISVAP provisions;

- Training course on procedures and IT linked to outsourcing to CEDACRI. 9,054 training days had taken place by 31 December 2009.
- One-day 'Evolution' course, begun in October 2009, for banking executives (Branch Managers, Commercial Coordinators and Heads of Marketing). The course used interactive methods (group coaching with simulations of real situations) and was aimed at providing tools for effectively managing constantly evolving dynamic contexts. It was taught by SCS AzionInnova.

The Group continued to promote the professional development of its human capital by providing managerial and specialist training courses, in the desire and in order to train and prepare its managers of the future in-house. This led to the foundation of the *UGF Corporate University*, which was allocated spacious and dedicated facilities equipped for providing the best possible in-house training.

Information systems

Insurance business

The various aspects of Unipol Gruppo Finanziario's business must face up to the challenges of the current market context and gradually converge on a common structural, management and control model that will enable the major financial and organisational benefits envisaged to be achieved. The IT Department therefore paid particular attention to improving the efficacy and efficiency of the services it provided by adopting innovative technological solutions and rationalising the existing infrastructure and applications, with a view to coordinating, streamlining, supplementing and increasing synergies at Group level.
The plan to overhaul the Group's IT services, begun in the second half of 2007, neared completion and included measures for the:
• strategic development of the Group's technological structure;
• revamp of the Group's basic operating systems (e.g. Non-Life and Life) and development and introduction of new ones (CRM – Customer Relationship Management, Management, Management Control etc.);
• rationalisation of and research into procedures for managing and monitoring IT services;
• transformation of its role from supplier of technology to principal partner for the provision of services and tools to support business growth, thanks to the introduction of procedures for increasingly close collaboration with the business departments.

The Group's new Non-Life system, which was introduced by adopting new web development tools and technology and involved strengthening the Group's network infrastructure and updating the hardware used by the agencies, became operational during 2009 and was supplemented with new applications, which included the introduction of a new integrated management system for documentation in electronic format.
Work continued on developing the Group's new Life system which, after the introduction in 2008 of the first subsystem dedicated to group policies, introduced the first part of the New Individual Life System.
Several Agencies were provided with the new Group CRM system, which gives an integrated view of customers' insurance and banking requirements in order to improve customer service and increase business potentials by developing opportunities for cross-selling and up-selling.
Work continued on maintaining and developing the current information system that supports claims-settlement by updating it to cope with the new organisational model and new legislation and in order to increase operational efficiency. At the same time the requirements for developing a new program for this type of work were also being studied.
New integrated systems for General Ledger, Purchasing, Management Control and Financial Statements were introduced and Human Resources systems were standardised. Systems supporting Central Auditing work were also extensively automated.

In order to optimise, supplement and increase synergies within the Group, work continued on rationalising and concentrating the IT systems of the various Companies by transferring Linear's server farm to the Group's central data centre in the Summer of 2009 and completely renewing and consolidating the Sertel, Unisalute and Linear call centre infrastructure into a new single platform for the whole Group.
A new infrastructure for monitoring the main business services was set up, which enables the various structural elements to be monitored in real time by obtaining timely information on the level of service and the quality of the business applications available to users.

The measures to be carried out in 2010 are geared to launching new products, improving operational efficiency, developing integrated marketing opportunities vis-à-vis Group customers and introducing modern and efficient technologies in order to improve the monitoring, availability and quality of services.
This work also includes completing the Essig Vita and CRM IT systems, maintaining and developing the claims-settlement system, completing the setting up of an integrated disaster recovery infrastructure at Group level and beginning to implement the Solvency II project.

Banking business

There were substantial changes to the IT system in 2009: analysis carried out during the year with the aim of identifying IT tools that could help growth and guarantee appropriate levels of efficiency led to the decision to adopt a new IT package, provided by one of the main players in the market (Cedacri), as from 1 January 2010. This choice necessitated strengthening the existing telecommunications network and installing new hardware in the branches and business centres. Therefore in October work was begun on replacing all the IT equipment throughout the country.

UGF Group sales network

The composite company in the Group, UGF Assicurazioni, uses a network of agencies which at 31 December 2009 was made up of 1,625 agencies (1,673 as at 31/12/2008) with 2,511 agents. UGF Assicurazioni also places Life products directly through the UGF Banca network of bank branches and the Company also distributes Life policies under the Aurora brand through the SIMGEST and CREDIT SUISSE ITALY networks of financial advisers.
The geographical marketing structure was reorganised during 2009 with the creation of six geographical areas in which there was both insurance and banking expertise in order to be able to respond promptly to all the requirements that originate in the sales outlets. At the same time the commercial relations between the Group's bank branches and insurance agencies were redefined in order to increase the potential advantage to the network of agencies, in terms of both commissions and customer loyalty, of widening the range to include banking and financial products.

In MV business Linear operated via the call centre and the Internet.

In Health and assistance business Unisalute operated through the direct sale of managed care collective policies. The Company sold its individual policies via the Internet, by telephone and through its network of agencies (132 agencies, 131 of which were Unipol Assicurazioni agencies with a Unisalute mandate, compared with 112, 105 of which belonged to Unipol Assicurazioni, at 31/12/2008). In addition Unisalute products were sold through the branches of UGF Banca and of 2 other banks.

Navale Assicurazioni operated through 543 mainly multifirm agencies and 284 brokers (520 agencies and 304 brokers at 31/12/2008) as well as 5 banks.

Turning to bancassurance, BNL Vita marketed its products through 748 branches in the BNL-BNP Paribas banking channel.

UGF Banca had 299 bank branches at 31 December 2009 (unchanged compared with 2008), 180 of them combined with insurance agencies (185 at 31/12/2008), 28 finance shops and 374 financial advisers. UGF Banca began to rationalise the geographical sales network during 2009, closing six branches and simultaneously opening six new branches. This process will continue in 2010. The Company also uses direct sales channels (telephone and Internet banking) and 1,629 Group insurance agencies authorised to sell standard banking products. Six Commercial Areas were also created in April 2009. These geographical structures, which mirror those of the Parent, UGF Assicurazioni, represented the first step towards decentralisation in order to facilitate operational flows and reduce decision times. They are commercial coordination structures with broad decision-making powers, the aim of which is to facilitate business growth in their areas.

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

Subsequent events

In addition to what has already been mentioned in the first part of this report, in particular relating to the project to acquire the ARCA Group, it should be mentioned that in the first few months of 2010 the Group has been drawing up the new 2010-2012 Business Plan, which will be submitted to the relevant company bodies for approval in May and will subsequently be presented within the Group and to the market and the financial community.

Business outlook

The macroeconomic context continues to be critical in 2010 and in the first few months has been characterised by a rise in the unemployment rate, stagnation in consumption and concern about the increase in public borrowing. Financial markets are showing signs of instability, partly as a result of concerns about the increase in the indebtedness of several countries, with tensions in the currency markets.
Against this background, Group investment policies are based on the maximum prudence, with a high level of liquidity being maintained, the creditworthiness of new investments being rigorously assessed and the rate risk and share risk being hedged.

Group performance in insurance business during the period following the closure of the 2009 financial statement shows a drop in Life premiums as a result of the expected drop in BNL Vita business, which had recorded particularly good improvements in premiums, especially in the first half of 2009, whilst the channels belonging to UGF Assicurazioni are maintaining their performance.
In Non-Life business UGF Assicurazioni, the principal insurance company in the Group, increased MV TPL tariffs as from 1 January in both the Unipol division and the Aurora division as part of a more complex and diverse review of tariffs launched towards the end of 2009.
Measures taken to derecognise policies with poor technical performance, combined with the selective effects triggered by the tariff review, are producing a fall in the portfolio, and consequently also in premiums, in line with expectations. In addition, the positive reversal of the trend in UGF Assicurazioni MV TPL claims reported, which began in the final quarter of 2009, is continuing and by the end of February they were considerably down compared with the same period last year. Work is also continuing on improving the operational efficiency of the core processes, such as those in the technical area and claims-management.
The Group's Non-Life and Life insurance activities will be strengthened in 2010 by the acquisition of the Arca Vita Group, which has already been mentioned, for which the contracts have been signed and the requisite authorisation procedures have been initiated.

In banking business it is worth mentioning that, after preparations lasting several months, on 4 January 2010 UGF Banca successfully transferred the information system to the new Cedacri IT platform, which replaced that of CSE. This is a decision of strategic importance for the Banking Group, being the technological evolution of a system intended to facilitate growth over the next few years and bring about major financial benefits, including reductions in costs.

Although the problems in the economy as a whole and in the sector are likely to continue, the initial positive effects of the many measures taken are expected to manifest themselves this year, particularly in Non-Life business. The Group's objective for 2010 is a return to a consolidated profit.

Bologna, 25 March 2010

The Board of Directors

Statement of financial position - Assets

Amounts in €m

		31/12/2009	31/12/2008
1	INTANGIBLE ASSETS	1,916.6	1,818.7
1.1	Goodwill	1,853.0	1,767.4
1.2	Other intangible assets	63.6	51.3
2	PROPERTY, PLANT AND EQUIPMENT	595.8	572.5
2.1	Property	544.3	516.8
2.2	Other property, plant and equipment	51.5	55.7
3	TECHNICAL PROVISIONS - REINSURERS' SHARE	457.1	533.6
4	INVESTMENTS	39,765.0	35,422.1
4.1	Investment property	196.8	223.9
4.2	Investments in subsidiaries, associates and interests in joint ventures	43.8	39.2
4.3	Held-to-maturity investments	1,779.7	1,813.4
4.4	Loans and receivables	14,785.8	13,711.6
4.5	Available-for-sale financial assets	15,313.8	11,588.3
4.6	Financial assets at fair value through profit or loss	7,645.1	8,045.7
5	SUNDRY RECEIVABLES	1,803.2	1,662.6
5.1	Receivables relating to direct insurance business	1,018.9	990.3
5.2	Receivables relating to reinsurance business	74.6	148.1
5.3	Other receivables	709.6	524.3
6	OTHER ASSETS	901.7	1,147.1
6.1	Non-current assets or assets of a disposal group held for sale	0.4	1.4
6.2	Deferred acquisition costs	26.3	41.1
6.3	Deferred tax assets	549.1	681.8
6.4	Current tax assets	85.5	52.7
6.5	Other assets	240.4	370.1
7	CASH AND CASH EQUIVALENTS	221.5	344.6
	TOTAL ASSETS	45,660.8	41,501.2

Statement of financial position - liabilities and equity

Amounts in €m

		31/12/2009	31/12/2008
1	EQUITY	3,826.2	3,705.5
1.1	attributable to owners of the Parent	3,585.3	3,432.7
1.1.1	Share capital	2,391.4	2,391.4
1.1.2	Other equity instruments	0.0	0.0
1.1.3	Equity-related reserves	1,419.6	1,419.7
1.1.4	Income-related and other reserves	929.1	833.2
1.1.5	(Treasury shares)	-0.1	-0.1
1.1.6	Translation reserve	0.0	0.0
1.1.7	Gains or losses on available-for-sale financial assets	-393.4	-1,325.5
1.1.8	Other gains or losses recognised directly in the equity	10.7	21.3
1.1.9	Profit (loss) for the year attributable to owners of the Parent	-771.9	92.6
1.2	attributable to non-controlling interests	240.9	272.8
1.2.1	Share capital and reserves attributable to non-controlling interests	240.0	326.0
1.2.2	Gains or losses recognised directly in the equity	-2.5	-67.9
1.2.3	Profit for the year attributable to non-controlling interests	3.3	14.7
2	PROVISIONS	101.1	80.8
3	TECHNICAL PROVISIONS	28,286.4	25,298.4
4	FINANCIAL LIABILITIES	12,198.4	10,894.5
4.1	Financial liabilities at fair value through profit or loss	2,104.5	2,377.0
4.2	Other financial liabilities	10,093.9	8,517.5
5	PAYABLES	415.2	411.7
5.1	Payables arising from direct insurance business	55.4	82.5
5.2	Payables arising from reinsurance business	22.5	21.7
5.3	Other payables	337.3	307.5
6	OTHER LIABILITIES	833.4	1,110.3
6.1	Liabilities associated with disposal groups	0.0	0.0
6.2	Deferred tax liabilities	204.7	296.5
6.3	Current tax liabilities	116.9	94.2
6.4	Other liabilities	511.9	719.6
	TOTAL EQUITY AND LIABILITIES	45,660.8	41,501.2

INCOME STATEMENT

Amounts in €m

		2009	2008
1.1	Net premiums	9,420.4	7,590.9
1.1.1	*Gross premiums*	*9,543.9*	*7,892.2*
1.1.2	*Ceded premiums*	*-123.5*	*-301.3*
1.2	Commission income	106.9	101.4
1.3	Gains and losses on remeasurement of financial instruments at fair value through profit or loss	328.9	-328.1
1.4	Gains on investments in subsidiaries, associates and interests in joint ventures	0.5	27.4
1.5	Gains on other financial instruments and investment property	1,368.5	1,624.0
1.5.1	*Interest income*	*1,091.1*	*1,324.8*
1.5.2	*Other gains*	*69.9*	*96.2*
1.5.3	*Realised gains*	*205.2*	*56.4*
1.5.4	*Fair value gains*	*2.2*	*146.5*
1.6	Other income	139.7	123.7
1	TOTAL REVENUE	11,364.8	9,139.2
2.1	Net charges relating to claims	9,474.1	6,558.1
2.1.1	*Amounts paid and changes in technical provisions*	*9,537.1*	*6,772.7*
2.1.2	*Reinsurers' share*	*-63.1*	*-214.7*
2.2	Commission expense	27.6	34.1
2.3	Losses on investments in subsidiaries, associates and interests in joint ventures	0.2	0.8
2.4	Losses on other financial instruments and investment property	1,249.8	899.9
2.4.1	*Interest expense*	*193.8*	*310.7*
2.4.2	*Other expense*	*10.0*	*19.8*
2.4.3	*Realised losses*	*57.7*	*105.8*
2.4.4	*Fair value losses*	*988.3*	*463.6*
2.5	Operating expenses	1,365.8	1,290.3
2.5.1	*Commissions and other acquisition costs*	*873.8*	*847.4*
2.5.2	*Investment management expenses*	*13.0*	*18.9*
2.5.3	*Other administrative expenses*	*479.0*	*423.9*
2.6	Other costs	220.6	221.7
2	TOTAL COSTS AND EXPENSES	12,338.0	9,004.9
	PRE-TAX PROFIT (LOSS) FOR THE YEAR	-973.2	134.3
3	Income tax	-204.6	27.0
	POST-TAX PROFIT (LOSS) FOR THE YEAR	-768.6	107.3
4	PROFIT (LOSS) FROM DISCONTINUED OPERATIONS	0.0	0.0
	CONSOLIDATED PROFIT (LOSS) FOR THE YEAR	-768.6	107.3
	attributable to the owners of the Parent	-771.9	92.6
	attributable to non-controlling interests	3.3	14.7

Statement of comprehensive income - net amounts

Amounts in €m

		2009	2008
	CONSOLIDATED PROFIT (LOSS) FOR THE YEAR	-768.6	107.3
	Variations in translation reserves		
	Gains or losses on available-for-sale financial assets	997.6	-666.0
	Gains or losses on cash flow hedge	-10.7	0
	Gains or losses on hedges of a net investment in foreign operations		
	Variation in equity of investees		
	Variation in the reserve for intangible assets		
	Variation in the reserve for property, plant and equipment		
	Gains or losses on non-current assets held for sale or disposal group		
	Actuarial gains and losses and adjustments relating to defined benefit plans		
	Other items		
	TOTAL OTHER COMPREHENSIVE INCOME/(EXPENSE) FOR THE YEAR	986.9	-666.1
	TOTAL CONSOLIDATED COMPREHENSIVE INCOME/(EXPENSE) FOR THE YEAR	218.3	-558.8
	attributable to the owners of the Parent	*149.5*	*-553.1*
	attributable to non-controlling interests	*68.8*	*-5.7*

STATEMENT OF CHANGES IN EQUITY

Amounts in €m

		At 31/12/2007	Changes to closing balances	Amounts allocated	Reclassification to the Income Statement	Transfers	At 31/12/2008	Changes to closing balances	Amounts allocated	Reclassification to the Income Statement	Transfers	At 31/12/2009
Equity attributable to the owners of the Parent	Share capital	2,391.4					2,391.4					2,391.4
	Other equity instruments											
	Equity-related reserves	2,235.4				-815.7	1,419.7		-0.1			1,419.6
	Income-related and other reserves	630.0		203.2			833.2		95.9			929.1
	(Treasury shares)			-0.1			-0.1					-0.1
	Profit (loss) for the year	389.2		92.6		-389.2	92.6		-771.9		-92.6	-771.9
	Other comprehensive income	-658.4		-531.3	161.2	-275.6	-1,304.1		578.6	646.6	-303.8	-382.7
	Total attributable to the owners of the Parent	4,987.6		-235.6	161.2	-1,480.5	3,432.7		-97.6	646.6	-396.4	3,585.3
Equity attributable to non-controlling interests	Capital and reserves attributable to non-controlling interests	302.4		23.7			326.0		-86.0		0.0	240.0
	Profit (loss) for the year	31.9		14.7		-31.9	14.7		3.3		-14.7	3.3
	Other comprehensive income	-47.6		-29.6	9.2		-67.9		28.5	37.0		-2.5
	Total attributable to non-controlling interests	286.7		8.8	9.2	-31.9	272.8		-54.2	37.0	-14.7	240.9
Total		5,274.4		-226.9	170.4	-1,512.4	3,705.5		-151.7	683.6	-411.1	3,826.2

Statement of cash flows (indirect method)
Amounts in €m

	31/12/2009	31/12/2008
Pre-tax profit (loss) for the year	-973.2	134.3
Change in non-monetary items	3,552.0	233.4
Change in Non-Life premium provision	-33.8	-0.6
Change in claims provision and other Non-Life technical provisions	229.6	-57.8
Change in mathematical provisions and other Life technical provisions	2,868.8	-658.2
Change in deferred acquisition costs	14.8	20.0
Change in provisions	20.3	25.3
Non-monetary gains and losses on financial instruments, investment property and investments	791.1	925.7
Other changes	-338.8	-21.0
Change in receivables and payables generated by operating activities	-137.1	-244.7
Change in receivables and payables relating to direct insurance and reinsurance operating activities	18.4	-40.8
Change in other receivables and payables	-155.5	-204.0
Taxes paid	-39.3	-109.8
Net cash flows generated by/used for monetary items from investing and financing activities	-1,194.8	-146.9
Liabilities from financial contracts issued by insurance companies	-587.5	-826.6
Payables to bank and interbank customers	-716.3	-299.5
Loans and receivables from bank and interbank customers	-974.4	-156.6
Other financial instruments at fair value through profit or loss	1,083.5	1,135.7
TOTAL NET CASH FLOW FROM OPERATING ACTIVITIES	1,207.7	-133.7
Net cash flow generated by/used for investment property	25.3	-0.6
Net cash flow generated by/used for investments in subsidiaries, associates and interests in joint ventures	-4.7	-10.9
Net cash flow generated by/used for corporate investments and receivables	-473.9	137.1
Net cash flow generated by/used for held-to-maturity investments	7.3	-64.6
Net cash flow generated by/used for available-for-sale financial assets	-3,012.9	583.3
Net cash flow generated by/used for property, plant & equipment and intangible assets	-149.3	-79.7
Other net cash flows generated by/used for investing activities	1.0	36.9
TOTAL NET CASH FLOW GENERATED BY/USED FOR INVESTING ACTIVITIES	-3,607.2	601.4
Net cash and cash equivalents generated by/used for equity instruments attributable to the owners of the Parent	-0.1	-849.6
Net cash and cash equivalents generated by/used for treasury shares	0.0	-0.1
Dividends distributed attributable to the owners of the Parent	0.0	-184.1
Net cash and cash equivalents generated by/used for share capital and reserves attributable to non-controlling interests	-100.7	23.7
Net cash and cash equivalents generated by/used for subordinated liabilities and equity instruments	334.5	365.9
Net cash and cash equivalents generated by/used for other financial liabilities	2,042.7	156.7
TOTAL NET CASH FLOW GENERATED BY/USED FOR CORPORATE FINANCING ACTIVITIES	2,276.4	-487.5
Effect of exchange rate gains/losses on cash and cash equivalents		
CASH AND CASH EQUIVALENTS AT 1 JANUARY	344.6	364.5
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	-123.1	-19.9
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	221.5	344.6

NOTES TO THE FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The UGF Group, consisting of the Parent Unipol Gruppo Finanziario (hereinafter referred to as UGF) 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-ended pension funds. It also operates in banking business.

The Parent UGF is a public limited company, has its registered office in Bologna (Italy) and is listed on the Milan Stock Exchange.

UGF's Consolidated Financial Statements were drawn up in accordance with Article 154-ter of Legislative Decree 58/1998 (TUF) and ISVAP Ruling 7 of 13 July 2007, as amended by ISVAP Ruling 2784 of 8 March 2010, and they conform to the IFRS issued by IASB and endorsed by the European Union, along with the interpretations issued by IFRIC, in accordance with the provisions of EC Regulation 1606/2002 in force at the reporting date.
The layout (statement of financial position, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and other schedules) conforms to the provisions of ISVAP Ruling 7 of 13 July 2007, Part III and subsequent modifications relating to the layout of the consolidated financial statements of insurance and reinsurance companies that must adopt IFRS.
The information requested in CONSOB Communication DEM/6064293 of 28 July 2006 has also been provided.

With reference to the new schedules referred to in ISVAP Ruling 2784 of 8 March 2010, Article 6 of the ruling provides that, for 2009 alone, the Company is not required to show corresponding figures in the schedule 'Detail of financial assets and liabilities by level'. Therefore the Group has shown only the figures for 2009. Nor is this information shown in the schedule 'Detail of variations in level 3 financial assets and liabilities'.

The presentation currency is the euro and all the amounts shown in these notes are in €m, except when specifically indicated, rounded to one decimal place.

Basis of consolidation

The Group's consolidated financial statements at 31 December 2009 have been drawn up by combining the figures of the Parent UGF and those for all the subsidiaries, both direct and indirect (IAS 27). Subsidiaries deemed to be too small to be of relevance are excluded.
There are no jointly-controlled interests.
Associates, in which the investment percentage ranges between 20% and 50%, and subsidiaries considered not to be significant, are measured using the equity method (IAS 28).

Investments consolidated on a line-by-line basis and those measured using the equity method are listed in the tables showing the Scope of consolidation and Details of unconsolidated investments respectively, which are appended to these Notes.

Changes in the scope of consolidation compared with 31 December 2008

No transactions carried out during 2009 involved changes in the scope of consolidation.

Transactions carried out during 2009 that did not affect the scope of consolidation are listed below:

- on 2 January 2009 UGF Assicurazioni paid €10.4m to the subsidiary Midi SpA as a result of the call for arrears to make up the share capital increase resolved by the company on 18 July 2001.
- on 1 February 2009 Aurora Assicurazioni Spa was merged into Unipol Assicurazioni Spa and took the name of UGF Assicurazioni Spa, and the Parent UGF contributed insurance services to UGF Assicurazioni. The merger took effect for legal purposes on 1 February 2009 and for accounting and tax purposes on 1 January 2009. The contribution took effect for legal, accounting and tax purposes on 1 February 2009.
- on 29 May 2009 the subsidiary UGF Assicurazioni acquired 108,842,805 UGF Banca shares or 15.47% of the share capital, bringing the total held to 32.26%. The price paid, fixed during the previous year on the basis of a fairness opinion, was €212.8m. As a result of this transaction UGF holds 100% of UGF Banca's share capital, 67.74% of it directly.
- on 31 October 2009 UGF and UGF Assicurazioni subscribed and paid a total of €201m for UGF Banca's share capital increase, €136.2m and €64.8m respectively.
- on 15 December 2009 SRS was merged into Smallpart.

The following payments were also made for future share capital increases:

- €35m, paid by UGF to the subsidiary Navale Assicurazioni
- €30.6m, paid by UGF to the subsidiary BNL Vita
- €5.5m, paid by UGF Assicurazioni to the subsidiary Midi
- €6.2m, paid by UGF Assicurazioni to the subsidiary Unifimm
- €1.5m, paid by Smallpart to the associate Pegaso Finanziaria.

Reporting date

The reference date of the consolidated financial statements is 31 December 2009, the date the annual financial statements of the Parent UGF closed. All the consolidated companies closed their financial statements on 31 December with the exception of the associate Pegaso Finanziaria spa, which closed its latest financial statements on 30 June 2009 and for which interim financial statements up to the date of the consolidated financial statements have been used.
With the exception of the companies belonging to the UGF Banca banking group, the consolidated financial statements were drawn up using reformulations of the separate financial statements of the consolidated companies adjusted to comply with the IFRS, as applied by the Parent UGF and approved by the Boards of Directors of the companies concerned. The companies in the UGF Banca group draw up individual financial statements by applying the IFRS.

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 companies as from the date they were acquired, the elimination of the carrying amounts of the holding from the Parent's financial statements and, in the case of investments not wholly owned, the separate recognition of the amount of the equity and the profit/(loss) for the year attributable to non-controlling interests.
The amount of equity attributable to non-controlling interests is recognised under equity as 'Equity attributable to non-controlling interests', whilst the relevant amount of the consolidated profit or loss is shown under 'Profit (loss) for the year attributable to non-controlling interests'.
The financial statements of the subsidiaries are consolidated on a line-by-line basis with the

exception of those that are so small that the equity method is used. Three special companies are also consolidated on a line-by-line basis. These are the vehicle companies used by UGF Banca for securitisations which, whilst not being subsidiaries, are consolidated as laid down in SIC 12 since all the risks and rewards linked to holding junior notes issued by the vehicles are substantially retained.

Companies consolidated on a proportional basis

There were no jointly-controlled interests at 31 December 2009.

Companies measured using the equity method

When this method is used the carrying amounts of the investment is adjusted according to the relevant fraction of equity, including the profit/loss for the year and all the adjustments made when consolidation is on a line-by-line basis.

Goodwill

If the cost of acquiring investments in subsidiaries and associates exceeds the fair value of the identifiable assets, liabilities and contingent liabilities, the excess amount is recognised as goodwill under intangible assets.
This goodwill represents a payment made in the expectation of future economic benefits arising out of assets that cannot be identified individually and recognised separately.
In the years following the year of acquisition, goodwill is measured at cost, net of any impairment losses accumulated.
In the event that the Group's investment in the equity of the company acquired exceeds the cost of acquisition, the difference is recognised directly in the income statement.

Elimination of intercompany transactions

When the consolidated financial statements are drawn up the amounts receivable and payable between companies included in the consolidation, the income and charges relating to transactions carried out between these companies and the profits and losses resulting from transactions carried out between these companies and not yet carried out with parties external to the Group are eliminated.

Segment reporting

The scope of segment reporting is based on the major types of business in which the Group operates:

- Non-Life Business
- Life Business
- Banking Business
- Holding and Services business and other activities.

No segment reporting 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 POLICIES

These financial statements are drawn up on the assumption that the Company will continue as a going concern. It is in fact reasonably certain that companies belonging to the UGF Group have sufficient resources to ensure that they will continue to operate for the foreseeable future. In addition the liquidity risk is deemed to be very remote.

New standards

The IAS 1 – Presentation of Financial Statements – came into effect on 1 January 2008. The new version of the standard requires that all the variations generated by transactions with owners of the Parent shown in a statement of change in equity. However, all transactions with third parties (comprehensive income) must be shown either in a single statement of comprehensive income or in two separate statements (separate income statement) and statement of other comprehensive income.
The approach used by the Group to present comprehensive income complies with the provisions of ISVAP Ruling 2784 of 8 March 2010, which amended Regulation 7/2007. The Group has therefore presented a separate statement of comprehensive income, which includes the components that make up the profit/loss for the year and the charges and income recognised directly in equity for non-owner transactions. Transactions carried out with owners, together with those relating to the comprehensive income, are shown in the equity.
The retrospective adoption of this standard as from 1 January 2009 has no effect on the measurement of the items in the financial statements.

IFRS 8 operating segments replaced IAS 14 segment reporting on 1 January 2009. The new standard requires the Company to base operating segment disclosures on the data used by the chief operating decision-maker. Therefore, it requires the operating segments to be identified on the basis of the internal reporting that is regularly reviewed by the chief operating decision-maker for the purposes of allocating resources and assessing performance. Adopting this standard had no impact on the measurement of financial statements nor on segment reporting.

The amendments to IFRS 7 Financial Instruments: disclosures also took effect as from the 2009 financial statements (EC Reg. 1165 of 27/11/2009). The new paragraphs, 27A and 27B, require further information on how the fair value is measured, on the hierarchy of the fair value and on the liquidity risk relating to financial instruments. Three levels of fair value are laid down:

- Level 1: if the financial instrument is listed on an active market;
- Level 2: if the fair value is calculated on the basis of valuation methods that use parameters that can be seen on the market, other than listings of the financial instrument;
- Level 3: if the fair value is based on valuation methods that also use parameters that cannot be seen on the market.

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The accounting standards and the most significant criteria used in drawing up the consolidated financial statements are set out below.

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 company, from which the company will derive financial benefits in future, can be capitalised.
The following assets are recorded as intangible assets with a finite life and therefore amortised:

- goodwill paid for the acquisition of Life portfolios: the value of the policies acquired is determined by estimating the present value of the future cash flows of the existing policies.

The Group amortises this value throughout the expected residual life. This valuation is reviewed annually;

- costs incurred for the acquisition of software licences, amortised over three years;
- costs incurred for consultancy on major projects for developing and implementing IT systems, including personalisation of the relative software, amortised over ten years,
- expenses relating to building work on third party assets, amortised over the term of the rental agreements concerned.

Projects in progress are not amortised until the year in which they are first used.

Goodwill paid when companies are acquired or merged is also included among intangible assets, as already mentioned in paragraph 1.2. As this goodwill has an indefinite useful life it is not amortised but is tested for impairment at least once a year, or each time there is any indication of impairment; impairment losses are recognised in the income statement and cannot be reversed in subsequent years.

2.2 Property, plant and equipment – IAS16

This item includes property used for corporate business, plant, other machinery and equipment.
The Group has adopted the amortised cost method for measuring and recognising this category of assets.
Depreciation, which is carried out each year on a straight-line basis on the residual useful life, begins when the asset is available and ready for use and ends when the asset has come to the end of its useful life (which in the case of buildings is estimated at 30 years). In the case of wholly-owned property (land and buildings) depreciation is carried out only on the building.
The consolidated property companies include in the carrying amount the borrowing costs incurred for loans 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.

Assets that suffer impairment losses are amortised.
The values recorded in the case of property owned by the subsidiaries UGF Assicurazioni and Ambra Property include the goodwill arising from consolidation at the time of acquisition in order to reflect the present value of the property at the time it was acquired.

2.3 Investment property – IAS 40

Investment property is recognised by applying the amortised cost method, as allowed by IAS 40 (an alternative to the fair value method).
If the final recoverable amount of property is estimated to be less than the carrying amount (or zero) it is depreciated annually on a straight-line basis, based on the recoverable amount and the presumed useful life (estimated to be 30 years). This mainly applies to the complex that houses the Jolly Hotel in Rome (via Pio IV) in view of its particular nature and purpose.
If the recoverable amount of the property is estimated to exceed the carrying amount no depreciation has been applied. In the case of the Group this applies to residential property.

In the case of wholly-owned property (land and buildings) depreciation is 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 in their profitability.

Assets that suffer impairment losses of value are amortised. The market value is determined at least once a year by means of expert valuations conducted by outside companies.
The values recorded in the case of property owned by the subsidiaries UGF Assicurazioni and

Navale Assicurazioni include the goodwill arising from consolidation at the time of acquisition in order to reflect the present value of the property at the time it was acquired.

2.4 Financial assets – IAS 32 and 39 – IFRS 7

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
- Available-for-sale financial assets
- Held-to-maturity investments
- Loans and receivables

There is a specific criterion for recognising and managing each of these categories.

It should be mentioned that the Group recognises financial transactions on the date they are measured.

Financial assets at fair value through profit or loss

Investments in this category are subdivided into two further subitems:

- financial assets held for trading;
- financial assets to be measured at fair value through profit or loss, where the assets linked to financial liabilities at fair value are classified (investments relating to policies issued by insurance companies where the investment risk is borne by the policyholders and those arising out of pension fund management).

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

Available-for-sale financial assets

Investments classified as securities available for sale are measured at fair value. The differences compared with the carrying amount must be recognised in the equity in a specific reserve for unrealised profits/losses (net of tax).
The fair value of available-for-sale securities is calculated, in descending order of priority, on prices recorded in active markets, on prices provided by market 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 at the reporting date.
The amortised cost of the debt securities in this category calculated according to the effective rate of return is recorded in the income statement. The comparison with the fair value is made after the proportion of the amortised cost for the year has been recognised.
This category includes strategic investments (less than 20% of the share capital, of commercial or company strategic importance), the securities arising out of the securitisation transactions carried out by UGF Banca and the holdings held for the purpose of merchant banking activities.

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 measured at cost (net of any impairment loss).

Held-to-maturity financial assets

Investments in securities held to maturity are recognised at amortised cost, net of any impairment losses.

The Group classifies most of the fixed-yield bonds acquired to match special Life tariffs in this category, and also bonds that the Group has the intention and the financial capacity to hold to maturity.

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 loans to customers and banks of the Banking Group.

This category includes loans and credit facilities issued by the insurance companies, reinsurers' deposits, loan repo contracts, term deposits exceeding 15 days, receivables for agents' recoupments, unlisted debt securities largely subscribed by the Group and debt securities reclassified following application of IAS 39 paragraphs 50D and 50E.

It also includes bonds that can be converted into unlisted shares held for the purposes of merchant activities, subject to the implicit derivative being unbundled.

In accordance with the provisions of IAS 39 loans and receivables must be initially recognised at their fair value, which corresponds to the amount granted including the transaction costs and the commissions and fees chargeable directly.

Following the initial recognition receivables are measured at the amortised cost, which is represented by the initial carrying amounts net of repayments, plus or minus any difference between the initial amount and the value on maturity because of depreciation calculated in accordance with the criterion of effective interest method and less any impairment loss or reduction due to irrecoverability.

Applying the effective interest method enables the financial effect of a loan transaction to be spread evenly over its expected life, which makes financial sense. In fact the effective interest rate is the rate that discounts back all the future cash flows of the loan and establishes a present value corresponding to the value granted including all the transaction costs and income pertaining to it. When the cash flows and the contractual term of the loan are being estimated, all the contractual terms that can affect the amounts and the maturity dates (for instance, early repayments and the various options that may be exercised) are taken into account but not the losses expected on the loan. Following initial recognition, 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 interest rate does not vary over time and is also used in the case of any contractual amendments to the interest rate or events which have rendered the loan non-interest bearing (for instance, due to insolvency proceedings).

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

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

In particular, in the case of loans and receivables in the banking sector, which make up a large part of this category, measurement procedures differ depending on whether the loans are performing or non-performing.

Loans are considered to be non-performing if they are deemed to be doubtful, substandard or restructured loans, or if they are more than 180 days overdue, in accordance with current Bank of Italy instructions. These non-performing 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 (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 present value of the loan ascertained in this way and its carrying amount (amortised cost) at the time it is measured constitutes an adjustment, and that is recorded in the income statement.

The original value of the loans is restored in subsequent years only in the event that the reasons that led to the loss in question being recognised no longer exist. Impairment losses can be reversed 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 had been applied without prior impairment 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 collectively according to standardised category of credit risk based on type of customer and type of product. The value of the intrinsic 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 adjustments made in accordance with the collective method are recognised in the income statement. In subsequent periods any additional adjustments or reversals of impairment losses 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 rewards pertaining to them. If this is not the case receivables continue to be recognised even though ownership of them has been legally transferred.
The presumption is that all the risks and rewards 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 rewards 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 rewards (in the event that the Group retains more than 10% but less than 90% of the risks/rewards) the receivables are eliminated provided 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 maintained in the financial statements in proportion to the level of residual involvement.

Fair value hierarchy
When the fair value is being determined information must be provided for each class of financial instrument on the methods and, if a method of valuation is used, on the assumptions made to determine the fair value of each individual class of financial asset or liability. If there has been a change in the method of valuation, information must be provided on this change and on the reasons that led to it.
The *fair value* must be classified on a hierarchical scale that reflects the importance of the data used in making the valuations.

The hierarchical scale of fair value must be made up of the following levels:

- prices listed (not adjusted) on active markets for identical assets or liabilities (Level 1);
- input data other than the listed prices included in Level 1 that can be seen for each asset or liability, either direct (as in the case of the prices) or indirectly (i.e. derived from the prices) (Level 2); and
- input data relating to the asset or liability that are not based on observable market data (data that cannot be seen) (Level 3).

The following information must also be provided, inter alia, for each class of financial instrument:

- the hierarchical level of fair value that includes the valuations of fair value in their entirety, the valuations of fair value being subdivided in accordance with the three levels defined above;
- all transfers of significant amounts between Level 1 and Level 2 of the hierarchical scale of fair value and the reasons for these transfers;

– in the case of valuations of fair value on Level 3 of the hierarchical scale of fair value, a reconciliation of the initial and final balances.

Reclassifying available-for-sale assets as held-to-maturity investments
In the event that an available-for-sale financial asset is transferred to the category of held-to-maturity investments, the fair value recognised on the date of transfer becomes its new cost or amortisable cost. Any previous profit or loss on this asset that has been recognised in the equity directly is recognised through profit or loss throughout the remaining useful life of the investment held to maturity using the criterion of effective interest.

Reclassifications – IAS 39
If a financial asset is no longer held for sale or repurchase in the short term (although the financial asset may have been acquired or held mainly for sale or repurchase in the short term), it may be transferred from fair value through profit or loss if the following requirements are met:
- the circumstances must be very unusual (para. 50B), or
- the asset to be reclassified would have come under 'loans and receivables' (if the financial asset had not had to be classified as held for trading when initially recognised) and the entity has the intention and the ability to hold the financial asset for the foreseeable future or to maturity (para. 50D).

A financial asset classified as available for sale that would have come under loans and receivables (if it had not been designated as available for sale) may be transferred from 'available for sale' to 'loans and receivables' if the entity has the intention and the ability to hold the financial asset for the foreseeable future or to maturity (para. 50E).

If an entity transfers a financial asset from fair value through profit or loss or from 'available for sale' it must reclassify the financial asset at its fair value on the date of reclassification and the profit or loss already recorded in the income statement must not be reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost (para. 50C and 50F).

In the case of a financial asset transferred from 'available for sale', the previous profit or loss on the asset recorded in the shareholders' equity direct must be amortised in the income statement throughout the asset's remaining useful life using the criterion of actual interest.

If the entity has transferred a financial asset from fair value through profit or loss or from 'available for sale', the following is some of the information that must be provided (IFRS 7):
- the amount transferred from and to each category;
- for each year until it is derecognised, the carrying amount and the fair value of all financial assets reclassified during the current and preceding year;
- whether a financial asset was reclassified in accordance with paragraph 50B, however unusual the situation, and the facts and the circumstances of the usual situation;
- for the financial year in which the financial asset was reclassified, the gain or loss on the financial asset in terms of fair value;
- for each year following reclassification (including the year in which the financial asset was reclassified) until the financial asset is derecognised, the gain or loss in terms of fair value that would have been recognised if the financial asset had not been reclassified.

Impairment policy for financial assets adopted by the UGF Group

IAS 39, para. 58, provides that on each reporting date companies must check whether there is any objective evidence that a financial asset or a group of financial assets is impaired.
In order to determine whether a financial asset or a group of financial assets is impaired, it must be periodically impairment-tested. Indicators of a possible impairment are, for instance, the issuer's

significant financial difficulties, failure to pay the full amount of interest or principal, the possibility of the beneficiary becoming bankrupt or entering into an arrangement with its creditors and the disappearance of an active market for the asset. In addition, in accordance with Article 2428 para. 61 of IAS 39, a 'significant or prolonged' decline in the fair value of an equity investment in an instrument below its cost must be considered to be 'objective evidence of impairment'.

Impairment tests are carried out by the Group Finance Department on the whole of the Group's consolidated portfolio using a proprietary operating system (SOFIA), which includes an application specifically for this purpose.
Following publication of the Banca d'Italia, CONSOB and ISVAP Joint Document on 3 March 2010 and in compliance with the instructions in it drawn up in the wake of the document published by IFRIC in July 2009, as from 2009 the Group changed from its previous impairment policy, eliminating qualitative valuations that were used in addition to first-level quantitative analysis based on thresholds of 'significance' or 'permanence'.

Therefore in the case of equities the impairment test was carried out by selecting all the securities to which at least one of the following conditions applies:

a) the market price has remained below the initial recognition amount for the last 36 months;

b) the decrease in value on the reporting date is more than 20% of the initial recognition amount.

In the case of the aforementioned securities the evidence of impairment was deemed to be confirmed and the total variation in fair value was recognised in the income statement with the AFS reserve relating to these securities being written off.

In the case of debt securities, whenever payment of a coupon or repayment of principal is late or missed and this is confirmed by the custodian bank, the Group Finance Department immediately notifies the relevant Risk Management Department of the need to recognise any impairment losses on these securities.

Derivatives
Derivatives are initially recognised at the purchase cost representing the fair value and subsequently measured 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 future cash flows.

Derivatives may be classified as 'trading' or 'hedging'. In the case of hedging transactions IAS 39 provides for cumbersome and complex rules for drawing up appropriate documentation to be used to check the effectiveness of the hedge from the time it is activated and throughout its entire term (hedge accounting).
Operations on both fair value hedges and cash flow hedges were in existence at 31 December 2009.
The other financial derivatives are classified as 'trading'

Costs linked to share capital increases
Costs directly attributable to issuing equity are deducted from the capital net of tax.

2.5 Cash and cash equivalents – IAS 7

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

2.6 Contingent assets and liabilities – IAS 37

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

In the consolidated statement of financial position the assets of the company to be sold are reclassified in a single item known as 'Non-current assets held for sale or disposal group' (item 6.1 of the Assets) whilst the corresponding liabilities are similarly reclassified in a single item known as 'Liabilities associated with a disposal group held for sale' (item 6.1 of the Liabilities). Both items appear in the consolidated financial statements net of operations within the group involving the company to be sold.
The income statement items are shown in accordance with the normal rules of consolidation on a line-by-line basis.

2.8 Insurance contracts– IFRS 4

Classification of contracts

Insurance contracts that come under IFRS 4 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 present 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 participation features.

All the Non-Life policies in the portfolio at 31 December 2009 were classified as insurance contracts.

As in the previous year, the principal criteria used for classifying Life products as insurance policies were:

- the presence of a significant insurance risk, i.e. the reasonable possibility that the occurrence of the insured event would 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 has been 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 participation features (DPF) 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, contracts subject to revaluation and linked to separately-managed businesses 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, whereas an investment contract may be subsequently classified as an insurance contract if the necessary conditions arise.

However, the following types of contract have been 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 but are measured and recognised 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;
- capitalisation, where funding is specific and the technical rate is zero.
- pension funds with guaranteed benefit when the policy matures or when certain events occur.

In the case of unit-linked products the loading and the acquisition commissions relating to the asset management service are recognised and amortised separately throughout the term of the contract. In the case of index-linked policies, which are not managed over time but only administered, it is not necessary to carry out these deferments.

2.9 Non-Life business technical provisions

Provision for premiums

The direct insurance premium provision is established analytically for each policy using the pro rata temporis, on the basis of the gross premiums accounted for less acquisition commissions and the other acquisition costs that are chargeable directly. In the case of long-term contracts the amount of amortisation for the year is deducted.

Under certain conditions the provision for premiums also includes the provision for premiums for unexpired risks, calculated in accordance with the simplified method laid down in Article 10 of ISVAP Ruling 16 of 4 March 2008, which is based on the expected loss ratio for the year, adjusted on a prospective basis.

In the case of Credit insurance the flat-rate procedure provided for by the Ministerial Decree of 23 May 1981 was applied to premiums received before 1992, whilst the pro rata temporis method has been applied to contracts issued from 1992 onwards.

In the case of Bond insurance the provision for premiums has been calculated using the pro rata temporis method combined with the criteria laid down by ISVAP Ruling 16.

The total amount allocated to this provision is sufficient to meet costs arising from the portion of risk pertaining to subsequent years.

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

Ageing provision

The ageing provision is calculated at a flat rate of 10% on Health policies in the portfolio that have the features provided for by Article 46 of ISVAP Ruling 16.

Claims provision

The claims provision 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 is enough to meet the claims to be settled and the relative direct expenses and settlement expenses.

The figures ascertained in this way are analysed and checked by Head Office. Subsequently, in order to take account of all reasonably foreseeable future charges, actuarial statistical methods are used to determine the final level of the claims provision.

The claims provision also includes the amounts set aside for claims incurred but not reported, based on past experience of IBNR for previous years.

The reinsurers' share of the claims provision reflects the sums recovered from them to meet the reserves, the amounts being laid down in the individual policies or in the contracts.

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 means 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.

Provision for premiums

The provision for fractions of premiums was consolidated by totalling the values of the individual companies according to class of business. In order to monitor the adequacy of these provisions unexpired risks were calculated for each individual company and each individual class using the simplified method provided for in ISVAP Ruling 16, Article 11, claims for the year being deemed to be the final cost, which implies that future payment flows have been checked (LAT on the claims provision).

The need to supplement the provisions for premiums emerged in the case of the following classes in particular: Miscellaneous damage to property, Health, Marine – Property damage and Pecuniary losses, and these amounts were recognised.

Claims provisions

In order to monitor the adequacy of the insurance liabilities in the case of the 'Claims provision' the values of the individual companies were consolidated at class level and MV TPL, General TPL, Motor vehicles – own damage or loss, Accident and Health, Fire and Miscellaneous Damage, Credit and Bonds and Other lines of business were added together.

Assistance was excluded from the analysis since it has a particularly high rate of settlement.

The figures collected in the same way for the purpose of constructing the projection models, with features required to develop the LAT, were available as from 1998 whereas claims made in previous years (1997 and previously) were excluded from the analysis.

Total claims provisions for direct business, net of Assistance (€4,1m), amounted to €5,933m at 31 December 2009.

Provisions for previous years totalled €236m, therefore 96% of the claims provisions was taken into account for valuation purposes.

Ageing provision

The ageing provision is a specific provision to be accrued for long-term health policies where the premium is not based on increasing age.

The number of such policies as a proportion of the Group total was negligible. The provision set aside was calculated using the lump sum method. No LAT was carried out on this type of provision.

2.10 Life business technical provisions

The amount recognised is calculated in accordance with the provisions of Article 36 of Legislative Decree 209 of 7 September 2005 (Insurance Code) and ISVAP Ruling 21 of 28 March 2008.

Direct insurance provisions

The direct insurance provision for direct assurance is calculated analytically for each contract on the basis of pure premiums, with no deductions for policy acquisition costs, and by reference to the actuarial assumptions (technical interest rates, demographic models of death or disability) used to calculate the premiums on existing contracts.

The mathematical provision includes the portion of pure premiums in relation to the premiums accrued during the year. It also includes all the revaluations made under the terms of the policy and is never less than the surrender value.

In accordance with the provisions of Article 38 of Legislative Decree 173/1997, technical provisions, which are set up to cover liabilities deriving from insurance policies where the yield is based on

investments or indices for which the policyholder bears the risk, and provisions arising out of pension fund management, are calculated by reference to commitments made under these policies and to the provisions of Article 41 of Legislative Decree 209 of 7 September 2005. In the case of index-linked policies in particular the mathematical provisions are calculated on the basis of the price of the underlying securities, whilst in the case of unit-linked policies the mathematical provisions are calculated by multiplying the number of units by the price of the funds concerned on the date they are calculated.
In the case of Pension Funds, particularly policies that offer a guaranteed minimum return on payments when the policy matures 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 the result on the date the provisions are calculated.
The mathematical provisions are calculated analytically for each individual contract taking into account the policies in force at the reporting date, their respective start dates and all the liabilities assumed under the policies.
As laid down in Article 36, para. 3, of Legislative Decree 209 of 7 September 1997, the provision for sums payable includes the total amount needed to cover payment of benefits that have fallen due but not so far been paid, surrendered policies and claims not yet paid.
The provision for profit participation and reversal was set up to cover the Company's commitment to allocate to certain contracts on a temporary group tariff in the event of death and/or disability sums accrued during the year as technical profits arising from the yield on individual contracts.
Other technical provisions consist almost entirely of amounts set aside for operating expenses and are calculated on the basis of the provisions of Article 31 and Article 34 of ISVAP Ruling 21 of 28 March 2008.

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

Supplementary provisions based on demographics (Article 50 of ISVAP Ruling 21)
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 coefficients of conversion into an annuity.
This supplementary provision has been calculated by the companies in the Group comparing the demographics used in the tariff with the latest demographic tables such as the RG48, which shows details of both sexes separately, the IPS55 for men and the SIMPS71. Coefficients that reflect each individual company’s propensity to choose the annuity offered are applied to the levels of provision obtained in this way.

Additional provisions
Under Article 38, para. 3, of Legislative Decree 173/1997, the mathematical provision includes provisions set up to hedge the risk of mortality in insurance contracts in Class III (as laid down in Article 2, para. 1, of Legislative Decree 209 of 7/9/1995), which provide a benefit should the insured party die during the term of the contract. In the case of insurance contracts in Class III and Class VI the mathematical provision also includes the provisions set up to fund guaranteed benefits on maturity or when certain events occur (as laid down in Article 2, para. 1, of Legislative Decree 209 of 7/9/2005).

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

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 company. This amount, which remains valid throughout the life of the contract, has been set aside for the remaining period of each individual contract.

Additional provisions for temporary mismatching (Article 37 of ISVAP Ruling 21)
These provisions are used as a hedge against the financial effects of fluctuations in the returns on separately-managed accounts and take account of the part of the return to be retroceded to the policies that because of the temporary mismatch is not covered by the return on the investments and that is expected to be obtained during the same period.
This provision is important in the case of separately-managed accounts that provide for only one annual rate of return, retroceded/paid to policyholders for each subsequent period of twelve months.

Additional provision for financial risks (Articles 47 and Article 48 of ISVAP Ruling 21)
The mathematical provisions were combined with an item held as a hedge against a possible discrepancy between the expected rates of return on the assets held as a hedge against the technical provisions linked to separately-managed accounts and commitments by way of levels of financial guarantees and adjustments made to the benefits provided under the policies.

Tests have also ascertained that these provisions are also sufficient to satisfy the liability adequacy test provided for in IFRS 4.

Provision for shadow accounting
The shadow accounting technique set out in IFRS 4 enables the unrealised capital losses and/or gains on the underlying assets to be recorded as technical provisions for insurance or investment contracts that offer discretionary participation features as if they had been realised. This adjustment is recognised in the equity or in the income statement depending on whether the capital losses or capital gains in question are recorded in equity or in the income statement.
Net capital losses are recognised in the provision for deferred financial liabilities to policyholders only after the guaranteed minimum has been reached, otherwise the company continues to bear them in full. Capital losses are quantified using a financial prospective method in line with Chapter I of ISVAP Regulation 21 dated 28 March 2008.
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 economic substance of the transactions in question.

2.11 Financial liabilities – IAS 39

This item includes the financial liabilities at fair value through profit or loss and the financial liabilities measured at amortised cost.

Financial liabilities 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 negative items on derivatives and bank trading liabilities;
- financial liabilities to be measured 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 participation feature.

Financial liabilities at amortised cost
This item includes interbank payables and payables to bank customers, deposits received from reinsurers, debt securities issued, other loans obtained and liabilities on Life policies with a financial

content where the insurance risk is less than 10% and where there is no discretionary participation feature (some types of product matched by specific funding).

2.12 Deferred tax assets and liabilities – IAS 12

Whenever there is a temporary difference deferred tax assets are recognised insofar as there is a probability that taxable income for which they can be used will be achieved, except in 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 recognised whenever there is a taxable temporary difference, except in the cases provided for in paragraph 15 of IAS 12.

Deferred tax assets and liabilities must be measured 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 settled), based on the tax rates (and the tax legislation) laid down in rulings in force or substantially in force at the reporting date.

In the event of variations in tax rates, despite being prior year items the deferred taxes recalculated in accordance with the new rates are recognised under Taxes in the income statement or under the equity reserves to which the temporary variations in question apply.

If revaluations of assets carried out solely for tax purposes relate neither to an accounting revaluation for a previous year nor to one that is to be carried out in a subsequent year, the tax effects of the adjustment for tax purposes must be recorded in the income statement.

2.13 Employee benefits – IAS 19

The post-employment benefits accrued by 31 December 2006 that have not been transferred to external bodies in accordance with the provisions of Legislative Decree 252/05 relating to supplementary pension schemes comes under the category of employee benefits classified as a defined benefits plan. The amount due to employees has therefore been calculated using actuarial techniques and discounted at the reporting date, using the 'Projected unit credit method' (a method based on benefits accrued in proportion to length of employment).

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

2.14 Income

Net premiums

This item includes the premiums relating to insurance contracts and financial instruments that include discretionary participation features, net of ceded premiums.

Premium is recognised at the time it is due. The total for the year is obtained by adding the provision for premiums.

Commissions and income

This item includes commissions and income for financial services provided. It includes commission income arising out of banking business and the loadings for the year relating to Life policies where the insurance risk is below 10% and where there is no discretionary participation feature. In the case of unit-linked policies in particular the acquisition loadings relating to the asset management service provided have been recognised and deferred throughout the term of the contract.

Net gains on remeasurement of financial instruments at fair value through profit or loss

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

Gains on investments in subsidiaries, associates and joint ventures

This item includes investments in subsidiaries, associates and joint ventures recognised in the corresponding asset item.

Gains on financial instruments and other investments
This item includes gains on investments that do not come under the previous two categories. Mainly included are interest receivable on 'Loans and receivables' and on securities classified as available-for-sale financial assets and held to maturity, other investment income, including dividends and rental income from property held for investment purposes, and gains on the sale of financial assets or liabilities and investment property.

Other income
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 property, plant and equipment, investment property and other assets. It also includes other net technical income on insurance contracts, exchange rate differences allocated to the income statement as per IAS 21, realised gains and reversals of impairment losses on property, plant and equipment, investment property and other assets.

2.15 Expenses and losses

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

Commissions and expenses
This item includes commissions and expenses for financial services received. It includes the commissions arising out of banking business and the commissions relating to Life policies where the insurance risk is below 10% and where there is no discretionary participation feature. In particular, acquisition commissions paid for the placement of unit-linked policies are amortised throughout the term of the contract to meet deferred acquisition loadings.

Losses on investments in subsidiaries, associates and joint ventures
This item includes losses on investments in subsidiaries, associates and joint ventures recognised in the corresponding asset item.

Losses on other financial instruments and investment property
This item includes losses on investment property and financial instruments other than investments and financial instruments classified as 'Assets at fair value through profit or loss'. It mainly includes interest expense on financial liabilities, other investments expense on investment property such as condominium expenses 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 investment property, depreciation and impairment losses.

Operating expenses
This item includes commissions and other acquisition expenses relating to insurance contracts, investment management expenses, other administrative expenses and depreciation (overheads and personnel expenses that are not allocated to losses relating to claims, insurance contract acquisition expenses nor to investment management expenses).

Other losses
This item mainly includes other net technical costs relating to insurance contracts, additional amounts set aside during the year, exchange rate differences to be allocated to the income statement under

IAS 21, losses realised and depreciation relating to property, plant and equipment, investment property and intangible assets, not allocated to other loss items.

2.16 Income taxes

In accordance with Article 117 et seq. of Presidential Decree 917/86 and with the Ministerial Decree of 9 June 2004, UGF and the other subsidiaries that fulfil the requirements (UGF Assicurazioni, Linear, Navale Assicurazioni, Navale Vita, Midi and Smallpart) have opted for the Group consolidated taxation system (for the purposes of IRES) in their capacity as consolidated companies. The option applies to the financial years 2007, 2008 and 2009.
The parent for taxation purposes is Finsoe spa.
The companies listed above have signed an agreement with this Company relating to regulating the economic, financial and procedural aspects governing the option in question.
Consequently the losses/income linked to the transfer to the parent of the tax result for IRES purposes are recognised in the income statement in accordance with the relevant legislation, account being taken of the relevant exemptions, the tax credits due and the terms of the agreement with the parent.
IRAP for the year is also recorded under income taxes.

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

2.17 Earnings per share – IAS 33

Basic earnings per share are calculated by dividing the profit allocated to shareholders who hold ordinary shares in the Parent UGF by the weighted average of the number of ordinary shares outstanding during the year.
Diluted earnings per share are calculated by dividing the profit allocated to shareholders who hold ordinary shares in the Parent UGF by the weighted average of the number of any additional ordinary shares that would be outstanding if all the potential ordinary shares with dilutive effect were converted.
If the result is negative the loss (basic and diluted) per share is calculated.

2.18 Use of estimates

When drawing up the financial statements Management has had to formulate valuations, estimates and assumptions that affect the way the accounting standards are applied and the amounts of the assets, liabilities, costs and reserve recognised, although reliability is not affected. However, it should be noted that as these are estimates the results obtained will not necessarily be the same as those shown here.

These estimates and assumptions are regularly reviewed. Any variations revealed as a result of reviewing the estimates are recorded during the period in which the review is carried out and in relevant subsequent periods.

3. NOTES TO THE STATEMENT OF FINANCIAL POSITION

Comments and further information on the items on the statement of financial position and the variations that took place compared with the previous year are given below. (The numbering of the notes relates to the mandatory layout for the preparation of the statement of financial position).

ASSETS

1. Intangible assets

1.1 Goodwill

This item amounted to €1,853m (€1,767.4m in 2008) and was made up of:

- €1,335.6m of goodwill recognised as a result of business acquisitions (€1,249.8m in 2008):
  - €1,132.8m in the case of UGF Assicurazioni, unchanged since the previous year; this goodwill relates to Aurora Assicurazioni, which was merged into UGF Assicurazioni (formerly Unipol Assicurazioni) on 1 February 2009;
  - €126.3m in the case of the UGF Banca Group, an increase compared with the previous year of €85.9m for the higher amount paid for the acquisition of 15.47% by the subsidiary UGF Assicurazioni;
  - €17.1m in the case of the insurance company Linear, unchanged since the previous year;
  - €3,9m in the case of Unisalute, unchanged since the previous year;
  - €47.4m in the case of Bnl Vita, unchanged since the previous year;
  - €8m in the case of Navale Assicurazioni, unchanged since the previous year;
- Other goodwill amounting to €517.3m (€517.5m in 2008):
  - €97.8m of goodwill arising from the merger of Aurora Assicurazioni into UGF Assicurazioni, unchanged since the previous year;
  - goodwill of €418.9m generated by the acquisition of bank branches, which was unchanged compared the previous year;
  - €0.6m of other goodwill with a finite useful life (Life portfolios).

Goodwill with an indefinite useful life periodically tested for impairment in accordance with the procedure specifically approved by UGF SpA's Board of Directors showed no impairment loss. For information on the criteria used for the tests, you are referred to paragraph 5.1 of chapter 5 of this document, Other information.

1.2 Other intangible assets

This item amounted to €63.6m (€51.3m in 2008) and was made up of expenses for leasehold improvements, costs incurred for the acquisition of software and licences and consultancy and personalisation of software for implementing the new integrated Group system for general ledger, purchasing, management control and accounting.

2. Property, plant and equipment

At 31 December 2009 property, plant and equipment, net of accumulated depreciation, amounted to €595.8m (€572.5m at 31/12/2008), €544.3m of which owner occupied (€516.8m in 2008) and €51.5m was other assets (€55.7m in 2008). The increase in Property was due to the activities of the Group's two property companies, in particular creating the new head offices and carrying out building work on a site the Company owns on the outskirts of Bologna.

The variations that occurred after 31 December 2008 are set out in the following tables:

Owner-occupied property *Amounts in €m*	*Gross carrying amount*	*Accumulated depreciation and impairment losses*	*Net carrying amount*
Balance at 31/12/2008	571.6	-54.8	516.8
Increases	35.3		35.3
Depreciation for the year		-8.0	-8.0
Other variations		0.2	0.2
Balance at 31/12/2009	606.9	-62.6	544.3

Other assets *Amounts in €m*	*Office furniture, machinery*	*Movables entered in public registers*	*Plant and equipment*	*Total*
Balance at 31/12/2008	171.9	1.3	69.6	242.9
Increases	8.9	0.8	4.0	13.7
Decreases	-3.6	-0.4	-0.6	-4.6
Balance at 31/12/2009	177.2	1.7	73.1	252.0
Accumulated depreciation at 31/12/2008	137.2	0.8	49.2	187.2
Increases	7.9	0.2	7.5	15.6
Decreases	-1.7	-0.2	-0.5	-2.3
Accumulated depreciation at 31/12/2009	143.4	0.9	56.2	200.5
Carrying amount at 31/12/2008	34.7	0.5	20.4	55.7
Carrying amount at 31/12/2009	33.8	0.9	16.9	51.5

3. Technical provisions – Reinsurers' share

The balance on this item was €457.1m, a decrease of €76.5m compared with 2008. Details are set out in the relevant appendix.

4. Investments

At 31 December 2009 total investments (investment property, equity investments and financial investments) amounted to €39,765m (€35,422.1m as at 31/12/2008).

4.1 Investment property

Investment property at 31 December 2009 amounted to €196.8m (€223.9m at 31/12/2008). Most of the decrease was due to the sale of property.

The following changes occurred after 31 December 2008:

Investment property *Amounts in €m*			
	Gross carrying amount	*Accumulated depreciation and impairment losses*	*Net carrying amount*
Balance at 31/12/2008	242.4	-18.4	223.9
Increases	5.3		5.3
Decreases	-36.3		-36.3
Depreciation for the year		-1.8	-1.8
Other variations		5.6	5.6
Balance at 31/12/2009	211.4	-14.6	196.8

The present value of investment property, which amounts to €230.3m, has been based on independent expert valuations.

4.2 Investments in subsidiaries, associates and interests in joint ventures

At 31 December 2009 investments in subsidiaries, associates and interests in joint ventures amounted to €43.8m (€39.2m at 31/12/2008). Most of the variation since the previous year was due to the increase in UGF Banca Group's investments in associates.

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

Financial assets amounted to €39,524.4m at 31 December 2009 (€35,159m at 31/12/2008). The details, subdivided according to category and type of investment, are shown in the appendix Details of financial assets.

4.3 Held-to-maturity investments

This category mainly consists of fixed-yield bonds acquired to cover Life special tariffs, which the Group can and intends to hold to maturity. At 31 December 2009 these amounted to €1,779.7m (€1,813.4m at 31/12/2008).
The fair value of held-to-maturity investments as at 31 December 2009 amounted to €1,825.3m.
Held-to-maturity investments accounted for 4.5% of Financial assets.

4.4 Loans and receivables

These amounted to €14,785.8m (€13,711.6m at 31/12/2008) and were subdivided as follows:

Loans and receivables *Amounts in €m*					
	31/12/2009	*comp. %*	31/12/2008	*comp. %*	*var. %*
Debt instruments	4,443.0	*30.0*	4,151.3	*30.3*	*7.0*
Loans and receivables from bank customers	9,785.8	*66.2*	9,009.1	*65.7*	*8.6*
Interbank loans and receivables	371.4	*2.5*	275.0	*2.0*	*35.0*
Deposits with ceding companies	21.5	*0.1*	21.2	*0.2*	*1.5*
Other loans and receivables and Other financial assets	164.0	*1.1*	254.9	*1.9*	*-35.6*
Total loans and receivables	14,785.8	*100.0*	13,711.6	*100.0*	*7.8*

The fair value of Loans and receivables at 31 December 2009 was €14,657.8m.

The €291.7m increase in debt securities included the transfer of €272.7m of securities from Assets at fair value through profit or loss, which took place on 9 January 2009.
Other loans and receivables and Other financial assets included loans and credit facilities granted to employees and other bodies, loans on Life insurance policies, receivables from agents for portfolio recharges, loan repo contracts and term deposits exceeding 15 days.

Loans and receivables accounted for 37.4% of Financial assets.

4.5 Available-for-sale financial assets

Available-for-sale financial assets amounted to €15,313.8m at 31 December 2009 (€11,588.3m at 31/12/2008) and were made up as follows:

Available-for-sale financial assets *Amounts in €m*					
	31/12/2009	*comp. %*	31/12/2008	*comp. %*	*var. %*
Equity instruments at cost	197.5	*1.3*	220.4	*1.9*	*-10.4*
Listed equity instruments at fair value	1,837.0	*12.0*	1,340.7	*11.6*	*37.0*
Unlisted equity instruments at fair value	1.0	*0.0*	25.0	*0.2*	*-96.0*
Debt securities	13,082.7	*85.4*	9,869.5	*85.2*	*32.6*
OEIC units	195.6	*1.3*	132.7	*1.1*	*47.4*
Total available-for-sale financial assets	15,313.8	*100.0*	11,588.3	*100.0*	*32.1*

The increase was due both to the rise in value of the securities because of the upturn in the financial markets and to securities acquired during the year being classified in this category. No securities were reclassified as Available-for-sale financial assets nor transferred from that category in 2009.

Available-for-sale financial assets accounted for 38.7% of Financial assets.

4.6 Financial assets at fair value through profit or loss

These amounted to €7,645.1m at 31 December 2009 (€8,045.7m at 31/12/2008). €464.9m of them were assets held for trading (€868.7m in 2008) and €7,180.3m were assets designated by the Group to be measured at fair value (€7,177 in 2008). This second category included financial assets matching insurance or investment policies issued by the Group where the investment risk is borne by the policyholders and those arising from pension fund management.

Financial assets at fair value through profit or loss *Amounts in €m*					
	31/12/2009	*comp. %*	31/12/2008	*comp. %*	*var. %*
	(a)		(b)		(a/b)
Financial assets held for trading:					
Listed equity instruments at fair value	0.2	*0.1*	0.0	*0.0*	*795.1*
Debt securities	364.6	*78.4*	711.6	*81.9*	*-48.8*
OEIC units	90.3	*19.4*	46.0	*5.3*	*96.4*
Derivatives	9.7	*2.1*	111.1	*12.8*	*-91.2*
Total	464.9	*100.0*	868.7	*100.0*	*-46.5*
Financial assets at fair value through profit or loss:					
Listed equity instruments at fair value	24.5	*0.3*	15.4	*0.2*	*59.0*
Debt securities	5,867.7	*81.7*	5,514.8	*76.8*	*6.4*
OEIC units	1,204.0	*16.8*	1,536.3	*21.4*	*-21.6*
Derivatives	42.8	*0.6*	80.5	*1.1*	*-46.8*
Other financial assets	41.2	*0.6*	30.0	*0.4*	*37.3*
Total	7,180.3	*100.0*	7,177.0	*100.0*	*0.0*
Total financial assets at fair value	7,645.1		8,045.7		*-5.0*

€272.7m of assets were reclassified as Loans and receivables during the year. The securities were reclassified with effect from the date of transfer.

Financial assets at fair value through profit or loss accounted for 19.3% of Financial assets.

Information on the reclassified financial assets (IFRS 7 para .12-12A)

The information required by paragraphs 12 and 12A of IFRS 7 is contained in the appendix Details of reclassified financial assets and of the effects on the income statement and overall profitability.

5. Sundry receivables

Sundry receivables amounted in full to €1,803.2m (€1,662.6m at 31/12/2008). This item is broken down as follows:

Sundry receivables *Amounts in €m*					
	31/12/2009	*comp. %*	31/12/2008	*comp. %*	*var. %*
Receivables relating to direct insurance business	1,018.9	*56.5*	990.3	*59.6*	*2.9*
Receivables relating to reinsurance business	74.6	*4.1*	148.1	*8.9*	*-49.6*
Other receivables	709.6	*39.4*	524.3	*31.5*	*35.3*
Total sundry receivables	1,803.2	*100.0*	1,662.6	*100.0*	*8.5*

Other receivables include, in particular, receivables from the Inland Revenue and from the ultimate parent for tax purposes, Finsoe, of €296.2m and €213.6m respectively.

6. Other assets

This item is broken down as follows:

Other assets *Amounts in €m*	31/12/2009	*comp. %*	31/12/2008	*comp. %*	*var. %*
Non-current assets held for sale	0.4	*0.0*	1.4	*0.1*	*-69.7*
Deferred acquisition costs	26.3	*2.9*	41.1	*3.6*	*-36.1*
Deferred tax assets	549.1	*60.9*	681.8	*59.4*	*-19.5*
Current tax assets	85.5	*9.5*	52.7	*4.6*	*62.2*
Other assets	240.4	*26.7*	370.1	*32.3*	*-35.0*
Total other assets	901.7	*100.0*	1,147.1	*100.0*	*-21.4*

Details of deferred tax assets are given in the section on income tax.
Other assets include deferred commission expense, prepayments and accrued income and miscellaneous items to be settled.

7. Cash and cash equivalents

At the end of the year this item amounted to €221.5m (€344.6 compared with 31/12/2008).

LIABILITIES

1. Equity

1.1 Equity attributable to the owners of the Parent

Equity, excluding the amounts attributable to non-controlling interests, is divided up as follows:

Equity attributable to the owners of the Parent *Amounts in €m*	31/12/2009 (a)	31/12/2008 (b)	*var.* (a-b)
Share capital	2,391.4	2,391.4	*0.0*
Other equity instruments	0.0	0.0	*0.0*
Equity-related reserves	1,419.6	1,419.7	*-0.1*
Income-related and other reserves	929.1	833.2	*95.9*
(Treasury shares)	-0.1	-0.1	*0.0*
Translation reserve	0.0	0.0	*0.0*
Gains/losses on available-for-sale financial assets	-393.4	-1,325.5	*932.0*
Other gains and losses recognised in equity directly	10.7	21.3	*-10.6*
Profit (loss) for the year	-771.9	92.6	*-864.5*
Total equity attributable to the owners of the Parent	3,585.3	3,432.7	*152.7*

At 31 December 2009 the fully paid up share capital of the Parent Unipol Gruppo Finanziario amounted to €2,391.4m and was made up of 1,479,885,786 ordinary shares and 911,540,314 preference shares.

Movements recorded during the year compared with the previous year are set out in the attached statement of changes in equity.

There was an increase of €932m in the gains and losses on available-for-sale financial assets. The improvement was related to the upturn in the financial markets but in particular was due to the adjustment made to the Group's impairment policy, described in paragraph 2 of these Notes to the Accounts, as a result of which €798.1m of impairment losses resulting from falls in value of shares were recorded as at 31 December 2009 (€96.4m as at 31/12/2008). These write-downs were therefore transferred from the gains and losses on available-for-sale assets to the income statement under inventory losses on other financial instruments, without affecting Group equity. Details of the result of the analysis carried out on the Group's share portfolio at 31 December 2009 are given in paragraph 4 – Notes to the Income Statement, 2.4 – Losses on other financial instruments and investment property.

Income-related and other investment reserves include the differences arising from offsetting the carrying amount of investments against the corresponding fraction of the equity of the consolidated companies, after allocations to these companies' assets and to goodwill. This item also includes the consolidation adjustments made in accordance with the Parent's accounting policies and as a result of the elimination of intercompany dividends.

Treasury shares or quotas
UGF and UGF Assicurazioni held a total of 86,642 UGF ordinary shares at 31 December 2009.

2. Provisions

Provisions totalled €101.1m at 31 December 2009 (€80.8m at 31/12/2008). Most of the increase was due to provisions for litigation, ISVAP penalties and leaving incentives.

The following relates to contingent liabilities:

– *UGF Banca executing orders on financial transactions:* in November 2007 and July 2009 several UGF Banca customers instituted civil and criminal proceedings relating to alleged irregularities and illicit activities carried out by UGF Banca while dealing in financial derivatives. The petitioners submitted a counterclaim for a total of €67m. The preliminary criminal hearings concluded in April 2009 with the Public Prosecutor applying for the case to be dismissed, which the petitioners opposed. Deeming the opponents to have no case, UGF Banca also applied for the civil case to be dismissed and made a counterclaim for payment of debts arising from the petitioners' current accounts with UGF Banca.

– *Parmalat – UGF Banca insolvency procedure*: in December 2004, as part of the collective creditor action against the Parmalat Group, the Parmalat Special Administration brought a revocatory action under Article 67 of the Bankruptcy Law against UGF Banca and all the lenders that had ever had any dealings with this food group amounting to approximately €47m. The Bank considered that this amount was liable to be reduced in view of the fact that certain operations were not subject to a revocatory action. Nevertheless €1.3m was added to the relative provision for risks so that at 31 December 2009 it amounted to €3m (€1.7m in 2008), gross of discounting back, this amount being deemed commensurate with the value of transactions already finalised between Parmalat and other lenders.

3. Technical provisions

These amounted in full to €28,286.4m (€25,298.4m at 31/12/2008). The breakdown and relative variations are shown in the following table:

Technical provisions *Amounts in €m*	31/12/2009	*comp. %*	31/12/2008	*comp. %*	*var. %*
Non-Life premiums	1,534.5	*20.4*	1,568.8	*21.2*	
Non-Life claims	5,957.9	*79.2*	5,797.6	*78.4*	
Other Non-Life technical provisions	25.5	*0.3*	24.2	*0.3*	
Total Non-Life provisions	7,517.9	*100.0*	7,390.6	*100.0*	*1.7*
Life mathematical provisions	15,631.6	*75.3*	13,072.1	*73.0*	
Provision for payable amounts (Life business)	116.0	*0.6*	103.1	*0.6*	
Technical provisions where the investment risk is borne by policyholders and arising from pension fund management	5,227.5	*25.2*	5,099.7	*28.5*	
Other Life technical provisions	-206.6	*-1.0*	-367.0	*-2.0*	
Total Life provisions	20,768.5	*100.0*	17,907.8	*100.0*	*16.0*
Total technical provisions	28,286.4		25,298.4		*11.8*

4. Financial liabilities

The financial liabilities amounted to €12,198.4m (€10,894.5mat 31/12/2008). Details are set out in the relevant appendix.

4.1 Financial liabilities at fair value through profit or loss

This item, which totalled €2,104.5m (€2,377m in 2008), was subdivided into €117.2m of financial liabilities from trading (€222.3m in 2008) and €1,987.3m of financial liabilities to be recognised at fair value through profit or loss (€2,154.7m in 2008). The latter category included investment policies issued by insurance companies where the investment risk was borne by the policyholders and the insurance risk borne by the Group did not exceed 10% (several types of Class III, Class V and Class VI policy).

4.2 Other financial liabilities

Details are set out in the table below:

Other financial liabilities *Amounts in €m*	31/12/2009	comp. %	31/12/2008	comp. %	var. %
Subordinated liabilities	1,612.5	*16.0*	1,278.0	*15.0*	*26.2*
Liabilities from financial contracts issued by insurance companies	52.3	*0.5*	136.7	*1.6*	*-61.8*
Deposits received from reinsurers	178.3	*1.8*	190.4	*2.2*	*-6.3*
Debt securities listed	2,707.6	*26.8*	652.8	*7.7*	*314.8*
Payables to banks	5,121.7	*50.7*	5,565.5	*65.3*	*-8.0*
Interbank payables	421.6	*4.2*	694.2	*8.1*	*-39.3*
Total other financial liabilities	10,093.9	*100.0*	8,517.5	*100.0*	*18.5*

There were €1,612.5m of subordinated liabilities issued by Group companies at 31 December 2009 (€1,278m at 31/12/2008), a nominal €1,000m of which had been issued by UGF Assicurazioni, a nominal €38m repurchased and a nominal €654m issued by UGF Banca.

The following subordinated liabilities were issued by UGF Assicurazioni:

1) €400m of loans granted in May 2008 by Mediobanca – Banca di Credito Finanziario S.p.A, perpetual but reimbursable early, subject to the authorisation of the Supervisory Authority, after the tenth year. The loan bears interest at the 6-month Euribor rate plus a spread of 250 b.p. During June a policy to hedge the rate risk was taken out that will take effect as from May 2010. The loan has a level of subordination comparable to Tier I;
2) €300m of subordinated bond loan issued originally by UGF, over 20 years and with the option of early repayment, subject to the authorisation of the Supervisory Authority, as from the tenth year. The loan, which is listed on the Luxembourg Stock Exchange, bears interest at an annual fixed rate of 7% until June 2011 (earliest date on which the early repayment clause may be exercised); subsequently the loan bears interest at the 3-month Euribor rate plus a spread of 250 b.p. The loan has a level of subordination comparable to Tier II. UGF Assicurazioni took over the role of issuer on 5 August 2009;
3) €300m of subordinated bond loan issued originally by UGF, over 20 years and with the option of early repayment, subject to the authorisation of the Supervisory Authority, as from the tenth year. The loan, which is listed on the Luxembourg Stock Exchange, bears interest at the

annual fixed rate of 5.66% until July 2013 (earliest date on which the early repayment clause may be exercised); subsequently the loan bears interest at the 3-month Euribor rate plus a spread of 250 b.p. The loan has a level of subordination comparable to Tier II. UGF Assicurazioni took over the role of issuer on 29 December 2009.

The unlisted subordinated bond loans issued by UGF Banca, of which €639.5m is outstanding have the following maturity dates:

Nominal amount outstanding	Year of maturity	Rate
25.0m	2010	Floating rate: euribor 3m + 0.10 b.p.
10.0m	2010	Fixed rate: 4%
25.0m	2011	Fixed rate: 3.6%
50.0m	2015	Fixed rate: 3.6%
15.0m	2017	Fixed rate: 4.4%
76.6m	2017	Floating rate: euribor 3m + 0.20 b.p.
7.0m	2017	Fixed rate: 4.8%
56.8m	2017	Floating rate: euribor 3m + 0.30 b.p.
25.0m	2019	Fixed rate: 4.5%
49.1m	2019	Fixed rate: 4.5%
300.0m	2019	Floating rate: 1st coupon 7.15%, subsequent coupons: average quarter euribor 3m + 640 b.p.

The level of subordination is comparable to Tier II.

€2,707.6m of debt securities were issued (€652.8m at 31/12/2008). The increase was attributable both to the classification under this item, since 2009, of securitisation securities previously classified as Payables to bank customers (securitisation securities amounting to €882m at 31/12/2009, €1,136m in 2008) and to the issue by UGF of two bond loans with the following features:

- €175m – unsecured senior bond loan issued on 1 July 2009, with a three-year term. The loan, which is unlisted, bears interest at an annual fixed rate of 5.25%;
- €750m – unsecured senior bond loan issued on 11 December 2009, with a seven-year term. The loan, which is listed on the Luxembourg Stock Exchange, bears interest at an annual fixed rate of 5%.

Transactions to streamline the structure of the sources of finance

The following transactions were carried out during the year as part of the process of streamlining the structure of the UGF Group's sources of finance:

- during June 2009 UGF made a voluntary public offer for the entire subordinated bond loan known as 'UGF 5.66% fixed/floating callable' maturity date 2023, issued in 2003 with a nominal amount of €300m. The bid, resolved by UGF's Board of Directors on 4 June 2009 at a price of €87.5 for each €100 of nominal amount, was made with the aim of both optimising the structure of the Group's sources of finance, taking account of the fact that they are used to calculate the consolidated solvency margin and of the recent trend in financial markets, which had made it financially sensible to tackle this rationalisation in this way, and of making it possible to adjust UGF's debt instruments to recent developments in insurance legislation, which, inter alia, do not permit insurance companies to give guarantees to their parents. The public offer, which concluded on 9 July 2009, received subscriptions for a nominal amount of €38.3m or 12.77% of the total.
- in 1 July 2009 UGF issued a senior bond loan for €175m, which had been resolved by the Board of Directors on 25 June 2009. The loan, which is not expected to be listed, was issued at par, will be for three years and will earn interest at an annual fixed rate of 5.25%. The issue,

which was fully subscribed during June by private placement, was sold through UGF Merchant S.p.A. to qualified investors, including the holding Finsoe S.p.A. and Holmo S.p.A. The issue provides cash to fund the strategies of the companies in the UGF Group and the work to rationalise the equity structure of the Group itself.

- after having received the required authorisation from the relevant supervisory authorities and also, in the case of the UGF 5.6% subordinated bond loan maturing in 2023, authorisation from the Bondholders' Meeting, UGF took over from the subsidiary UGF Assicurazioni as issuer of the UGF 7% subordinated bond loan maturing in 2021 and the 5.66% loan maturing in 2023, each of which has a nominal amount of €300m, on 5 August 2009 and 29 December 2009 respectively. In addition to strengthening the equity structure of the subsidiary UGF Assicurazioni with subordinate resources, these transactions, which were resolved by the Board of Directors on 12 February 2009, made it possible to withdraw the subordinate guarantees provided to the bondholders during 2007 by UGF Assicurazioni (then Unipol Assicurazioni S.p.A.) and Aurora Assicurazioni S.p.A. (merged into UGF Assicurazioni on 1 February 2009) which, following the coming into force of ISVAP Ruling 19 of 14 March 2008, no longer complied with legislation;
- on 4 December 2009 UGF completed the placement of a senior bond issue for a nominal amount of €750m, at an issue price of 99.314, all of it with institutional investors. The issue, which was approved by UGF's Board of Directors on 12 November 2009, forms part of a Euro Medium Term Notes (EMTN) scheme for a maximum of €2bn and is intended to streamline the UGF Group's debt structure, enabling it to be refinanced and the average duration to be extended. The loan, which was listed on the Luxembourg Stock Exchange, has a seven-year term and bears interest at an annual fixed rate of 5%. Mediobanca and JP Morgan acted as joint lead managers and bookrunners and UGF Banca as co-lead manager.

5. Payables

Payables totalled €415.2m (€411.7m at 31/12/2008) and were made up of €55.4m of Payables from direct insurance business (€82.5m at 31/12/2008), €22.5m of Payables from reinsurance business (€21.7m in 2008) and €337.3m of Other payables (€307.5m at 31/12/2008), details of which are shown in the following table:

Other payables
Amounts in €m

	31/12/2009	comp. %	31/12/2008	comp. %	var. %
Policyholders' tax due	77.8	23.1	81.7	26.6	-4.9
Sundry tax liabilities	58.6	17.4	32.0	10.4	83.4
Trade payables	69.7	20.7	59.6	19.4	16.9
Post-employment benefits	56.7	16.8	69.7	22.7	-18.6
Social security charges payable	17.9	5.3	16.5	5.4	8.8
Sundry payables	56.6	16.8	48.0	15.6	18.0
Total other payables	337.3	100.0	307.5	100.0	9.7

6. Other liabilities

The item totalled €833.4m (€1,110.3m at 31/12/2008).

Other liabilities *Amounts in €m*					
	31/12/2009	*comp. %*	31/12/2008	*comp. %*	*var. %*
	(a)		(b)		(a/b)
Current tax liabilities	116.9	*14.0*	94.2	*8.5*	*24.0*
Deferred tax liabilities	204.7	*24.6*	296.5	*26.7*	*-31.0*
Commissions on premiums under collections	64.6	*7.8*	63.7	*5.7*	*1.4*
Deferred commission income	23.4	*2.8*	42.6	*3.8*	*-45.2*
Accrued expense and deferred income	3.5	*0.4*	8.0	*0.7*	*-56.7*
Other liabilities	420.5	*50.4*	605.2	*54.5*	*-30.5*
Total other liabilities	833.4	*100.0*	1,110.3	*100.0*	*-24.9*

Current tax liabilities mainly related to payables to the Inland Revenue for IRAP.
Details of deferred tax liabilities are contained in the paragraph relating to income tax.
Other liabilities included €118.8m of miscellaneous payables relating to banking business and €85.9m set aside for rappels to be paid to agents.

4. NOTES TO THE INCOME STATEMENT

Comments and further information on the items in the income statement and the variations that took place compared with the previous year are given below (the numbering of the notes relates to the mandatory layout for the preparation of the income statement).

INCOME

1.1 Net premiums

In 2009 net premiums were €9,420.4m, an increase of 24.1% compared with the previous year, owing to a rise in Life business.
Gross premiums amounted to €9,543.9m (+20.9% compared with 2008).

Net income *Amounts in €m*	2009	2008	*var. %*
Non-Life business - premiums	4,319.4	4,389.2	*-1.6*
Non-Life business - recognised premiums	4,285.4	4,380.5	*-2.2*
Non-Life business - changes in the provision for premiums	34.0	8.6	*292.9*
Life business - recognised premiums	5,224.6	3,503.0	*49.1*
Gross premiums	9,543.9	7,892.2	*20.9*
Non-Life business - ceded premiums	-106.2	-284.4	*-62.7*
Non-Life business - ceded premiums	-106.4	-278.6	*-61.8*
Non-Life business - changes in the provision - reinsurers' share	0.2	-5.8	*-103.5*
Life business - ceded premiums	-17.3	-16.9	*2.4*
Ceded premiums	-123.5	-301.3	*-59.0*
Total net premiums	9,420.4	7,590.9	*24.1*

1.2 Commission income

At the end of the year commission income amounted to €106.9m (€101.4m in 2008) and was represented by:

- commissions relating to banking business carried out by the bank companies of the Group amounting to €95.8m (€83.9m in 2008);
- commissions relating to investment policies issued by Group insurance companies (loadings) amounting to €11.1m (€17.5m in 2008);

1.3 Gains and losses on remeasurement of financial instruments at fair value through profit or loss

These amounted to €328.9m (-€328.1m in 2008) and were made up as follows:

Net gains from financial instruments at fair value through profit or loss *Amounts in €m*			
	2009	2008	*var. amount*
	(a)	(b)	*(a-b)*
From financial assets held for trading:			
Net interest income	11.7	122.9	*-111.2*
Realised gains/losses	-14.1	13.5	*-27.6*
Unrealised gains/losses	63.3	-259.4	*322.8*
Other gains/losses	-30.4	14.9	*-45.3*
Total	30.5	-108.2	*138.7*
From financial assets at fair value through profit or loss:			
Net interest income	118.1	156.4	*-38.3*
Realised gains/losses	15.1	-50.9	*65.9*
Unrealised gains/losses	464.9	-413.5	*878.5*
Other gains/losses	38.8	15.2	*23.6*
Total	636.9	-292.8	*929.7*
From financial liabilities held for trading:			
Realised gains/losses	-5.3	8.5	*-13.8*
Unrealised gains/losses	2.4	0.0	*2.4*
Total	-2.9	8.5	*-11.3*
From financial instruments at fair value through profit or loss:			
Unrealised gains/losses	-335.7	64.4	*-400.1*
Total	-335.7	64.4	*-400.1*
Total net gains - item 130	328.9	-328.1	*657.0*

The increase in net income from financial instruments at fair value through profit or loss is linked to the upturn in the financial markets during the year.
Unrealised losses on financial assets held for trading included €34.3m of losses on financial derivatives held as a hedge against variations in the fair value of bonds classified as available-for-sale assets, for which a hedge adequacy check was carried out.
€2.3m of Lehman Brothers securities classified as assets held for trading were also impaired in order to align their value to a recovery rate of 25% rather than the previous rate of 50%.

1.4 Gains on investments in subsidiaries, associates and interests in joint ventures

This item totalled €0.5m (€27.4m in 2008 being capital gain made on the sale of the Quadrifoglio Vita investment).

1.5 Gains on other financial instruments and investment property

These amounted to €1,368.5m (€1,624m in 2008) and were made up of:

Gains on other financial instruments and investment property *Amounts in €m*					
	31/12/2009	*comp. %*	31/12/2008	*comp. %*	*var. amount*
	(a)		(b)		(a-b)
Interest	1,091.1	*79.7*	1,324.8	*81.6*	*-233.7*
from held-to-maturity investments	74.3		83.9		*-9.6*
from loans and receivables	575.9		736.3		*-160.4*
from available-for-sale financial assets	435.7		495.0		*-59.4*
from sundry receivables	4.0		0.5		*3.5*
from cash and cash equivalents	1.3		9.0		*-7.8*
Other gains	69.9	*5.1*	96.2	*5.9*	*-26.3*
from investment property	12.8		12.6		*0.2*
from available-for-sale financial assets	56.7		83.6		*-26.9*
from held-to-maturity investments	0.4		0.0		*0.4*
Realised gains	205.2	*15.0*	56.4	*3.5*	*148.8*
from investment property	9.4		0.8		*8.6*
from loans and receivables	26.2		7.5		*18.8*
from available-for-sale financial assets	149.7		48.2		*101.5*
from other financial liabilities	19.9		0.0		*19.9*
Unrealised gains and reversals of impairment losses:	2.2	*0.2*	146.5	*9.0*	*-144.3*
from available-for-sale financial assets	2.2		145.4		*-143.2*
from other financial assets and liabilities	0.0		1.1		*-1.1*
Total	1,368.5	*100.0*	1,624.0	*100.0*	*-255.6*

1.6 Other income

This amounted to €139.7m (€123.7m in 2008) and included €46.3m of other technical income (€41.8 in 2008), €27.6m of uses of provisions (€16.9m in 2008) and €24m of prior year items (€14.1m in 2008).

COSTS AND EXPENSES

2.1 Net charges relating to claims

These totalled €9,474.1m (€6,558.1m in 2008) and were made up as follows:

Net charges relating to claims *Amounts in €m*	31/12/2009	31/12/2008	*var. %*
Amounts paid and changes in technical provisions:	9,537.1	6,772.7	*40.8*
Non-Life business - amounts paid	3,641.3	3,533.8	
Non-Life business - changes in provision for claims	159.9	-108.9	
Non-Life business - changes in recoveries	-81.9	-88.2	
Non-Life business - changes in other technical provisions	1.3	12.3	
Life business - amounts paid	3,259.0	3,930.1	
Life business - changes in payable amounts	-22.2	-83.2	
Changes in mathematical provisions	2,480.2	-160.4	
Life business - changes in other technical provisions	-60.6	-216.1	
Changes in provision where the investment risk is borne by policyholders and arising from pension fund management	160.0	-46.5	
Reinsurers' share:	-63.1	-214.7	*-70.6*
Non-Life business - amounts paid	-115.7	-230.0	
Non-Life business - changes in provision for claims	62.9	30.2	
Non-Life business - changes in recoveries	2.8	-0.3	
Life business - amounts paid	-21.0	-23.1	
Life business - changes in payable amounts	-0.4	0.9	
Changes in mathematical provisions	6.5	7.7	
Life business - changes in other technical provisions	1.9	-0.1	
Total	9,474.1	6,558.1	*44.5*

Variations in Life mathematical provisions included €37.8m of charges, which the Group incurred in order to protect its customers with index-linked policies based on Lehman Brothers securities.

2.2 Commission and expense

This amounted to €27.6m (€34.1m in 2008) and was made up of:

- commission and expense relating to business carried out by the bank companies in the Group amounting to €14.4m (€16.6m in 2008);
- acquisition costs linked to investment policies issued by the insurance companies in the Group amounting to €10.1m (€14.2m in 2008);
- other commissions of €3.1m (€3.3m in 2008).

2.3 Losses on investments in subsidiaries, associates and interests in joint ventures

These amounted to €0.2m (€0.8m in 2008).

2.4 Losses on other financial instruments and investment property

These amounted to €1,249.8m (€899.9m in 2008) and were made up of:

Losses on other financial instruments and investment property *Amounts in €m*	31/12/2009	comp. %	31/12/2008	comp. %	var. %
Interest:	193.8	*15.5*	310.7	*34.5*	*-37.6*
from other financial liabilities	192.8		307.9		*-37.4*
from payables	1.1		2.8		*-60.4*
Other charges:	10.0	*0.8*	19.8	*2.2*	*-49.7*
from investment property	3.3		3.6		*-8.4*
from loans and receivables	0.0		9.9		*-99.9*
from available-for-sale financial assets	4.8		5.4		*-11.5*
from other financial liabilities	1.9		0.9		*118.0*
Realised losses:	57.7	*4.6*	105.8	*11.8*	*-45.5*
from held-to-maturity investments	0.0		0.3		*-100.0*
from loans and receivables	19.9		10.5		*88.3*
from available-for-sale financial assets	37.9		95.0		*-60.1*
Unrealised losees and impairment losses:	988.3	*79.1*	463.6	*51.5*	*113.2*
from investment property	1.8		1.2		*43.5*
from held-to-maturity investments	26.4		47.4		*-44.4*
from loans and receivables	101.4		240.5		*-57.9*
from available-for-sale financial assets	858.7		174.4		*392.4*
Total	1,249.8	*100.0*	899.9	*100.0*	*38.9*

Following the change made to the impairment policy to comply with the Banca d'Italia – CONSOB – ISVAP ruling of 3 March 2010, impairment losses on available-for-sale financial assets included €798.1m of impairments of shares.

As provided for in the Group's impairment policy described in chapter 2 of these Notes to the Accounts, the 'SOFIA' application used to manage the Group's securities portfolio made it possible to identify the share securities for which at least one of the following two conditions applied:

a) the market price always below the initial subscription value for the previous 36 months;

b) an impairment loss of more than 20% of the initially recognised amount.

Four securities in the Group's portfolio fulfilled the first condition whilst 63 securities fulfilled the second (including those the market price of which had always remained below the initial subscription value for the previous 36 months), their market price at 31 December 2009 being below the initially recognised amount with a spread of more than 20%. Impairment did not affect the amount of the securities, which were measured at fair value.

The fall in fair value of these securities was transferred from the Gains or losses on available-for-sale assets to the income statement under Losses from impairment losses on available-for-sale assets.

As for debt securities, impairment losses of €58.5m were recognised on Lehman Brothers financial instruments following the adjustment of the recovery rate from 50% to 25%, namely:

– €13.8m on loans and receivables,
– €26.4m on held-to-maturity investments,
– €18.3m on available-for-sale assets.

€0.9m of General Motors bonds classified as available-for-sale assets were also impaired.

Unrealised losses on available-for-sale assets also included €40m owing to the effect of hedge accounting, therefore the unrealised losses arising out of variations in fair value on debt securities hedged through financial derivatives were recognised through profit or loss.
Unrealised losses on loans and receivables included €87.6m relating to loans to customers (€213m in 2008).

2.5 Operating expenses

These amounted in full to €1,365.8m (€1,290.3m in 2008).
Operating expenses in the insurance sector amounted to €1,059.2m (€1,046.1m in 2008) and were made up of:

Operating expenses - insurance sector *Amounts in €m*									
	NON-LIFE		*var.*	LIFE		*var.*	TOTAL		*var.*
	Dec-09	Dec-08	*%*	Dec-09	Dec-08	*%*	Dec-09	Dec-08	*%*
Acquisition commissions	548.1	578.5	*-5.2*	35.9	29.3	*22.7*	584.0	607.7	*-3.9*
Other acquisition costs	150.0	135.5	*10.7*	31.2	30.5	*2.1*	181.1	166.0	*9.1*
Changes in deferred acquisition costs	11.4	16.3	*-29.8*	3.1	3.6	*-13.8*	14.6	19.9	*-26.9*
Collection commissions	111.4	112.1	*-0.6*	9.9	10.8	*-8.6*	121.2	122.9	*-1.3*
Profit participation and other commissions from insurers	-17.7	-64.3	*-72.5*	-3.2	-3.7	*-14.2*	-20.9	-68.0	*-69.3*
Investment management expenses	7.4	8.3	*-10.9*	14.2	11.3	*25.8*	21.6	19.6	*10.2*
Other administrative expenses	121.2	140.2	*-13.5*	36.3	37.7	*-3.8*	157.5	177.9	*-11.5*
Total	931.9	926.6	*0.6*	127.3	119.5	*6.6*	1,059.2	1,046.1	*1.3*

Operating expenses relating to banking business amounted to €269.2m (€234m in 2008) and those in the Holding and Services sector amounted to €117.9m (€310.5m in 2008). Segment eliminations amounted to €80.5m (€300.3m in 2008).

2.6 Other costs

These amounted to €220.6m (€221.7m in 2008) and were made up of:

Other costs *Amounts in €m*					
	31/12/2009	*comp. %*	31/12/2008	*comp. %*	*var. %*
Other technical charges	91.2	*41.4*	88.9	*40.1*	*2.6*
Impairment losses on receivables	6.3	*2.8*	4.2	*1.9*	*48.7*
Other costs	123.1	*55.8*	128.6	*58.0*	*-4.3*
Total	220.6	*100.0*	221.7	*100.0*	*-0.5*

Other costs included €28.7m for provisions (€40.2m in 2008), most of them accrued for litigation and ISVAP penalties, €12.5m of depreciation of property, plant and equipment and investment property and intangible assets (€24.7m in 2008), €11.8m of leaving incentives and €11.8m of costs for ISVAP penalties paid in 2009.

3. Income tax

In accordance with the provisions of IAS 12 the following table shows, at consolidated level, the deferred taxes utilised and accrued.

Breakdown of income tax
Amounts in €m

	31/12/2009			31/12/2008		
	Ires	Irap	Total	Ires	Irap	Total
Current taxes	65.1	33.0	98.1	-38.5	14.3	-24.1
Deferred assets and liabilities	-265.2	-37.4	-302.7	33.8	17.5	51.2
Use of deferred tax assets	*95.9*	*2.6*	*98.6*	*26.7*	*3.8*	*30.5*
Use of deferred tax liabilities	*-43.2*	*-13.7*	*-56.9*	*-24.0*	*-16.7*	*-40.8*
Use of accrued tax assets	*-363.6*	*-33.3*	*-396.9*	*-408.9*	*-48.2*	*-457.1*
Use of accrued tax liabilities	*45.7*	*6.9*	*52.6*	*440.0*	*78.6*	*518.6*
Total	-200.1	-4.5	-204.6	-4.7	31.8	27.1

Major differences for the purposes of deferred taxes
Amounts in €m

	31/12/2009 tax effect	31/12/2008 tax effect
ASSETS		
Intangible assets and property, plant & equipment and investment property	20.7	24.2
Reinsurers' share of technical provisions	0.0	31.2
Investment property	3.9	11.0
Financial instruments	318.0	500.9
Sundry receivables and other assets	0.2	34.5
Provisions	39.9	15.7
Technical provisions	108.7	22.9
Payables and other liabilities	8.1	2.3
Other deferred tax assets	49.4	39.1
Total deferred tax assets	549.1	681.8
LIABILITIES		
Intangible assets and property, plant & equipment and investment property	34.9	36.5
Reinsurers' share of technical provisions	0.0	38.0
Investment property	5.3	3.4
Financial instruments	115.3	47.9
Sundry receivables and other liabilities	0.2	0.1
Provisions	2.3	0.5
Technical provisions	40.2	165.8
Financial liabilities	0.4	0.8
Loans and other liabilities	3.0	1.4
Other deferred tax liabilities	3.1	2.0
Total deferred tax liabilities	204.7	296.4

5. OTHER INFORMATION

5.1 Criteria to determine the recoverable amount of goodwill with an indefinite life (impairment test)

As in previous years, in accordance with IAS 36.10, which provides for the impairment of intangible assets that have an indefinite useful life, the impairment test was carried out on the goodwill of insurance and banking subsidiaries recognised in the consolidated financial statements.

In view of the continuing very critical situation in the financial markets, despite signs of an upturn during 2009 compared with the previous year, the parameters used for the valuations continued to be based on prudent criteria that reflected the trends in the financial markets during the year in question, in particular:

- discount used in the measurement procedure;
- off-plan factors for growth that took account of recent macroeconomic and business forecasts.

Details of both these parameters are given below.

Appropriate Sensitivity Analyses were also developed to test the extent to which the recoverable amounts of goodwill if the main parameters used, such as the rate of discounting and the long-term growth rate (g factor) varied.

The Cash Generating Units to which goodwill arising from mergers was allocated (i.e. excluding goodwill arising from the acquisition of bank branches of the subsidiary UGF Banca) are broken down as follows:

- Non-Life CGU — UGF Assicurazioni – Non-Life, Navale Assicurazioni, Unisalute, Linear;
- Life CGU — UGF Assicurazioni - Life, BNL Vita;
- Banking CGU — UGF Banca Group.

It should be mentioned that the figures in the forecasts shown below were approved by the Boards of Directors of the individual companies.

Non-Life CGU	
Valuation method used	The method used is a DDM (Dividend Discount Model) type of method which values the capital surplus/deficit on the basis of the minimum requirements laid down by the Supervisory Authorities. The DDM method establishes the value of the economic capital as the present value of the dividends that may possibly be distributed to shareholders. The amount of adjusted equity that exceeds the estimate of the minimum solvency coefficient is therefore the 'surplus capital' that in theory is available.
Net profits used	Deemed to be the planned net profits
Payout used	Deemed to be the planned payout
Projection period	Five expected dividend flows were discounted.
Rate of discounting	A rate of discounting of 8.74% was used and can be broken down as follows: – risk-free rate 4.02% – beta coefficient 0.94 – risk premium 5% The average figure for the 10-year Long-Term Treasury Bond for the

	period July – December 2009 was used for the risk-free rate. The five-year adjusted Bloomberg beta coefficient was used as the beta coefficient for listed companies operating in the Non-Life sector to December. The premium at risk was deemed to be 5%, in accordance with common practice among financial analysts and the profession in general.
Long term growth rate (g factor)	Several significant growth indicators relating to the reference market and to the macroeconomic situation were taken into account. In particular, the annual average rate of growth of Non-Life premiums for 2010-2012 was expected to be 2.5%. The average variation in GDP is expected to be 3.5% in nominal terms. The average consumer price index for 2010-2012 is expected to be approximately 1.7%. In view of this it was deemed appropriate to use a g factor of 2%, in line with the professional practices used.
Calculation of any capital surplus/ deficit	This was deemed to be that indicated in the Companies' plan, deducible from the current context as at today's date.
Life CGU	
Goodwill recoverable amounts	The recoverable amount of UGF Assurazioni Vita's goodwill was based on discounting expected cash flows, as derived from the in-house actuarial model. In the case of BNL Vita, the bancassurance company owned jointly with the BNP Paribas Group, existing agreements were supplemented in December by a new option agreement under which BNP Paribas has an option to acquire 51% of the company, today held by UGF, and UGF has an option to sell this holding to BNP Paribas. The recoverable amount of goodwill was based on the value of the portfolio implied in the prices laid down for the above options.
Banking CGU	
Valuation method used	The method used was based on discounting expected income flows.
Rate of discounting	The rate is deemed to be 8.03% and is broken down as follows: – risk-free rate 4.02% – beta coefficient:0.80 – risk premium 5% The average figure for the 10-year Long-Term Treasury Bond for the period July – December 2009 was used for the risk-free rate. The beta coefficient used was a 5-year adjusted beta coefficient recorded in December for a sample of listed Banks deemed to be comparable. The risk premium was deemed to be 5%, in accordance with common practice among financial analysts and the profession in general.

Long term growth rate (g factor)	For example in Banking Business the annual average growth rate is expected to be: • 5.5% for lending to customers (for 2010-2012) • 4.3% for funding (for 2010-2012) • 3.3% for interest margin (for 2010-2011) • 5.2% for gross income (for 2010-2011) In view of this it was deemed appropriate to use a g factor of 2%, in line with the professional practices used.
Projection period	Five expected dividend flows were discounted.

In the case of the UGF Banca Banking Group the goodwill recognised on acquisitions of bank branches during the period 2001-2004 was tested for impairment.

UGF Banca CGU	
Valuation method used	The method used was based on discounting expected income flows.
Rate of discounting	The rate is deemed to be 8.03% and is broken down as follows: – risk-free rate: 4.02% – beta coefficient: 0.80 – risk premium: 5% The average figure for the 10-year Long-Term Treasury Bond for the period July to December 2009 was used for the risk-free rate. The beta coefficient used was a 5-year adjusted beta coefficient recorded in December for a sample of listed Banks deemed to be comparable. The risk premium was deemed to be 5%, in accordance with common practice among financial analysts and the profession in general.
Long term growth rate (g factor)	For example in Banking Business the annual average growth rate is expected to be: • 5.5% for lending to customers (for 2010-2012) • 4.3% for funding (for 2010 -2012) • 3.3% for interest margin (for 2010-2011) • 5.2% for gross income (for 2010-2011) In view of this it was deemed appropriate to use a g factor of 2%, in line with the professional practices used.
Projection period	Five expected dividend flows were discounted.

On the basis of the simulations carried out, in accordance with the parameters described above, it was not deemed necessary to adjust goodwill recognised at 31 December 2009.

Below are the results of the impairment tests along with the relevant sensitivity analyses.

Amounts in €m

	Allocation of goodwill	Recoverable amount	*surplus*
Non-Life CGU	982.6	1,383.7	401.1
Life CGU	226.8	319.5	*92.8*
Banking business CGU	545.5	999.7	454.2

Sensitivity analyses

Parameters used	Non-Life business CGU	Banking business CGU
Risk Free	4.02%	4.02%
Beta	0.94	0.80
Risk premium	5%	5%
Short-term discounting rate	8.74%	8.03%
Range	*7.5% - 9.5%*	*6.03% -10.03%*
Pass	*0.5%*	*1.0%*
g	2%	2%
Range	*1% - 3%*	*0% - 3%*
Pass	*0.5%*	*1.0%*

		Sensitivity (value range)		Delta of recoverable amount - goodwill = 0			
				Hp. 1 (rate g same as rate used for impairment)		Hp. 2 (rate g equal to 0)	
CGU	Delta of recoverable amount - goodwill	Min	Max	g	Short-term discounting rate	g	Short-term discounting rate
Non-Life business							
UGF Assicurazioni - Non-Life	242.1	-16.2	879.9	2%	10.07%	0%	8.72%
Navale	78.7	49.3	151.6	2%	15.12%	0%	13.95%
UniSalute	47.2	32.0	84.8	2%	17.16%	0%	16.14%
Linear	33.1	16.3	74.6	2%	12.36%	0%	11.12%
Banking business	454.2	-197.8	2,134.2	2%	10.06%	0%	8.56%

Parameters used	UGF Assicurazioni - Life
Yield (average yield rates)	4.00%
Range	*+/- 50 bps*
RDR (risk discount rate)	6.50%
Range	*+/- 50 bps*

	Delta sensitivity of recoverable amount - goodwill				
CGU	Delta of recoverable amount - goodwill	Yield + 50 bps	Yield - 50 bps	RDR + 50 bps	RDR - 50 bps
UGF Assicurazioni - Life business	77.3	124.5	16.2	57.3	98.6

5.2 Risk report

5.2.1 Risk overview and management

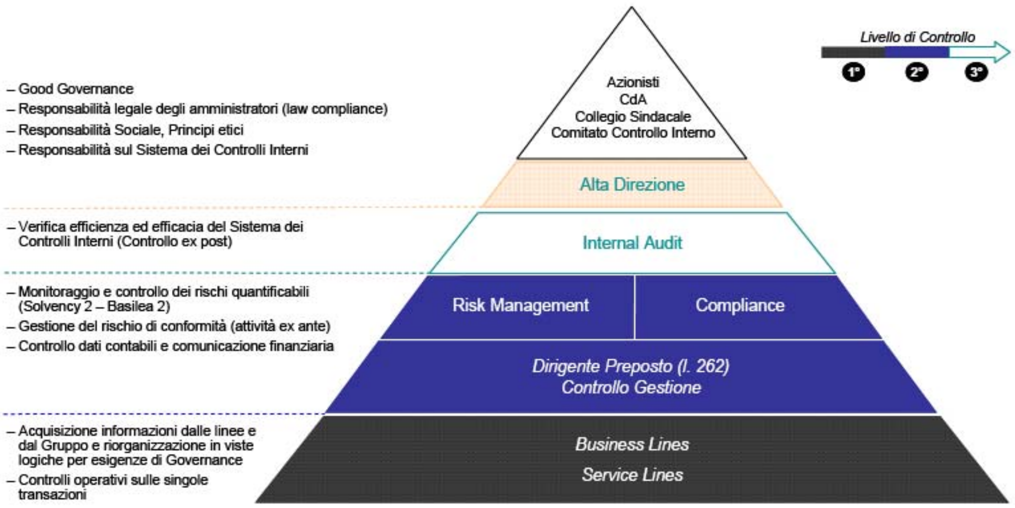
The purpose of Unipol Gruppo Finanziario's Risk Report is to provide information to enable the Group's financial position to be assessed for the purpose of Risk Management following the logic of Solvency II.

The areas of risk dealt with in the Risk Report are as follows:

Internal Control System

The UGF Group's Risk Management system is part of the wider internal control system, which operates on several levels:

- line controls: they are carried out by whoever carries out a particular operation or by whoever is responsible for supervising it, generally within the same organisational unit. They are carried out by the same departments or incorporated into the automated procedures, or carried out as part of back office work. They are an essential part of the Internal Control System and require an 'ethos of control' to be developed and assimilated, since it alone can guarantee that company objectives will be achieved. These checks are described in the relevant procedures and are recorded when the processes are assessed. They are referred to as first-level controls.
- risk management: specific activities entrusted to departments other than those carrying out the operations in question, the departments that carry out second-level controls help determine the procedures for calculating risks, to check that the limits placed on the various operational functions are observed, to identify possible corrective and/or risk mitigation actions and to monitor whether operation is in line with the objectives and the levels of risk laid down by the relevant company bodies. In particular, they form part of this level of controls on underwriting risks, credit risks, equity and investment risks, operational risks, risks to our reputation and risks of non-compliance with regulations. Included in this category is the work carried out by Risk Management, Compliance, Senior Executive Responsible, Management Control, etc. They are referred to as second-level controls.
- Internal Audit: this department checks the completeness, functionality and adequacy of the Internal Auditing System (including the first- and second-level control). This work is referred to as third-level control.



- Good governance
- Directors' legal liability (law compliance)
- Social responsibility, ethics
- Responsibility for the internal control system

- Checking efficiency and effectiveness of the internal control system (ex post)

- Monitoring and checking the quantifiable risks (Solvency II – Basel 2)
- Compliance-risk management (ex ante)
- Monitoring accounting figures and financial communication

- Acquisition of information from business lines and the group and reorganising it logically for governance purposes
- Operational controls over individual transactions

Shareholders
Board of Directors
Board of Statutory Auditors
Internal Control Committee

Top Management

Internal Audit

Risk Management Compliance

Senior Executive Responsible (Law. 262)
Management control

Business Lines
Service Lines

Risk management system

Within the Parent UGF:

- The ***Board of Directors*** is responsible for approving the Risk Management Policy, which contains the guidelines and the principal policies for underwriting, assessing and managing risks in line with the company's level of capital adequacy. It is also responsible for determining risk appetite and approves the proposals of the Chief Risk Officer relating to allocation of capital; in order to monitor risks the Board of Directors refers to the ***Risk Management Department***, which is responsible for evaluating the combination of the various risks, Enterprise Risk Management (ERM), at Group level.
- ***UGF's top management*** is responsible for implementing the risk management policies laid down by the Board of Directors by implementing the procedures set out within the Policy. They help to set operational limits and to ensure that these limits are monitored. They monitor exposure to risks and ensure that tolerance levels are observed.
- ***The Risk Management Department*** is responsible for drawing up and implementing the Risk Management System and allocation of capital and deals with its own risks and checks. The Department ensures that the company departments concerned with risk management are coordinated, in line with best practices in the market and in accordance with the regulations imposed by the Supervisory Bodies.

However, specific responsibility for managing the risks inherent in their own activities remains with the operational departments since they have the appropriate tools and expertise. In this context UGF's Risk Management Department, in agreement with the other control units, assists top management in diffusing the culture of risk to all the levels of staff within the organisation and consolidating it. The aim of this is to create awareness of the role assigned to the individual company units within the internal control system and encourage them to be fully involved.

At organisational level the UGF Group has decided to adopt a 'centralised' model of Risk Management, with the primary objective of ensuring that the ways in which risk management and monitoring policies, procedures and methods are adopted are the same throughout the Company. The way in which this model is developed differs depending on the type of company concerned (insurance and investment management companies or companies in the Banking Group) and two organisational approaches are used:

- *outsourcing* in the case of Group insurance companies and investment management companies on the basis of specific outsourcing agreements entered into in accordance with the minimum requirements laid down in the supervisory regulations;
- *departmental reporting* in the case of the companies in the Banking Group, with the work of managing, guiding and supervising the Internal Audit, Risk Management and Compliance departments being carried out by the Parent UGF Banca.

Organisational Monitoring: Risk committees

Special Group Risk Committees have been set up to implement the Risk Management strategies: Executive Committee, Finance Committee, Credit Committee, Life Products Committee and Group ALM and Liquidity Coordination. The committees act as go-betweens among the principal bodies dealing with risk management, in which the heads of the operational Business Units and Risk Management participate.

<u>For the Group</u>

Executive Committee

The Executive Committee, which meets once a week, assists the Chief Executive Officer in carrying out his duties of guiding, managing and controlling the Group and the operating companies. In particular it: i) draws up the Group strategic plans; ii) lays down the procedure for drawing up the Group budget and objectives in line with the strategic plans and taking into account the adjusted risk indicators provided by the Risk Management Department and in coordination with management control; iii) checks performance and approves and specifies initiatives to improve and develop business.

Finance Committee

The Group Finance Committee is responsible for: i) setting investment policies, within the general guidelines laid down by UGF's Board of Directors; ii) setting strategies relating to accounting policies and IFRS for the purpose of allocating the securities in the portfolio; iii) analysing the risk and return performances of the various portfolios and the discrepancies compared with the budget objectives; iv) analysing the various possible market scenarios and setting the asset allocation strategy for and the risk profile of the macro categories of asset portfolio; v) setting the target rates to be included in the Finance Budget; vi) periodically discussing the report for the Board of Directors on business performance; vii) periodically discussing any proposals to amend operating limits and investment policy to be submitted to the Board of Directors.

Group Credit Committee

The Group Credit Committee meets at least once a month and is responsible for: i) laying down Group guidelines relating to underwriting/managing credit risk; ii) laying down the procedures and criteria for calculating the credit, specific issuer, regulation and counterparty risks; iii) specifying the limits of exposure to the credit risk as regards individual customers, intermediaries, policyholders, counterparties, issuers and reinsurers, and evaluating and approving specific proposals outside the established guidelines; iv) monitoring capital absorption and the level of credit risk of the Group and the individual companies; v) suggesting to the bodies responsible any risk mitigation measures: reinsurance, hedging, securitisation schemes, helping to identify appropriate corrective action required to get back within the limits; vi) drawing up the portfolio diversification policy and identifying measures to prevent excessive concentration.

Life Products Committee

This Committee carries out the following functions: i) it lays down qualitative and quantitative guidelines and marketing schedules for new products, in line with the annual budget; quantitative production objectives; financial constraints (e.g. guaranteed minima, rates, ROE, profitability); ii) it coordinates the various Departments involved, ensuring that the principal decisions are taken on time and that the process is traceable for each product; iii) it approves new products and changes to existing products.

Group coordination of operational ALM

A Group ALM and Liquidity meeting takes place every week, coordinated by the CRO and including the heads of the Bank and Insurance Finance Departments, in order to monitor the overall liquidity situation and where necessary decide on action for complying with emerging requirements. These measures are carried out in coordination with the Group Finance Department.

<u>For the Bank</u>

Credit Committee

The Credit Committee is a board responsible for streamlining the decisions of the credit sector, within the limits of the powers delegated to it, relating to granting credit.
The Credit Committee generally meets once a week. If there are a lot of proposals to be analysed, meetings may take place more than once a week.

Risk management system

Risk management policy

The aim of the risk management policy (hereinafter also referred to as the policy) is to introduce specific guidelines for managing risks arising out of business activities carried out by the companies in the UGF Group, delineating strategies and objectives, roles and responsibilities of the company departments involved and procedures for analysing, checking and calculating risks.

The policy therefore has the following general objectives:
- helping Group top management to make strategic choices;
- improving the process of identifying and managing risks;
- introducing an effective procedure for analysing and calculating risks at Group level;
- increasing the level of knowledge and awareness within the Group of the various types of risk;
- promoting the ethos of risk management within the Group.

Within the Group, risk management is carried out by means of the following stages:
- Identifying
- Calculating
- Checking
- Mitigating

In the case of major risks the Risk Management Department has issued specific policies containing guidelines for underwriting and managing risks. These policies contain definitions of the risk, calculation procedures, any limits, the checking system and whatever else is required for the risk to be properly managed.
Significant risks, or those risks the consequences of which can undermine Group solvency or constitute a serious obstacle to achieving its objectives, are identified by means of a procedure that takes account of both Group structure and the specific nature of the types of business managed by the various Companies. In particular, the categories of risk identified by Risk Management are as follows:

- Core insurance risks (Non-Life and Life underwriting and provisions);
- Financial risk (market and ALM);
- Credit risk;
- Operational risk;
- Emerging risks;
- Other risks.

The risks are ***calculated*** by means of a combination of several procedures:

- Solvency I: a commonly used method that has introduced the minimum capital requirements (minimum solvency margin) and relates it to indicators such as premium income and claims, mathematical provisions and capital at risk. With this method, the current scheme records obvious gaps, such as the absence of risk sensitivity and of incentives to implement adequate risk management, and does not promote optimum allocation of capital.
- Stress testing: used for internal risk management, stress tests are quantitative techniques by means of which companies assess their vulnerability to extreme but plausible events. Stress tests evaluate the effects on the economic/equity/financial situation of specific events or of changes in a set of economic-financial variables in the event of adverse scenarios. These techniques thus enable additional information on the actual exposure to various risk factors to be obtained, providing a better evaluation of the adequacy of capital and suggesting strategies and procedures for responding to these extreme events. The Risk Management Department of the Parent UGF carries out the stress tests, according to the type of risk deemed to be most relevant to the Company's business operations, taking account of the type of portfolio, the databases and the tools available. On conclusion of the stress tests, in order to communicate the outcomes of the analyses and inform the individual companies of the risks assessed the Risk Management Department prepares reports for top management for sharing and subsequent submission to the various Boards of Directors.
- Solvency II and internal Model for calculating the Internal Capital Requirement: Solvency II represents a radical reform which relates not only to the procedures for calculating the capital requirement but to the entire system of prudential supervision and involves a substantial review of the way in which the principal business units operate. In this way the Risk Management Department has begun to implement an internal model for evaluating and calculating the risks identified which uses sophisticated financial and actuarial analysis tools. Combining these risks in the internal model provides a holistic evaluation of the business risks. On the basis of this analysis the Department ascertains the capital absorbed by the various business units in the Group and evaluates their efficiency and effectiveness in producing returns adjusted for risk. In doing so, in the case of each risk identified the Department formalises the procedures for evaluating, calculating and allocating capital.
- Basel II for calculating capital requirements: the UGF Banca Group comes under the category of class 2 banks ('Banking groups and banks that use standardised procedures, with consolidated or individual assets exceeding €3.5bn'). The Banking Group deemed it appropriate to comply with the guidelines issued in Banca d'Italia Circular 263 of 27 December 2006, adopting the procedural solutions for calculating capital requirements available to intermediaries

in its class and adhering to regulatory procedures, in such a way as to encourage maximum dialogue with the Supervisory Board.

Monitoring is split into the individual tasks of:
- Reporting
- Proposing corrective action.

Reporting
The Risk Management Department is finalising an integrated system of reporting risks. The Department draws up two types of report on exposures to major risks: a departmental report and an operational report for the relevant company departments, at intervals that take account of the level of monitoring required.
Under this system reports are structured i) according to level of responsibility, for Board of Directors, Committees, Senior Executives, Heads of business units; ii) according to type, specialist according to risk or combined; iii) according to frequency, recurrent or on demand.

Proposing corrective action
Should the specified operational limits be exceeded, Risk Management liaises with the Department concerned to establish steps to be taken to get back within them within an appropriate timescale and notifies the relevant personnel.

Mitigation consists in identifying and proposing measures required and/or useful for limiting current or forecast levels of risk that are not in line with the risk objectives laid down for the business. The types of limitation most used are:
- hedging transactions and
- reinsurance.

Hedging transactions
These may be, for example, hedging transactions on the market, transactions to restructure assets and/or liabilities under management, or transactions for the sale of assets and/or liabilities (closure of positions). These transactions require the approval of the appropriate departments or personnel.

Reinsurance
By means of reinsurance coverage the Group expanded its capacity to underwrite risks (or new business) and obtained benefits both in terms of limitation of the level of expected losses and in terms of volatility in the results for core business, thus helping to reduce the absorption of capital.

Internal Model

Insurance business
Up to now the logic underlying the Internal Model for calculating UGF's Internal Capital Requirement has been developed in line with what is deemed will be Solvency II regulations and has been linked to the fourth Quantitative Impact Study (QIS4). To be specific, in line with the provisions of CEIOPS, UGF has laid down its own categories according to the following categories of risks:

- Core insurance risks (Non-Life and Life underwriting and provisions);
- Financial risks (Market, ALM and Liquidity);
- Credit risks;
- Operational and other risks.

The Risk Management Department carried out continuous and meticulous work in order to identify categories of risk by carefully studying legislation, comparing the opinions of professional bodies and senior executives within the sector and taking account of contributions from meetings, fora, studies and specialists.

Under the Internal Model each risk is calculated using suitable measurements and appropriate instruments and combining them by means of a correlation matrix. The matrix used up to now has been derived by personalising the one in QIS4.
Below is a summary of how each risk is calculated, whilst the subsequent paragraphs provide additional information on the calculation procedure and the principal results for each risk.

The Non-Life underwriting and provisions risk is calculated by means of the 'Non-Life Internal Model' (NLIM), in line with the new standards laid down in Solvency II, developed internally with the help of a leading actuarial company, for calculating the Economic Capital of Non-Life business, now at the test stage. Alongside the NLIM the Risk Management Department has carried out stress testing, using different specific assumptions for the classes deemed to be the most significant. These tests have also provided information useful for developing the internal model.
The Life underwriting and provisions risk is calculated by means of a stochastic internal model in line with the new standards laid down by Solvency II. This model makes it possible to calculate the capital absorption in the case of both the technical and the financial component, the Market Consistent Embedded Value and the Value in Force. As in the Non-Life class, here too the Risk Management Department has carried out stress testing, using quantitative prospective analysis obtained by varying the sources of risk that are more significant than the values of the basic scenario.
The market risk, in its various forms, is measured by stress testing. The following paragraphs contain explanations of the way in which the various sensitivities are calculated.
The market risk and the operational risk are calculated using the standard QIS4 formula. In the case of both risks the project to develop an internal model is at an advanced stage.

The Internal Model has made it possible to calculate the Group's economic capital and the available capital (in accordance with Solvency II). The hedging ratio is approximately 1.48 and corresponds to surplus capital of approximately €1,246m.

Banking business
For Pillar 1 risk factors the Banking Group adopted the standardised procedures provided for in Banca d'Italia Circular 263 of 27 December 2006 and used in the supervisory data at 31 December 2009.

Financial risks

Market risks are the risk of losses depending on variations in interest rates, share prices, exchange rates, credit spread and property prices.
Therefore they are divided into the following categories:

- *Interest rate risk*, or the risk of a possible variation in the value of a financial asset in the portfolio as a consequence of unfavourable movements in interest rates;
- *Share price risk*, or the risk linked to losses due to unfavourable movements in share prices;
- *Currency risk*, or the risk of possible losses on currency items in the portfolio as a result of an unfavourable trend in exchange rates;
- *Credit spread risk, or* the risk that the value of the portfolio that is sensitive to credit may fall owing to the deterioration of the issuer's credit quality;

– *Property price risk*, or the risk linked to losses due to unfavourable movements in property prices.

The level of sensitivity of the UGF Group's portfolios of financial assets to market risk factors is shown below. The sensitivity is calculated as a variation in the market value of the assets following a:

– simultaneous variation in the interest rate curve of +10 bps;
– variation of -20% in share prices;
– variation of +10 bps in the credit spread;
– variation of -10% in real estate prices.

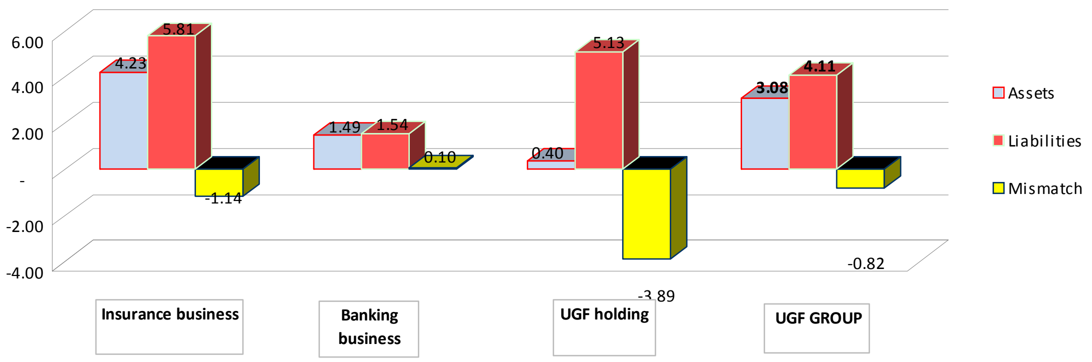
(amounts in €m)

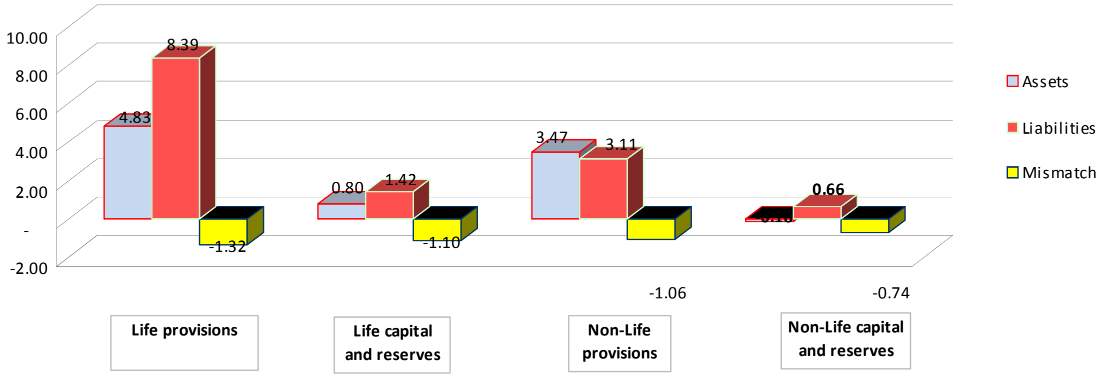
	Holding		Insurance business		Banking business		TOTAL GROUP	
	Financial impact	Impact on equity	Financial impact	Impact on equity	Financial impact	Impact on equity	**Financial impact**	**Impact on equity**
Exposure	1.74	195.05	448.20	15,002.21	6.11	123.90	456.05	15,321.16
Interest rate risk	-0.00	-0.26	-1.72	-60.00	-0.02	-0.16	-1.73	-60.42
Credit spread risk	-0.01	-0.71	-2.93	-78.97	-0.02	-0.35	-2.96	-80.03
Share risk	0.00	-10.82	-16.86	-373.44	-0.01	-3.06	-16.87	-387.32
Real estate risk	0.00	0.00	0.00	-71.87	0.00	0.00	0.00	-89.54

The values include the hedge derivatives.

The UGF Group's exposure to the *currency risk* is not significant.

*The **interest rate risk** for ALM purposes* is quantified in terms of duration mismatch. The duration mismatch at 31 December 2009 relating to the UGF insurance companies, UGF Banca and the UGF holding company is shown below. In the case of insurance business (excluding BNL Vita) the mismatch is also divided into Life and Non-Life.





By ***liquidity risk*** is meant the risk to which the UGF Group may be exposed when dealing with cash liabilities (whether expected or unexpected) at a reasonable cost and within a reasonable time by selling less liquid assets on unfavourable terms, thus affecting its solvency.
The Group's liquid resources derive from the normal business operations in Life and Non-Life insurance, from banking business and from funding carried out by issuing bonded loans placed with the Group's customers or with institutional investors.
The main principles on which the liquidity risk management model is based may be summarised as follows:

– centralising the Liquidity Management Functions at Group level;
– managing structural liquidity by keeping a balance between liabilities and investments in medium- to long-term assets in order to avoid pressure on the short-term liquidity situation;
– managing short-term liquidity in order to have sufficient liquidity to fulfil short-term commitments, both foreseeable and unforeseeable, by keeping a suitable balance between flows in and out;
– retaining a high level of assets on deposit and in Eurozone government securities that can be swiftly turned into cash.

UGF's Risk Management Department is responsible for Group ALM and liquidity risk management for strategic and tactical purposes whilst UGF Banca's Finance Department is responsible for managing liquidity in the case of banking business and the insurance Finance Department is responsible for it in the case of the insurance companies. The two Finance Departments carry out the same functions as the Group Risk Management Department.
A Group ALM and Liquidity meeting takes place every week, coordinated by the CRO and including the heads of the Bank and UGF Banca Insurance Finance Departments, in order to monitor the overall liquidity situation and decide on action for complying with emerging requirements. These measures are carried out in coordination with the Group Finance Department.

The liquidity gap situation, both structural and tactical, will be analysed weekly with the use of the maturity ladder as a tool. The net liquidity requirement is then compared with the reserves of assets that are liquid or can be easily made liquid and with credit margins available with the ECB and with lenders of lines of credit.
The gap profile for the UGF Group insurance companies, UGF Banca and the UGF holding company is shown below. The estimated cash flows arising out of Non-Life and Life insurance liabilities are estimates of the breakdowns based on the contractual terms of the underlying policies.

UGF Group short-term liquidity gap

	up to 1 year	up to 3 years	up to 4 years	up to 5 years	up to 7 years	up to 12 years	up to 15 years	up to 30 years	over 30 years
TOTAL ASSETS	7,700	5,048	2,983	3,211	5,483	8,934	2,418	8,279	98
TOTAL LIABILITIES	-8,442	-7,489	-2,903	-2,026	-2,922	-6,800	-1,636	-6,957	0
Total liquidity gap	-742	-2,441	80	1,185	2,561	2,135	782	1,322	98

INSURANCE BUSINESS medium- to long-term liquidity gap

	up to 1 year	up to 3 years	up to 4 years	up to 5 years	up to 7 years	up to 12 years	up to 15 years	up to 30 years	over 30 years
TOTAL ASSETS	4,178	3,544	2,361	2,606	4,490	6,831	1,701	5,010	90
TOTAL LIABILITIES	-3,810	-5,233	-1,969	-1,513	-1,988	-4,251	-1,531	-5,226	0
Total liquidity gap	368	-1,689	392	1,093	2,502	2,580	170	-216	90

UGF BANCA medium- to long-term liquidity gap

	up to 1 year	up to 3 years	up to 4 years	up to 5 years	up to 7 years	up to 12 years	up to 15 years	up to 30 years	over 30 years
TOTAL ASSETS	2,621	1,473	552	561	949	1,894	705	3,269	8
TOTAL LIABILITIES	-4,617	-1,917	-585	-475	-859	-1,761	-105	-1,731	0
Total liquidity gap	-1,996	-444	-33	86	90	132	600	1,538	8

UGF HOLDING medium- to long-term liquidity gap

	up to 1 year	up to 3 years	up to 4 years	up to 5 years	up to 7 years	up to 12 years	up to 15 years	up to 30 years	over 30 years
TOTAL ASSETS	901	30	70	44	44	210	12	0	0
TOTAL LIABILITIES	-15	-339	-348	-38	-75	-788	0	0	0
Total liquidity gap	886	-309	-278	6	-31	-578	12	0	0

figures in €m

Credit risk

Generally by credit risk is meant:

1) the risk that a debtor or a guarantor under an enforcement order may wholly or partially fail to honour its commitment to the Group (customer or borrower risk);
2) the risk of deterioration of the creditworthiness of an issuer of financial instruments (issuer risk).

Within Unipol Gruppo Finanziario the credit risk is mainly in the following areas: banking, insurance and outward reinsurance.

The Lending Policy was approved by UGF SpA's Board of Directors and extended to all the companies in the Group during the year: this document governs the work of underwriting and monitoring the credit risk in such a way as to ascertain total exposure to the individual counterparty, in line with the risk appetite expressed in the Group's strategic objectives, thus ensuring sufficient portfolio diversification.

This policy supplements the current system of internal rules, particularly provisions relating to corporate governance, transactions within the Group and with related parties, the internal auditing system, outsourcing work and the Investment Policy, and is applied in line and in accordance with this system.

This policy is designed to record exposures that are of such a size as to represent a potential risk: the objective is achieved by adopting appropriate risk management and internal control mechanisms, enabling exposure to the various counterparties to be ascertained and monitored.

The Credit Policy lays down:

- the types of customer and transaction deemed suitable for granting credit;
- the general principles with which the credit risk underwriting policy must comply, which can be summarised as:
    - reduction in the relative weight of large combines compared with individual counterparties, groups or sectors;
    - expansion of banking and insurance business with SMEs and retail businesses, to give preference to grants of traditional credit facilities;
- the main roles and duties of the organisational structures, in order to ensure compliance with the provisions of the Credit Policy;
- a systematic decision-making process, common to all the companies in the Group, structured to enable UGF, in its capacity as Parent, to monitor decisions relating to underwriting major risks or decisions involving several companies in the Group;
- the roles and responsibilities involved in monitoring risks at Group level, i.e. those of the Board of Directors, which is asked to approve the general guidelines for the procedure, and those of the Executive Committee, the Group Credit Risk Committee and the Risk Management Department, and their relations with the various departments of the individual companies in the Group;
- the functions of the Group Credit Risk Committee, particular attention being paid to the responsibility for monitoring major exposures, in order to keep Senior Management informed and suggest possible action to mitigate the risk.

Lending to customers of the Banking Group

The trend in the credit risk is currently monitored using traditional indicators. In order to quantify this risk an internal model for calculating the probability of default (PD) for SME/corporate business was developed during 2009, whilst several solutions offered by external suppliers for retail business (companies and individuals) will be evaluated in 2010. Once fully implemented the models for quantifying the probability of default will calculate the exposure at the time of default (exposure at default – EAD), the rate of loss in the event of default (loss given default – LGD) and the expected and unexpected loss.

By probability of default (PD) is meant the probability that the counterparty will default within a specific timescale. A distinction is drawn between individual probability of default and class probability of default. Individual probability of default relates to each individual debtor whilst class probability of default relates to each rating class.

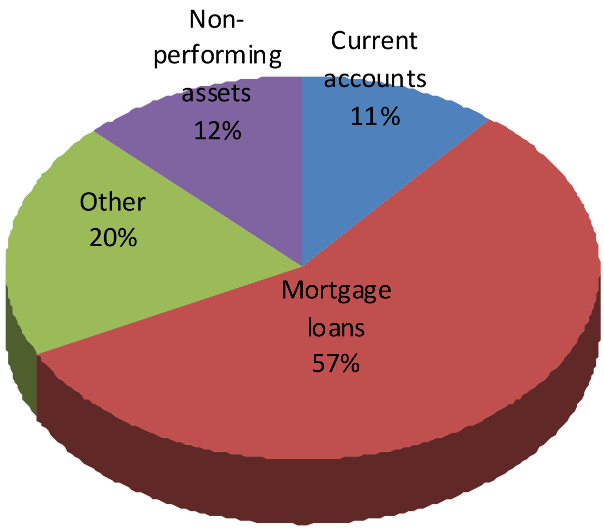
By exposure at default (EAD) is meant the value of the cash and off-balance sheet assets estimated at default at risk.

By loss given default (LGD) is meant the expected value of the ratio, expressed in percentage terms, between the loss determined by the default and the amount of exposure at default.

By expected loss (EL) is meant the average loss arising within a year on each debt; it is the product of the EAD, LGD and PD.

By unexpected loss (UL) is meant the loss exceeding the EL at a certain confidence level over a year.

More than 65% of UGF Banca's portfolio of loans to customers currently consists of loans.



Bond classes of the insurance companies in the Group

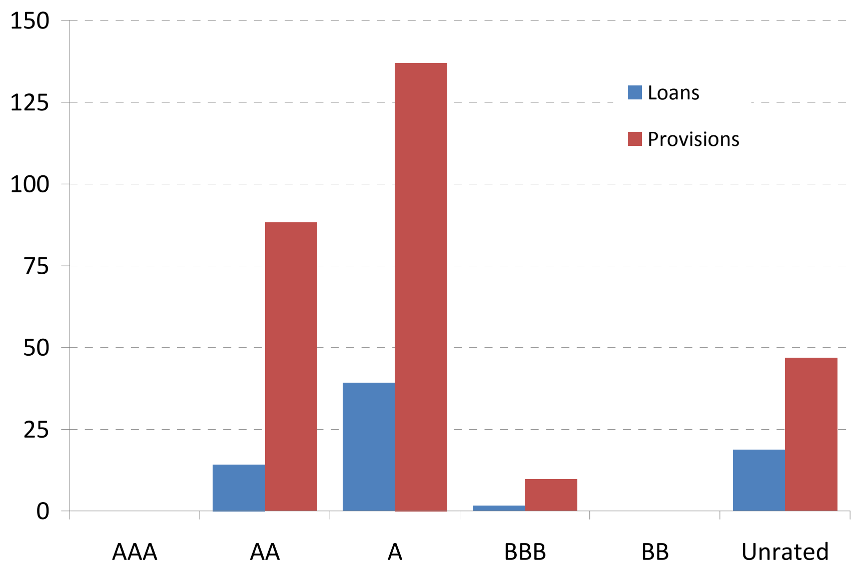
This risk is calculated as a technical insurance risk (see relevant section) but monitored by the Group Credit Risk Committee.

Outwards reinsurance

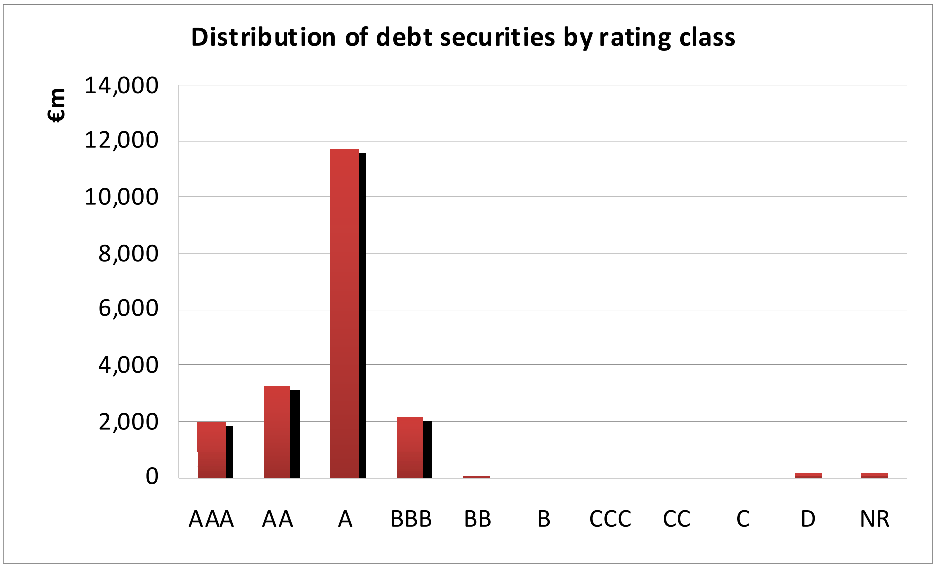
Here the exposure according to credit risk is divided into:

- liquid receivables already due arising out of the current account statement sent to the reinsurer listing the balances on each policy during the period and those still outstanding;
- potential estimated receivables (which will become due at the time of the payment to the Policyholder and for the relative amounts) for the provisions for outstanding claims borne by the reinsurer. The exposure for provisions are always deemed to be net of any deposits retained or other collateral guarantees (e.g. banking LOC and reinsurer's parent company's commitment…)

The table showing the distribution of receivables (in €m) from reinsurers and of the provisions for outstanding claims borne by them (gross of any deposits or guarantees) broken down according to rating class is shown below:



Debt security Issuer Risk: the table showing the distribution of the UGF Group's debt securities, insurance business and holding business broken down according to rating class is shown below:



Concentration risks

The concentration risk is calculated by identifying total exposure to the same counterparty issuer of financial instruments.

Technical Insurance Risks

Risks relating to Life portfolios

In order to evaluate Life risks a stochastic internal model has been adopted in line with the new standards laid down in Solvency II which entail estimating the 'fair value' of all asset and liability items in view of how they relate to one another in various scenarios. This model makes it possible to calculate the capital absorption (ICR) in the case of both the technical and the financial component, the Market Consistent Embedded Value and the Value in Force.

Life insurance risks have also been evaluated by means of a stress test approach, using quantitative prospective analyses obtained by varying the sources of risk that are more significant than the values in the basic scenario.

In particular, account is taken of the impacts of the following risk factors:

- trend in the death rate (mortality/longevity risk), which is defined as an increase (mortality risk) or decrease (longevity risk) in the death rates compared with those expected;
- trend in surrendered policies (lapse risk), because of surrendered policies being higher or lower than those expected;
- trend in foreseeable yields of underlying separately managed businesses (market risk), because of yields being higher or lower than those expected.

These negative factors are applied to traditional insurance policies (both individual and group) and to unit- and index-linked policies for the whole of the remaining period of the portfolio.

The effects of each scenario are assessed in accordance with equity levels (mathematical provisions and the required solvency margin) and levels of finance (flow of payments).

The risks of policies surrendered early and the risk that the loadings held as a hedge against expenses will be insufficient are prudently evaluated when prices are being fixed, 'profit testing' being carried out on assumptions based on the company's own experience.

Mortality risk

The UGF Group operates a different policy for underwriting risks according to sales channel and type of tariff. Particular attention is paid to underwriting term death benefit policies 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 the health facts in the particular case with the help of its medical consultant. If sums assured exceed certain amounts the risk is assessed in collaboration with the reinsurer.
Only Head Office may issue group death benefits policies, if necessary in collaboration with the reinsurer, the questions relating to health being laid out in a grid based on brackets of sum assured and agreed with the reinsurer.
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.
This comparison showed an actual death rate significantly lower than the theoretical death rate.
As regards 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 the retention levels that are appropriate for the equity structure of the individual companies. The Group's principal Life reinsurers are Scor, Swiss Re and Munich Re, all of which are financially very sound.

Annuity option

Some Life assurance policies offer the customer the possibility of opting for a benefit that can be paid in the form of an annuity instead of a capital sum on maturity. The trend for people to live longer means that these policies expose the Group to a longevity risk. For some years now this risk has been limited in the case of new policies by postponing the moment when the annuity coefficient is calculated and the minimum guaranteed rate is fixed to the time when the benefit is paid. Some €39m has been added to the Group's mathematical provisions to take account of policies 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 propensities to exercise the annuity option that are substantially higher than those currently recorded.

Deferment option

The companies in the Group offer customers with some types of policy the possibility of deferring the capital sum assured on maturity in whole or in part for a number of years decided by the policyholder. If the policyholder dies during the deferment period the designated beneficiaries receive the capital sum revalued as at the date of death. At the specific request of the policyholder the policy may be surrendered in whole or in part at any time. In the event of partial surrender the remaining capital will continue to be subject to revaluation until the policy matures in accordance with the terms in force at the time the option is exercised.
The deferment option does not lead to additional risks in terms of guaranteed minimum, apart from the company's commitment. Therefore since 1998 the deferment option in the policy terms has stipulated that the 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 forfeitures applied to the portfolio 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 under the policies.

Guaranteed minimum rate option

The companies in the Group market a lot of products that have returns linked to the results obtained from separately-managed businesses. In most cases these products offer guaranteed minimum revaluation rates and therefore the companies in the Group are exposed to the risk that

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 Body, the guaranteed minimum rate offered when these products are marketed has been gradually reduced over the last few years and is now down to 2.5%.
Therefore the portfolio now contains policies issued in previous years that provide for guaranteed minimum rates that are higher than those now being marketed. In particular, approximately 20% of the consolidated provisions, all of which relate to policies the returns on which are linked to separately-managed businesses, offer minimum revaluation rates of 4%, whilst a further 10% 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.

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 separately managed accounts and the liabilities underwritten and in order to comply with the provisions of ISVAP Ruling 21 of 28 March 2008 (in accordance with Ruling 1801G of 2001).
The IFRS also stipulate that a Liability Adequacy Test must be carried out in order to check that the technical provisions of policies are sufficient to cover the financial benefits offered.
In carrying out the test on the principal separately managed accounts the companies in the UGF Group have used the tools already provided for carrying out analyses in accordance with Ruling 1801G and extended the valuations to a duration of 25 years.

Risks relating to Non-Life portfolios

During 2009, in line with the new standards specified in Solvency II, technical insurance risks were calculated using the Non-Life Internal Model (NLIM) developed internally for the purpose of calculating the Economic Capital with the help of a leading actuarial company.
The NLIM provides for the following types of output:

- Best Estimate of the Provisions for Outstanding Claims according to Class (at fair value);
- Risk Margin to be applied to the Best Estimate using the percentile method and the Cost of Capital method;
- Value at Risk for various risk tolerance levels;
- Economic Capital (Internal Capital Requirement) for the Underwriting risk (ICRUW) subdivided into Premium, Reserve and Cat risk.

The Group recently valued current and potential capital absorption for insurance, underwriting and provisions risks at company and consolidated level, using a new internal stochastic prototype – IDS Non-Life – currently being tested for Solvency II, developed in accordance with professional standards, which will provide greater integration and compatibility in assessing and managing risks.
The department also collaborated with the lines of business in order to draw up tariffs, introducing risk-adjusted performance measures into the models for pricing new products in the basic classes and into quotations for major customers.
Non-Life insurance risks were also assessed by stress-testing at company level, with different specific assumptions being used in the case of the classes deemed to be the most significant.
Stress-testing is carried out at least once a year for both operational and regulatory purposes, Non-Life risks being broken down and calculated as follows:

- in the case of Underwriting and Provisions Risks, the scenario stress-tested was constructed using the following stress benchmarks: capital at risk, modelled using the IDS Non-Life model for the MV TPL, General TPL, Accident and Health classes, in which the claims frequency and the average cost per claim could have deteriorated;

- in the case of the Catastrophe Risk it was the Fire class that was analysed, based on the assumption that a catastrophic event had occurred the gravity and location of which were ascertained by analysing the areas of greatest exposure at Group level. As the Group's work is concentrated in Italy the major exposure to catastrophic risks is represented by natural disasters such as earthquake;
- in the case of the Concentration Risk the hypothesis was of a very negative scenario caused by the major customers in the Bond class defaulting and enforcement and recoupments estimated on the basis of familiarity with company portfolios.

The technical provisions and the mathematical provisions are also estimated using the Best Estimate method (i.e. the best estimate of future cash flows for payments) and discounted back using the same rate curves as for valuing investments. Exposure to the risk is therefore evaluated in terms of impact on the Net Asset Value (NAV) and thus on the company's capital and reserves.
The results relating to the assets and liabilities combine to reduce the overall result.

Capital allocation policies

Definition of 'Risk Appetite'

Risk Appetite is defined as the maximum level of Capital at risk that the Board of Directors specifies as an acceptable loss in view of the undertaking's objectives relating to rating, profitability commensurate with the risk and solvency.
Once a year, when drawing up the business plan and budget, the Board of Directors must approve the Group's Risk Appetite in relation to its ultimate objectives:

- maintaining or achieving a certain rating level on the market;
- level of RORAC (Return on Risk-adjusted Capital);
- capital adequacy.

The Risk Appetite is based on the total capital absorption, i.e. the total absorption of the various major risks to which the undertaking is subject when carrying out its activities. Absorption is based on expected levels of growth, in the business plan or the budget, in accordance with two different confidence gaps: 99.5%, as required by the Solvency II Directive, and 99.95%, required for an A rating.

The objectives to be achieved under the business plan or budget are thus based on the Risk Appetite, and this ensures that the monitoring indicators identified comply with the permissible thresholds.
The objectives determined in this way act as drivers for allocating Capital at various levels: Group, Company, Type of Business and Class of Business.

Risk Management Strategies at UGF Group level

The UGF Group is a financial group subject to the risks arising out of carrying out insurance and banking business. The capital absorption for the main types of risk is calculated using both standard formulae and internal models, as laid down in the relevant legislation.

During 2009 the UGF Group continued to introduce tools for calculating and evaluating risks in order to develop the organisational model known as Enterprise Risk Management (ERM). Developing the ERM model was mainly geared towards:

- refining and harmonising the procedures for calculating risks;
- drawing up the Group's organisational monitoring procedures and internal policies;
- expanding the definition of the risk tolerance limits by identifying the precise indicators and the various thresholds of acceptability in relation to the objectives pursued;

- laying down the procedure for allocating capital and streamlining yields commensurate with the risk;
- maintaining an adequate level of Group capital and reserves;
- laying down standards for operational and departmental internal reporting procedure.

As part of the work of calculating risks UGF's Risk Management Department is refining the Internal Model for calculating total Economic Capital, including all the quantifiable risk factors, according to category of risk identified, Business Unit and Line of Business, portfolio and subportfolio or category of asset and liability.
The total Economic Capital is therefore obtained by evaluating all the risk factors at the same time (taking account of any correlations), whilst the Economic Capital for each risk is obtained by 'evaluating' the specific factors of each risk (and therefore 'blocking' the others). The total Economic Capital is less than the Economic Capital required for the subportfolios or for individual risks thanks to the benefits of diversification (pooling, 'imperfect' correlations and internal elimination).
The Risk Management Department bases its analyses and suggestions for any strategies for improvement on the results of the comparison between Economic Capital obtained using the internal model and the Group's available capital.

The process of streamlining Capital includes allocating internal capital (Risk Appetite or the maximum level of Capital at risk) on the basis of trends in the business plan and budget ascertained jointly by the business areas (Non-Life Business and Life Business) and the Risk Management Department. The objective is to maximise financial returns and value for shareholders, remunerating them in line with the Group's risk profile (Risk-Adjusted Performance Measure – RAPM).

A level of capital and reserves commensurate with the risks underwritten is maintained by managing Capital and thus by means of all the policies adopted and choices made when decisions are taken on the level and make-up of available Capital. The optimum combination of the various possible capitalisation instruments is based on the risk profiles underwritten. The objective is to guarantee business continuity and support for the growth of Group business activities whilst complying with the solvency requirements laid down in the supervisory regulations relating to the work carried out by the companies in the Group in sectors such as insurance and banking.

The report produced is part of UGF's internal reporting system. The reporting system is a strategic tool for monitoring, projecting and planning Capital and risk management. It is the official tool by means of which the Risk Management Department informs the various levels within the Company of the results of the calculations made to determine the Risk Appetite, capital allocation, trend in risks and any breach of the operational limits. The Risk Management Department draws up two types of report according to the stakeholders and the amount of detail required:
- Departmental Report for the executive body and senior executives;
- Operational Report for the business units.

The aim of the Departmental Report is to help the executive body and the senior executives to make decisions and draw up strategic guidelines by providing information on the Group, each company and each type of business (Non-Life, Life, Investments and Banking).
The aim of the Operational Report is to provide operational support for the business by providing more detailed information than that required for each class of business at the product/customer level.

In conclusion the objective of UGF's risk management system is to keep the risks identified at an acceptable level (Risk Appetite) in order to ensure both that sufficient equity is available to cope with these risks and that Group profitability improves in line with the risk.

5.3 Notes on Non-Life business

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

The process that leads to making the assumptions is 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 monitored monthly throughout the year. As far as possible assumptions are checked against market statistics. If any information is missing, incomplete or unreliable the estimate of the final cost is based on prudent assumptions.
The very nature of insurance business makes it very difficult to forecast the cost of settling a claim with any certainty. The provision for each claim reported is set by an adjuster and is based on the information in his possession and on experience gained in similar cases. The forecasts fed into the system are periodically updated on the basis of new information about the claim. The final cost may vary as the claim proceeds (for example deterioration in the condition in the event of injury) or in the event of natural disasters. Estimating the final cost appears very difficult and 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.
Reinsurance cover is taken out to cover this type of risk, at different levels for each of the Companies in the Group. The thresholds have been judged sufficiently prudent, being calculated using statistical models that simulate the Company's exposure in detail.
The provisions for claims reported are estimated using the inventory method. In the case of third-party liability classes the adjusters' estimates are also combined with the results of statistical methods such as the 'chain ladder' and the 'Bornhuetter Ferguson' and with valuations based on the average costs for the year (for similar groups covering a sufficiently large number of claims).
The introduction of the direct indemnity scheme in the MV TPL class created a discontinuity in the figures. Therefore the final cost for the most recent years (2007-2009) was based on average costs calculated for similar groups with a sufficiently large number of claims and the results obtained were compared with the loss ratios expected.
The chain ladder method is applied to the amount paid out, the loading and the amount paid out adjusted for inflation. The method is based on historical analysis of the factors that affect the trend in claims. The selection of these factors is based on the figures for the accumulated amounts paid out, which produces an estimate of the final cost per year of occurrence if the claims for that year have not been paid in full.
The chain ladder method is suitable for sectors in which the figures are stable and is therefore not suitable in cases in which there is no significantly stable previous period.
The Bornhuetter Ferguson method uses a combination of a benchmark, or estimates of the ratio of losses to a priori premium and an estimate based on claims incurred (chain ladder).
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 final cost according to the year in which the claim is incurred and according to similar groups of risk on the basis of the trends in 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 available information.
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 trends within the Company, with the number and the average costs of the claims being estimated separately.
As provided for during the transition period the provisions were not discounted.

Change in the assumptions made and analysis of the sensitivity of the model

The estimated cost for 2000-2008 at 31 December 2009 is €25,253m, a slight increase compared with the valuation carried out at 31 December 2008 for the same years (€25,078m). The new figure takes account of the savings recorded on claims that have been settled and of the revaluations required on claims that are still outstanding.

The values ascertained by means of the Liability Adequacy Test (LAT) indicate that the provisions are sufficient overall (0.4%) and assume that in the type of business concerned (third-party liability class) inflation is 4.5%.
The risks arising from insurance policies 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 on the assumption of a 1% increase in the rate of adjustment of the average costs of claims in Motor TPL.

Inflation assumed to be greater than 1%
figures in €m

	Prior to 1998	1998-2009	Total	Delta %
Reserve requirements	239	5,694	5,933	
LAT 4.5%	239	5,671	5,910	- 0.41%
LAT 5.5%	239	5,715	5,954	0.4%

The incidence of the amount of the 635 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 16.7%. A 10% increase in the number of major claims would have led to a fall in provisions of €59m.
The incidence on total provisions of claims handled by others is 5.6%. If reinsurers had written up these claims by 5% costs would have risen by €16.5m.
In assessing the results of these variations it must be borne in mind that these analyses are of the deterministic type and no account is taken of any correlations.

Trend in claims

The tables below, which illustrate the trend in claims, show the estimated first-year costs for each year in which claims were incurred from 2000 until 2009 and the adjustments made in subsequent years as a result of the claim being settled or the budget being adjusted as a result of fuller information about the claim being received.
The line showing the variation compared with the first-year provision must be considered separately since subsequent adjustments may already have been incorporated into the figures for later years.
Maximum caution must be exercised when extrapolating from the figures in the following tables for the purpose of ascertaining the adequacy or inadequacy of provisions.

The Group considers the provisions for claims reported or yet to be reported incurred by 31 December 2009 to be adequate in the light of information currently available. Of course as they are estimates there is no absolute certainty that the provisions are in fact adequate.

Trend in claims (all classes except Assistance)

(figures in €m)

Year incurred	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	TOTAL
Estimate of claims accumulated:											
- at the end of year incurred	2,540	2,523	2,621	2,714	2,795	2,827	2,955	3,101	3,396	3,542	29,013
- after one year	2,492	2,489	2,546	2,649	2,739	2,787	2,954	3,121	3,454		
- after two years	2,503	2,472	2,540	2,653	2,744	2,764	2,945	3,180			
- after three years	2,479	2,469	2,563	2,653	2,734	2,747	2,972				
- after four years	2,485	2,479	2,568	2,633	2,723	2,753					
- after five years	2,492	2,476	2,567	2,617	2,719						
- after six years	2,490	2,473	2,569	2,621							
- after seven years	2,485	2,470	2,576								
- after eight years	2,490	2,478									
- after nine years	2,500										
Estimate of claims accumulated	2,500	2,478	2,576	2,621	2,719	2,753	2,972	3,180	3,454	3,542	28,795
Accumulated payments	2,377	2,334	2,376	2,396	2,430	2,408	2,519	2,579	2,490	1,393	23,302
Variation compared with valuation in year 1	-40	-45	-45	-93	-75	-75	17	79	58	0	
Outstanding as at 31/12/2009	123	144	200	225	289	345	453	600	963	2,149	5,493
Effects of discounting back											
Book value	123	144	200	225	289	345	453	600	963	2,149	5,493

The breakdown of the IBNR estimate at 31 December 2008 showed a total shortfall in 2009 of €132.7m or 38.1% of the estimate. Most of this shortfall was in the MV TPL class where the changes introduced by the direct indemnity scheme led to 'late accounts' arising out of new items on claims already opened in previous years being recorded late or to claims previously closed in various accounts being reopened. This change was taken into account when the new IBNR for 2009 was estimated.

5.4 Notes on Life business

Pricing, loadings, other charges and procedures for remunerating the network

In developing product-pricing policies 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, which are intended to cover policy acquisition and 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.

During the life of the policy the companies' recurrent margins normally take the form of partial retrocessions of the gross returns on the separately-managed businesses or on the securities matching specific provisions and of a fixed minimum return retained by the companies. The recurrent margins on unit-linked products take the form of commissions and 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 amount.

In the case of a considerable proportion of single- or recurrent-premium policies 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 policies 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 policy provides for the payment of regular coupons there may be a charge for the payment of these amounts. If the policyholder cancels the policy there are charges, expressed as a fixed sum, intended to recuperate the expenses incurred in issuing the policy.
The remuneration of the sales network is governed by framework agreements, which are periodically renewed. Remuneration of the network for marketing individual products is based on the price of the products and is reviewed.
Commissions (management fees) are normally paid for acquiring new policies and maintaining those already in the portfolio. These generally translate into an acquisition commission in the case of new policies and a renewal commission linked to the existence and level of the policy portfolio.
In particular, policies 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. Such policies also provide for renewal commissions to be 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.

Make-up of the insurance portfolio

UGF Assicurazioni obtains most of its premiums through the network of agencies and Head Office, whilst BNL Vita operates through banking outlets (the BNL branch network). It should be mentioned that UGF Assicurazioni also obtained some of its Life premiums (approximately 9.2% of the total of the two companies compared with 13.3% in 2008) from banking channels, mainly branches of UGF Banca and banks in the BPI Group (the distribution agreement with which expired in May 2009).

Consolidated direct premium for 2009 was broken down as follows:

Consolidated direct Life premiums *Amounts in €m*	UGF Assicurazioni	Bnl Vita	Navale Vita	Total
Insurance premiums (IFRS4)	2,168.3	3,050.8	1.8	5,220.9
% variation on 2008 (*)	*10.8%*	*98.7%*	*65.1%*	*91.0%*
Investment products (IAS39)	19.4	0.0	0.0	19.5
% variation on 2008 (*)	*-3.50%*	*-22.22%*	*0.00%*	*3.74%*
Total Life premiums	2,187.8	3,050.8	1.8	5,240.4
% variation on 2008 (*)	*10.7%*	*98.7%*	*65.1%*	*48.9%*
(*) the % variation on 2008 for UGF Assicurazioni is calculated using pro-forma figures for Unipol Assicurazioni+Aurora Assicurazioni				
Breakdown:				
Insurance premiums (IFRS4)	*99.1%*	*100.0%*	*100.0%*	*99.6%*
Investment products (IAS39)	*0.9%*	*0.0%*	*0.0%*	*0.4%*

At 31 December 2009 UGF Group direct Life premiums was €5,240.4m (insurance products plus investment products), an increase of 48.9% compared with the same period of the previous year.

Direct premium achieved by the composite company UGF Assicurazioni amounted to €2,187.8m (41.8% of the consolidated total) whilst the direct premium achieved by the bancassurance channel amounted to €3,050.8m (58.2% of the consolidated total). Premiums from Navale Vita totalled €1.8m.

Insurance premiums amounted to 99.6% of total income, substantially in line with 2008 (99.4%).

Direct insurance premiums: types of premiums *Amounts in €m*	UGF Assicurazioni	Bnl Vita	Navale Vita	Total
Traditional premiums	1,778.9	2,685.6	1.8	4,466.3
Financial premiums	0.6	364.0	0.0	364.6
Pension funds	388.8	1.2	0.0	389.9
Insurance premiums (IFRS4)	2,168.3	3,050.8	1.8	5,220.9
including investment with DPF	1,340.7	2,648.9	0.0	3,989.6
	61.8%	*86.8%*	*0.0%*	*76.4%*

Most of the insurance premiums in 2009, totalling €4,466.3m, came from Class I and Class V policies and accounted for 85.2% of total premiums. This had accounted for most of the premiums in 2008 too, though for a lower percentage (65%).
Most of the insurance premiums (€3,989.6m or approximately 76.4% of premiums) were from investment products with DPF (whereas in 2008 they had accounted for 48.8% of insurance premiums). This phenomenon was mainly due to the change in the product mix, especially in the case of BNL Vita.
In 2009 the Group's premium from insurance continued to be strongly characterised by a large number of single premiums, which accounted for 87% of the consolidated total premium whilst the remaining 13% was made up of annual or recurrent premiums mainly from traditional Class I policies.

5.5 Related party transactions

The Parent UGF and the subsidiary UGF Assicurazioni provide services to the companies in the Group.
Until 31 January 2009 UGF carried out the following services:

- IT;
- Communications;
- Internal auditing;
- Risk management;
- Claims management and settlement;
- Administrative (bookkeeping, tax, administrative and financial reporting services);
- Property, purchases and auxiliary services;
- Life and Non-Life marketing and technical;
- Staffing, organisation and training;
- Management planning and control;
- Legal, corporate and compliance.

As a result of the contribution of the class of business providing auxiliary, related and/or operating services to the Group's insurance companies, as from 1 February 2009 UGF Assicurazioni has provided the following services:

- Non-Life and Life management accounts;

- Legal affairs and data protection;
- IT services;
- Development of Non-Life projects and alternative channels;
- Administrative (bookkeeping, tax, administrative and financial reporting services);
- Property, purchases and auxiliary services;
- Claims management and settlement;
- Budget and sales planning;
- Finance.

UGF Assicurazioni also carried out with the companies in the Group:
- normal reinsurance and coinsurance transactions;
- renting property;
- agency mandates;
- secondment of staff;

Unipol SGR carried out asset management for the companies in the Group until 31 January 2009 (until 31/3/2009 in the case of BNL Vita), when this activity too was contributed to UGF Assicurazioni.

The Parent continued to provide the services that did not affect the competitiveness of the individual operating companies, in particular:
- staff and organisation (human resources);
- management planning and control;
- legal (legal services, internal control, risk management and compliance with regulations/legislation);
- communications.

Fees paid to UGF and UGF Assicurazioni are based on external costs incurred, for example for products and services acquired from their suppliers, and on the costs arising out of the activities of the companies themselves, i.e. generated by their own staff, and taking account of:
- the performance objectives that provision of the service to the Company must achieve;
- the strategic investments to be implemented in order to ensure the levels of service agreed;
- the requirement for the service provided to be largely in line with market terms.

The following elements are specifically taken into consideration:
- staffing costs;
- operating costs (IT, logistics etc.);
- general costs (consultancy, legal costs etc.).

For centralised services the operating companies are charged a mark-up to take account of the breakdown cost.
The fees are paid annually.

The financial and commercial relations between UGF Banca and the other companies in the Group came under the usual business of a group split into different companies and, as far as banking was concerned, related to deposit or corporate financing services. Agreements were also entered into for the sale and/or management of banking and investment products and/or services and for the provision of auxiliary banking services in general. The financial effects of these relations were normally governed by the market terms applied to major customers.

The above transactions are not atypical or unusual.

The Parent UGF is controlled by Finsoe SpA, which holds 50.75% of the ordinary share capital, and indirectly by Holmo SpA, which holds 80.90% of Finsoe SpA's share capital. It should also be noted that, in accordance with Article 2497 et seq. of the Civil Code, none of the shareholders of the Parent UGF SpA manage or coordinated it.
It should be mentioned that Finsoe spa, which holds a controlling investment in UGF spa as defined in Article 2359, para. 1, 1, of the Civil Code, does not manage or coordinate it either in technical or financial terms.

The following table shows related party transactions (parents, associates and other companies) carried out during 2009, as laid down in IAS 24 and in CONSOB Communication DEM/6064293/2006.
Operations with subsidiaries have not been recognised since in drawing up the consolidated financial statements operations among Group companies consolidated using the line-by-line method have been eliminated as part of the normal consolidation process.

Related party transactions

Amounts in €m

		Direct Parent	Indirect Parent	Associates	Other (3)	Total	*inc. % (1)*	*inc. % (2)*
4.4	Loans and receivables	21.4	8.7	36.4		66.4	*0.1*	*5.5*
5.1	Receivables relating to direct insurance business	0.0	0.0	36.3		36.3	*0.1*	*3.0*
5.3	Other receivables	209.1	0.0	0.1		209.2	*0.5*	*17.3*
	TOTAL ASSETS	230.5	8.7	72.7	0.0	311.9	*0.7*	*25.8*
4.2	Other financial liabilities	71.8	70.4	23.9		166.1	*0.4*	*13.8*
	TOTAL LIABILTIES	79.7	70.4	23.9	0.0	174.0	*0.4*	*14.4*
1.2	Commission income	0.0	0.0	0.1		0.1	*0.0*	*0.0*
1.5	Gains on other financial instruments and investment property	0.2	0.2	0.9		1.3	*-0.2*	*0.1*
1.6	Other income	0.3	0.0	0.3		0.6	*-0.1*	*0.0*
	TOTAL REVENUE	0.5	0.2	1.3	0.0	1.9	*-0.2*	*0.2*
2.4	Gains/(losses) from other financial instruments and investment property	1.9	1.9	0.2		4.0	*-0.5*	*0.3*
2.5	Operating expenses	0.0	0.0	53.6		53.6	*-7.0*	*4.4*
2.6	Other costs	0.0	0.0	1.0		1.0	*-0.1*	*0.1*
	TOTAL EXPENSES AND CHARGES	1.9	1.9	54.7	0.0	58.5	*-7.6*	*4.8*

(1) Percentage based on total assets in the consolidated Statement of financial position recognised under equity and based on the consolidated profit/(loss)t for the period under financial items.
(2) Percentage based on total net cash flows from the operating activities in the statement of cash flows
(3) The column 'Other' includes related companies and individuals identified as related parties (directors, statutory auditors, general managers, key managers and their family members).

Information relating to directors, statutory auditors, general managers and key managers does not include remuneration and fees for their positions.
Remuneration payable for 2009 to the Parent's directors, statutory auditors and key managers for carrying out their duties in UGF and in other consolidated companies amounted to €10.6m, details of which are as follows (in €m):

- Directors	4.6
- Statutory auditors	0.4
- Key managers	5.6 *(*)*

(*) This figure includes €5.1m of income from employment.

During 2009 the Companies in the Group paid UGF the sum of €1.1m as remuneration for the posts held in them by the Chairman, the Chief Executive Officer, the General Manager and the Key Managers.

It should also be noted that:

– as mentioned in the Management Report 15.47% of UGF Banca's share capital was acquired by the subsidiary UGF Assicurazioni: 35,104,650 shares, or 4.99%, were purchased by the direct holding company, Finsoe SpA, and the same number by the indirect holding company, Holmo SpA; 38,621,578 shares, or 5.49%, were purchased by Coop Estense Scarl, the chairman of which is a member of UGF's Board of Directors and Chairman and Chief Executive Officer of Holmo SpA and Finsoe SpA;
– on 1 July 2009 UGF issued a three-year senior bond loan for €175m which pays interest at an annual fixed rate of 5.25%. The issue, which was fully subscribed during June, by private placement, was placed through UGF Merchant S.p.A. with qualified investors, including the holding companies, Finsoe S.p.A. and Holmo S.p.A. Finsoe subscribed €70m and Holmo €68.6m. All UGF's directors to whom Article 2391 of the Italian Civil Code applied with regard to the transaction in question made the declarations relating to the nature, origin, terms and extent of their interests that are required by law and the relevant codes of conduct;
– after having received the required permits UGF replaced the subsidiary UGF Assicurazioni as issuer of the UGF 7% subordinated bond loan maturing in 2021 and the 5.66% loan maturing in 2023, each of which has a nominal amount of €300m, on 5 August 2009 and 29 December 2009 respectively;
– on 31 December 2009 UGF sold to UGF Assicurazioni the 5.66% subordinated bonds repurchased as a result of the public offer with a nominal value of €38,311,000, at a unit price of €99.94.

5.6 Non-recurring events and significant transactions

As already mentioned in the management report the following non-recurring significant transactions were carried out during 2009:

- on 29 May 2009 UGF Assicurazioni acquired 15.47% of UGF Banca's share capital (108,842,785 shares) for a total of €212.8m and paid for them on the same date.
  This transaction led to a €85.8m increase in goodwill;
- on 23 June 2009 CONSOB approved the Prospectus relating to UGF SpA's voluntary public offer for the entire amount of the 'UGF 5.66% Fixed/Floating Rate Subordinated Callable Notes' due 2023 with a total nominal amount of €300m and currently listed on the regulated market. Applications for a nominal amount of €38,311,000 or 12.77% of the total nominal amount of the securities outstanding were received. The investors who accepted the Offer were paid €87.5 for each €100 of nominal amount held, and therefore there was a capital gain of €4.8m. This was paid out on 16 July 2009.
- after having received the required permits UGF replaced the subsidiary UGF Assicurazioni as issuer of the UGF 7% subordinated bond loan maturing in 2021 and the 5.66% loan maturing in 2023, each of which has a nominal amount of €300m, on 5 August 2009 and 29 December 2009 respectively;
- the agreement for the acquisition of the Arca Vita Group was signed on 24 December 2009. Subject to the authorisation of the relevant authorities the agreement, which is for ten years, provides for UGF to acquire the majority of the ARCA Insurance Group and to be the sole distributor of Life and Non-Life insurance products through the sales branches of the banking network that already operates with the Arca Group. UGF is to acquire 60% of the share capital of Arca Vita S.p.A. from companies in the BPER Banking Group and from BPSO at a price of

approximately €277m and Arca Vita, which already holds 64.08% of the share capital of Arca Assicurazioni S.p.A., is to acquire a further 28.95% from the BPER Group and BPSO for approximately €43m. These figures will be adjusted and spread over a period to take account of whether growth objectives specified in the agreement are achieved.

The market was notified of this transaction by means of press releases issued at the appropriate time.

5.7 Items or transactions arising from atypical and/or unusual transactions

It should be noted that there were no atypical and/or unusual transactions that, because of their significance or importance, the nature of the counterparties or the procedures for determining the price, because they occurred close to the end of the year, could give rise to doubts relating to the accuracy and completeness of the information in this consolidated financial statements, a conflict of interest, the safeguarding of equity or the protection of non-controlling shareholders.

5.8 Hedge accounting

At 31 December 2009 fair value and cash flow hedges were being carried out.

Fair value hedges

Fair value hedges already being carried out last year were transactions to hedge variations in fair value of several government debt securities classified as available-for-sale assets, the aim being to cancel out the variations in fair value of the securities as a result of the variation in the interest rate compared with the market rate at the time the hedging operation was launched.
The financial instruments designated as hedging instruments were Interest Rate Swaps, the fair value of which had fallen by €81.3m at 31 December 2009. The fair value of the bonds hedged had risen by €91.3m. At 31 December 2009 hedging was effective since the ratios between the variations in fair value of the hedged derivatives and the variation in fair value linked to the risk of the underlying assets hedged were still within the range 80%-125%. The fair value of the IRS rose by €34.2m in 2009 and the fair value of the underlying assets fell by €40m.

In February 2009 an equity swap on 59,987,000 Banca MPS shares classified as available-for-sale financial assets was also set up with the aim of cancelling out the variations in price of the shares hedged. The equity swap closed on 26 August 2009 and had the following financial repercussions:

- variation in fair value on Banca MPS shares +€18.5m;
- variation in fair value equity swaps -€18.5m.

Cash flow hedges

In May 2009 UGF Assicurazioni set up a €400m cash-flow hedge type of cover on perpetual hybrid loans with variable half-yearly coupon and repayable in 2018, which will become effective in May 2010. The aim of this transaction was to change the indexation of the loan from floating to fixed rate, thus stabilising future cash flows. At 31 December 2009 equity was affected by a fall of €10.9m in the Gains or losses on hedging instruments (€7.4m net of tax).
As from June and July 2009 UGF Banca set up €224m of cash-flow hedge types of cover on bond loans reimbursable in 2011, 2013 and 2017. The aim of this transaction was to transform the indexation of the loan from floating to fixed rate, thus stabilising cash flows. At 31 December 2009 equity was affected by a fall of €3.8m in the Gains or losses on hedging instruments (€2.5m net of tax).

5.9 Earnings per share

Basic

Earnings per share:		
	31/12/2009	31/12/2008
Earnings/(loss) allocated to ordinary shares (€m)	-477.7	54.4
Weighted average of ordinary shares outstanding during the year (amounts in millions)	1,466.9	1,466.9
Basic earnings per share (EUR per share)	-0.33	0.04

The diluted loss per share is equal to the basic one.

5.10 Proposed dividends

The financial statements of the Parent UGF as at and for the year ended 31 December 2009, drawn up in accordance with the Italian GAAP, show a profit of €128.8m.
UGF's Board of Directors proposes that the Ordinary Shareholders' Meeting vote to pay dividends of €0.04 per ordinary share and €0.0452 per preference share. A total of €100.4m is allocated to the payment of dividends.

Bologna, 25 March 2010

The Board of Directors

Balance sheet broken down by business segment

Amounts in €m

		Non-Life Business		Life Business		Banks		Holding and Services		Intersegment eliminations		Total	
		31/12/2009	31/12/2008	31/12/2009	31/12/2008	31/12/2009	31/12/2008	31/12/2009	31/12/2008	31/12/2009	31/12/2008	31/12/2009	31/12/2008
1	INTANGIBLE ASSETS	199.9	181.0	138.0	132.1	457.6	456.4	1.6	15.6	1,119.5	1,033.6	1,916.6	1,818.7
2	PROPERTY, PLANT AND EQUIPMENT	550.6	500.9	0.4	0.1	25.0	26.1	20.3	45.3	-0.5		595.8	572.5
3	TECHNICAL PROVISIONS - REINSURERS' SHARE	332.6	401.0	124.5	132.6				0.0			457.1	533.6
4	INVESTMENTS	6,701.8	6,220.4	23,504.6	19,662.9	10,393.4	9,977.6	5,059.0	4,598.9	-5,893.8	-5,037.6	39,765.0	35,422.1
4.1	Investment property	198.7	218.1	0.1	2.0					-2.0	3.8	196.8	223.9
4.2	Shareholdings in subsidiaries, associates and interests in joint ventures	493.5	272.4	73.4	16.2	6.0	2.1	4,376.7	4,174.8	-4,905.8	-4,426.4	43.8	39.2
4.3	Held-to-maturity investments	690.0	652.4	1,414.5	1,161.0					-324.8		1,779.7	1,813.4
4.4	Loans and receivables	1,523.5	1,704.6	3,175.8	2,936.1	10,258.3	9,460.0	484.2	222.0	-656.1	-611.2	14,785.8	13,711.6
4.5	Available-for-sale financial assets	3,706.8	3,185.9	11,294.7	7,873.0	123.2	332.8	194.3	196.6	-5.1		15,313.8	11,588.3
4.6	Financial assets at fair value through profit or loss	89.4	187.0	7,546.1	7,674.5	5.9	182.7	3.8	5.4		-3.9	7,645.1	8,045.7
5	OTHER RECEIVABLES	1,325.2	1,250.0	298.5	316.9	102.4	18.4	93.8	216.8	-16.7	-139.5	1,803.2	1,662.6
6	OTHER ASSETS	397.7	539.0	264.1	519.0	218.0	192.1	26.9	21.8	-5.0	-124.8	901.7	1,147.1
6.1	Deferred acquisition costs	9.4	20.9	14.3	17.1					2.5	3.1	26.3	41.1
6.2	Other assets	388.3	518.2	249.8	501.9	218.0	192.1	26.9	21.8	-7.5	-127.9	875.4	1,106.0
7	CASH AND CASH EQUIVALENTS	345.8	488.3	537.4	1,080.7	117.1	96.4	535.1	417.7	-1,313.9	-1,738.6	221.5	344.6
	TOTAL ASSETS	9,853.6	9,580.7	24,867.5	21,844.3	11,313.6	10,766.9	5,736.6	5,316.1	-6,110.4	-6,006.8	45,660.8	41,501.2
1	EQUITY											3,826.2	3,705.5
2	PROVISIONS	70.8	57.8	1.9	3.0	19.4	15.9	9.1	4.1			101.1	80.8
3	TECHNICAL PROVISIONS	7,517.9	7,390.6	20,768.5	18,012.2						-104.4	28,286.4	25,298.4
4	FINANCIAL LIABILITIES	711.6	272.9	2,591.9	2,729.8	9,965.8	9,516.1	1,229.2	617.8	-2,300.1	-2,242.0	12,198.4	10,894.5
4.1	Financial liabilities at fair value through profit or loss	5.7	0.1	2,094.0	2,282.1	3.8	94.0	1.0	0.8			2,104.5	2,377.0
4.2	Other financial liabilities	705.9	272.8	497.9	447.7	9,962.0	9,422.1	1,228.2	617.0	-2,300.1	-2,242.0	10,093.9	8,517.5
5	PAYABLES	233.6	363.8	66.8	42.6	96.2	64.9	34.7	83.2	-16.1	-142.8	415.2	411.7
6	OTHER LIABILITIES	328.1	456.8	273.0	285.6	199.8	323.4	40.8	176.2	-8.2	-131.8	833.4	1,110.3
	TOTAL EQUITY AND LIABILITIES											45,660.8	41,501.2

Income statement broken down by business segment

Amounts in €m

		Non-Life Business		Life Business		Banks		Holding and Services		Intersegment eliminations		Total	
		31/12/2009	31/12/2008	31/12/2009	31/12/2008	31/12/2009	31/12/2008	31/12/2009	31/12/2008	31/12/2009	31/12/2008	31/12/2009	31/12/2008
1.1	Net premiums	4,213.1	4,104.8	5,207.3	3,486.1							9,420.4	7,590.9
1.1.1	*Gross premiums*	*4,319.4*	*4,389.2*	*5,224.6*	*3,503.0*							*9,543.9*	*7,892.2*
1.1.2	*Ceded premiums*	*-106.2*	*-284.4*	*-17.3*	*-16.9*							*-123.5*	*-301.3*
1.2	Commission income	6.0	1.8	14.3	17.5	114.7	96.2			-28.0	-14.2	106.9	101.4
1.3	Gains and losses on remeasurement of financial instruments at fair value through profit or loss	-38.2	120.0	367.6	-444.8	2.9	2.1	-3.5	-5.6			328.9	-328.1
1.4	Gains on shareholdings in subsidiaries, associates and interests in joint ventures	0.5	0.7	0.5	133.3		0.0	14.2	77.9	-14.7	-184.5	0.5	27.4
1.5	Gains on other financial instruments and investment property	262.9	346.3	709.8	746.2	408.6	601.0	35.4	60.6	-48.3	-130.0	1,368.5	1,624.0
1.6	Other income	58.7	55.4	53.7	50.8	14.7	15.3	81.2	278.2	-68.6	-276.0	139.7	123.7
	TOTAL REVENUE	4,503.0	4,629.1	6,353.2	3,989.1	540.9	714.7	127.3	411.1	-159.7	-604.7	11,364.8	9,139.2
2.1	Net charges relating to claims	3,670.6	3,151.5	5,803.5	3,415.2						-8.7	9,474.1	6,558.1
2.1.1	*Amounts paid and change in technical provisions*	*3,720.6*	*3,351.6*	*5,816.5*	*3,429.8*						*-8.7*	*9,537.1*	*6,772.7*
2.1.2	*Reinsurers' share*	*-50.0*	*-200.1*	*-13.0*	*-14.6*							*-63.1*	*-214.7*
2.2	Commission expense	6.0	2.2	13.2	15.3	13.2	16.6			-4.7		27.6	34.1
2.3	Losses on investments in subsidiaries, associates and interests in joint ventures		0.6	0.0	0.0	0.1	0.2	0.1				0.2	0.8
2.4	Losses on other financial instruments and investment property	590.8	163.2	377.7	211.5	260.6	561.2	63.7	69.5	-42.9	-105.4	1,249.8	899.9
2.5	Operating expenses	931.9	926.6	127.3	119.5	269.2	234.0	117.9	310.5	-80.5	-300.3	1,365.8	1,290.3
2.6	Other costs	119.1	114.9	82.9	80.0	13.7	15.1	21.4	17.4	-16.6	-5.8	220.6	221.7
2	TOTAL COSTS AND EXPENSES	5,318.3	4,359.0	6,404.6	3,841.6	556.7	827.2	203.1	397.4	-144.8	-420.2	12,338.0	9,004.9
	PRE-TAX PROFIT (LOSS) FOR THE YEAR	-815.3	270.1	-51.4	147.6	-15.8	-112.5	-75.8	13.7	-14.9	-184.5	-973.2	134.3

Scope of consolidation

Name	State		Registered office	Method (1)	Attivity (2)	% direct holding	% indirect holding		% total participating interest (3)	% votes available at ordinary General Meetings (4)	% consolidation	Share capital
Unipol Gruppo Finanziario Spa	086	Italy	Bologna	G	4						100.00%	2,391,426,100
Compagnia Assicuratrice Linear Spa	086	Italy	Bologna	G	1	100.00%			100.00%		100.00%	19,300,000
Unisalute Spa	086	Italy	Bologna	G	1	98.48%			98.48%		100.00%	17,500,000
Midi Srl	086	Italy	Bologna	G	10		100.00%	UGF Assicurazioni Spa	100.00%		100.00%	77,500,000
Unifimm Srl	086	Italy	Bologna	G	10		100.00%	UGF Assicurazioni Spa	100.00%		100.00%	43,350,000
UGF Banca Spa	086	Italy	Bologna	G	7	67.74%	32.26%	UGF Assicurazioni Spa	100.00%		100.00%	904,500,000
Unipol SGR Spa	086	Italy	Bologna	G	8	100.00%			100.00%		100.00%	5,000,000
UGF Merchant - Banca per le imprese Spa	086	Italy	Bologna	G	7		86.18%	UGF Banca Spa	86.18%		100.00%	105,468,007
Unicard Spa	086	Italy	Milan	G	11		51.00%	UGF Banca Spa	51.00%		100.00%	2,080,000
Unipol Fondi Ltd	040	Ireland	Dublin	G	11		100.00%	UGF Banca Spa	100.00%		100.00%	125,001
Navale Assicurazioni Spa	086	Italy	S. Donato M. (Mi)	G	1	99.83%			99.83%		100.00%	96,250,000
Bnl Vita Spa	086	Italy	Milan	G	1	51.00%			51.00%		100.00%	160,000,000
Smallpart Spa	086	Italy	Bologna	G	9		100.00%	UGF Assicurazioni Spa	100.00%		100.00%	32,000,000
Grecale Abs Srl (*)	086	Italy	Bologna	G	11		10.00%	Smallpart Spa	10.00%		100.00%	20,000
								UGF Banca Spa				
Nettuno Fiduciaria Srl	086	Italy	Bologna	G	11		100.00%	UGF Banca Spa	100.00%		100.00%	250,000
Navale Vita Spa	086	Italy	Rome	G	1		100.00%	Navale Assicurazioni Spa	99.83%		100.00%	5,180,108
UGF Assicurazioni Spa	086	Italy	Bologna	G	1	100.00%			100.00%		100.00%	150,300,000
Castoro Rmbs Srl (*)	086	Italy	Milan	G	11			UGF Banca Spa			100.00%	10,000
Atlante Finance Srl (*)	086	Italy	Milan	G	11			UGF Banca Spa			100.00%	10,000
UGF Leasing Spa	086	Italy	Bologna	G	11		100.00%	UGF Banca Spa	100.00%		100.00%	6,000,000
UGF Private Equity SGR Spa	086	Italy	Bologna	G	8		100.00%	UGF Banca Spa	100.00%		100.00%	2,000,000
Ambra Property Srl	086	Italy	Bologna	G	11	100.00%			100.00%		100.00%	100,000

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

(2) 1=Italian insurers; 2=EU insurers; 3=non-EU insurers; 4=insurance holdings; 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 company 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 ordinary General Meetings if different from the direct or indirect holding.

(*) Special purpose vehicles (SPVs) used for securitisation schemes. Although they are not subsidiaries, SPVs are consolidated as basically all their risks and benefits are retained.

Details of unconsolidated shareholdings

Name	State		Registered office	Activity (1)	Type of business (2)	% direct holding	% indirect holding		% total participating interest (3)	% votes available at ordinary General Meetings (4)	Book value (€m)	Share capital (€)
Hotel Villaggio Città del Mare Spa	086	Italy	Terrasini (Pa)	11	b		49.00%	UGF Assicurazioni Spa	49.00%		0.7	2,030,000
Euresa Holding SA	092	Luxembourg	Luxembourg City	4	b		25.00%	UGF Assicurazioni Spa	25.00%		3.6	9,620,200
A.P.A. Spa	086	Italy	Parma	11	b		46.50%	Smallpart Spa	46.50%		0.7	1,000,000
Assicoop Ferrara Spa	086	Italy	Ferrara	11	b		47.40%	Smallpart Spa	47.40%		0.6	376,635
Assicoop Modena Spa	086	Italy	Modena	11	b		43.32%	Smallpart Spa	43.32%		3.5	2,256,800
Assicoop Ravenna Spa	086	Italy	Ravenna	11	b		49.00%	Smallpart Spa	49.00%		2.3	3,640,000
Assicoop Sicura Spa	086	Italy	Bologna	11	b		40.21%	Smallpart Spa	40.21%		2.7	202,800
Assicoop Siena Spa	086	Italy	Siena	11	b		49.00%	Smallpart Spa	49.00%		0.3	510,000
Assicura Spa	086	Italy	Reggio Emilia	11	b		35.00%	Smallpart Spa	35.00%		1.0	1,040,000
Fondazione Unipolis	086	Italy	Bologna	11	a		100.00%	UGF Assicurazioni Spa	100.00%		0.3	258,230
ZIS Fiera 2 - Consorzio	086	Italy	Bologna	11	b		31.72%	Midi Srl	31.72%		0.3	789,185
Assicoop Imola Spa	086	Italy	Imola (Bo)	11	b		47.33%	Smallpart Spa	47.33%		1.6	1,000,000
UGF Assistance Srl	086	Italy	Bologna	11	a		100.00%	Unisalute Spa	98.48%		0.2	52,000
Assicoop Romagna Spa	086	Italy	Forlì	11	b		49.00%	Smallpart Spa	49.00%		0.8	774,700
Assicoop Firenze Spa	086	Italy	Florence	11	b		44.00%	Smallpart Spa	44.00%		0.5	1,000,000
Pegaso Finanziaria Spa	086	Italy	Bologna	9	b		45.00%	Smallpart Spa	45.00%		4.0	9,000,000
SCS Azioninnova Spa	086	Italy	Bologna	11	b		40.00%	UGF Merchant - Banca per le imprese Spa	34.47%		1.0	2,501,250
Promorest Srl	086	Italy	Castenaso (Bo)	11	b		48.92%	UGF Merchant - Banca per le imprese Spa	42.16%		5.0	10,400,000
EuroMilano Spa	086	Italy	Milan	10	b		20.00%	UGF Assicurazioni Spa	20.00%		14.8	6,500,000

11=other

(2) a=subsidiaries (IAS27) ; b=associates (IAS28); c=joint ventures (IAS 31); please mark with (*) the companies available for sale in accordance with IFRS 5 and write the legend at the foot of the statement.

(3) is the product of the percentage holdings relating to all the companies that may lie somewhere along the chain between the company 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 ordinary General Meetings if different from the direct or indirect holding.

Details of property, plant & equipment and intangible assets

Amounts in €m

	At cost	At reassessed value or at fair value	Total carrying amount
Investment property	196.8		196.8
Other property	544.3		544.3
Other property, plant and equipment	51.5		51.5
Other intangible assets	63.6		63.6

Details of financial assets

Amounts in €m

	Held-to-maturity investments		Loans and receivables		Available-for-sale financial assets		Financial assets at fair value through profit or loss				Total carrying amount	
							Financial assets held for trading		Financial assets at fair value through profit or loss			
	31/12/2009	31/12/2008	31/12/2009	31/12/2008	31/12/2009	31/12/2008	31/12/2009	31/12/2008	31/12/2009	31/12/2008	31/12/2009	31/12/2008
Equity securities and derivatives at cost					197.5	220.4					197.5	220.4
Equity securities at fair value					1,838.0	1,365.7	0.2	0.0	24.5	15.4	1,862.8	1,381.2
listed securities					*1,837.0*	*1,340.7*	*0.2*	*0.0*	*24.5*	*15.4*	*1,861.8*	*1,356.2*
Debt securities	1,779.7	1,813.4	4,443.0	4,151.3	13,082.7	9,869.5	364.6	711.6	5,867.7	5,514.8	25,537.7	22,060.6
listed securities	*1,077.9*	*1,216.8*	*23.0*	*0.0*	*12,118.8*	*9,282.9*	*194.2*	*386.7*	*1,627.5*	*1,682.1*	*15,041.5*	*12,568.5*
OEIC units					195.6	132.7	90.3	46.0	1,204.0	1,536.3	1,489.9	1,715.0
Loans and receivables from bank customers			9,785.8	9,009.1							9,785.8	9,009.1
Interbank loans and receivables			371.4	275.0							371.4	275.0
Deposits with ceding companies			21.5	21.2							21.5	21.2
Financial items receivable on insurance contracts									41.2	30.0	41.2	30.0
Other loans and receivables			163.5	254.3							163.5	254.3
Non-hedge derivatives							9.7	110.8			9.7	110.8
Hedge derivatives								0.3	42.8	80.5	42.8	80.8
Other financial investments			0.5	0.5							0.5	0.5
Total	1,779.7	1,813.4	14,785.8	13,711.6	15,313.8	11,588.3	464.9	868.7	7,180.3	7,177.0	39,524.4	35,159.0

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

Amounts in €m	Benefits linked to investment funds and market indices		Benefits linked to pension fund management		Total	
	31/12/2009	31/12/2008	31/12/2009	31/12/2008	31/12/2009	31/12/2008
Assets on the balance sheet	5,896.2	6,307.2	1,272.5	869.0	7,168.7	7,176.1
Intragroup assets*						
Total assets	5,896.2	6,307.2	1,272.5	869.0	7,168.7	7,176.1
Financial liabilities on the balance sheet	1,875.3	2,052.2	75.2	56.9	1,950.5	2,109.2
Technical provisions on the balance sheet	4,020.9	4,254.9	1,197.2	812.0	5,218.1	5,067.0
Intragroup liabilities*						
Total liabilities	5,896.2	6,307.2	1,272.5	869.0	7,168.7	7,176.1

* Assets and liabilities eliminated on consolidation

Reinsurers' share of technical provisions

Amounts in €m

	Direct business		Indirect business		Total carrying amount	
	31/12/2009	31/12/2008	31/12/2009	31/12/2008	31/12/2009	31/12/2008
Non-Life provisions	329.5	396.0	3.1	5.0	332.6	401.0
Provision for premiums	52.5	52.9	0.0	0.0	52.5	52.9
Provision for claims	277.0	343.1	3.1	4.9	280.1	348.1
Other provisions						
Life provisions	123.8	131.9	0.7	0.7	124.5	132.6
Provision for payable amounts	4.7	4.3	0.0	0.0	4.7	4.3
Mathematical provisions	118.1	124.7	0.7	0.7	118.8	125.4
Technical provisions where the investment risk is borne by policyholders and provisions arising from pension fund management						
Other provisions	1.1	3.0	0.0	0.0	1.1	3.0
Total reinsurers' share of technical provisions	453.4	527.9	3.8	5.7	457.1	533.6

Details of technical provisions

Amounts in €m

	Direct business		Indirect business		Total carrying amount	
	31/12/2009	31/12/2008	31/12/2009	31/12/2008	31/12/2009	31/12/2008
Non-Life provisions	7,478.3	7,350.8	39.6	39.8	7,517.9	7,390.6
Provision for premiums	1,529.2	1,563.3	5.3	5.5	1,534.5	1,568.8
Provision for claims	5,923.6	5,763.3	34.4	34.3	5,957.9	5,797.6
Other provisions	25.5	24.2			25.5	24.2
including provisions allocated as a result of the liability adequacy test						
Life provisions	20,691.6	17,892.7	76.8	15.1	20,768.5	17,907.8
Provision for payable amounts	113.6	100.9	2.4	2.2	116.0	103.1
Mathematical provisions	15,618.9	13,059.1	12.7	12.9	15,631.6	13,072.1
Technical provisions where the investment risk is borne by policyholders and provisions arising from pension fund management	5,227.5	5,099.7	0.0	0.0	5,227.5	5,099.7
Other provisions	-268.3	-367.0	61.7	0.0	-206.6	-367.0
including provisions allocated as a result of the liability adequacy test						
including deferred liabilities to policyholders	*-323.2*	*-504.3*			*-323.2*	*-504.3*
Total technical provisions	28,169.9	25,243.4	116.5	54.9	28,286.4	25,298.4

Details of financial liabilities

Amounts in €m

	Financial liabilities at fair value through profit or loss				Other financial liabilities		Total carrying amount	
	Financial liabilities held for trading		Financial liabilities at fair value through profit or loss					
	31/12/2009	31/12/2008	31/12/2009	31/12/2008	31/12/2009	31/12/2008	31/12/2009	31/12/2008
Participating financial instruments								
Subordinate liabilities					1,612.5	1,278.0	1,612.5	1,278.0
Liabilities arising from financial contracts issued by insurance companies			1,987.3	2,154.7	52.3	136.7	2,039.6	2,291.4
arising from contracts where the investment risk is borne by policyholders			*1,912.1*	*2,097.8*			*1,912.1*	*2,097.8*
arising from pension fund management			*75.2*	*56.9*			*75.2*	*56.9*
arising from other contracts					*52.3*	*136.7*	*52.3*	*136.7*
Deposits received from reinsurers					178.3	190.4	178.3	190.4
Financial items payable on insurance contracts								
Debt instruments issued					2,707.6	652.8	2,707.6	652.8
Payables to bank customers					5,121.7	5,565.5	5,121.7	5,565.5
Interbank payables					421.6	694.2	421.6	694.2
Other borrowings							0.0	0.0
Non-hedge derivatives	34.3	106.8					34.3	106.8
Hedge derivatives	82.8	115.6					82.8	115.6
Other financial liabilities								
Total	117.2	222.3	1,987.3	2,154.7	10,093.9	8,517.5	12,198.4	10,894.5

Details of technical insurance items

Amounts in €m

		31/12/2009			31/12/2008		
		Gross amount	Reinsurers' share	Net amount	Gross amount	Reinsurers' share	Net amount
Non-Life business							
NET PREMIUMS		4,319.4	-106.2	4,213.1	4,389.2	-284.4	4,104.8
a	Premiums written	4,285.4	-106.4	4,179.0	4,380.5	-278.6	4,101.9
b	Change in provision for premiums	34.0	0.2	34.2	8.6	-5.8	2.9
NET CHARGES RELATING TO CLAIMS		3,720.6	-50.0	3,670.6	3,351.6	-200.1	3,151.5
a	Amounts paid	3,641.3	-115.7	3,525.6	3,536.4	-230.0	3,306.4
b	Change in provision for claims	159.9	62.9	222.8	-108.9	30.2	-78.7
c	Change in recoveries	-81.9	2.8	-79.1	-88.2	-0.3	-88.5
d	Change in other technical provisions	1.3		1.3	12.3		12.3
Life business							
NET PREMIUMS		5,224.6	-17.3	5,207.3	3,503.0	-16.9	3,486.1
NET CHARGES RELATING TO CLAIMS		5,816.5	-13.0	5,803.5	3,429.8	-14.6	3,415.2
a	Amounts paid	3,259.0	-21.0	3,238.0	3,931.7	-23.1	3,908.6
b	Change in provision for payable amounts	-22.2	-0.4	-22.6	-83.2	0.9	-82.3
c	Change in mathematical provisions	2,480.2	6.5	2,486.7	-156.0	7.7	-148.3
d	Change in technical provisions where the investment risk is borne by policyholders and provisions arising from pension fund management	160.0		160.0	-46.5		-46.5
e	Change in other technical provisions	-60.6	1.9	-58.7	-216.1	-0.1	-216.2

Investment income and charges

Amounts in €m

		Interest	Other gains	Other losses	Realised gains	Realised losses	Total realised gains and losses	Unrealised gains		Unrealised losses		Total unrealised income and charges	Total gains and losses	Total gains and losses
								Unrealised capital gains	Value readjustment	Unrealised capital losses	Write-down		31/12/2009	31/12/2008
Balance on investments		1,215.7	132.2	-61.6	511.3	-382.8	1,414.8	665.2	0.0	-265.3	-857.8	-457.9	957.0	650.5
a	Arising from investment property		12.8	-3.3	9.4		18.9			-1.8		-1.8	17.1	8.6
b	Arising from subsidiaries, associates and interests in joint ventures		0.5	-0.1			0.4				-0.1	-0.1	0.3	26.6
c	Arising from held-to-maturity investments	74.3	0.4				74.8			0.0	-26.4	-26.4	48.4	36.1
d	Arising from loans and receivables	575.9			26.2	-19.9	582.3			-87.6	-13.8	-101.4	480.9	482.8
e	Arising from available-for-sale financial assets	435.7	56.7	-4.8	149.7	-37.9	599.4	2.2		-41.2	-817.5	-856.5	-257.1	497.4
f	Arising from financial assets held for trading	11.7	5.8	-36.2	275.8	-289.9	-32.8	100.8		-37.5		63.3	30.5	-108.2
g	Arising from financial assets at fair value through profit or loss	118.1	56.0	-17.2	50.2	-35.1	172.0	562.1		-97.2		464.9	636.9	-292.8
Balance on sundry receivables		4.0	0.0	0.0		0.0	4.0					0.0	4.0	0.5
Balance on cash and cash equivalents		1.3	0.0	0.0			1.3					0.0	1.3	9.0
Balance on financial liabilities		-192.7	0.0	-1.9	81.1	-66.5	-180.1	3.1	0.0	-336.3	0.0	-333.3	-513.3	-234.8
a	Arising from financial liabilities held for trading				61.2	-66.5	-5.3	3.1		-0.6		2.4	-2.8	8.5
b	Arising from financial liabilities at fair value through profit or loss						0.0			-335.7		-335.7	-335.7	64.4
c	Arising from financial liabilities	-192.8		-1.9	19.9		-174.8					0.0	-174.8	-307.7
Balance on payables		-1.1		0.0			-1.1				0.0	0.0	-1.1	-2.8
Total		1,027.1	132.2	-63.4	592.4	-449.3	1,239.0	668.2	0.0	-601.6	-857.8	-791.1	447.8	422.5

Details of insurance business expenses

Amounts in €m

		Non-Life Business		Life Business	
		31/12/2009	31/12/2008	31/12/2009	31/12/2008
Gross commissions and other acquisitions costs		820.9	842.3	80.0	74.2
a	Acquisition commissions	548.1	578.5	35.9	29.3
b	Other acquisition expenses	150.0	135.5	31.2	30.5
c	Change in deferred acquisition expenses	11.4	16.3	3.1	3.6
d	Renewal commissions	111.4	112.1	9.9	10.8
Commissions and profit-sharing received from reinsurers		-17.7	-64.3	-3.2	-3.7
Investment management expenses		7.4	8.3	14.2	11.3
Other administrative expenses		121.2	140.2	36.3	37.7
Total		931.9	926.6	127.3	119.5

Details of other comprehensive income

Amounts in €m

	Amounts allocated		Transfers to the Income Statement		Other changes		Total changes		Taxation		At	
	31/12/2009	31/12/2008	31/12/2009	31/12/2008	31/12/2009	31/12/2008	31/12/2009	31/12/2008	31/12/2009	31/12/2008	31/12/2009	31/12/2008
Translation reserve												
Gains or losses on available-for-sale financial assets	617.7	-560.8	683.6	170.4	-303.8	-275.6	997.5	-666.0	-348.2	230.5	-395.9	-1,393.5
Gains or losses on cash flow hedges	-10.6	-0.1					-10.6	-0.1	5.0	0.0	-10.0	0.7
Gains or losses on hedges of net investment in foreign operations												
Variation in equity of investees												
Variation in intangible assets												
Variation in property, plant and equipment											20.7	20.7
Gains or losses on non-current assets held for sale or a disposal group												
Actuarial gains and losses and adjustments relating to defined benefit plans												
Other items												
TOTAL OTHER COMPREHENSIVE INCOME	607.1	-560.9	683.6	170.4	-303.8	-275.6	986.9	-666.1	-343.1	230.5	-385.2	-1,372.1

Details of reclassified financial assets and their effects on the income statement and comprehensive income

Amounts in €m

Categories of financial assets subject to reclassification		Type of activity	Number of reclassified assets in 2009 at the reclassification date	Book value as at 31/12/2009 on reclassified assets		Fair value as at 31/12/2009 on reclassified assets		Reclassified assets in 2009		Reclassified assets up to end of 2009		Reclassified assets in 2009		Reclassified assets up to end of 2009	
from	to			Reclassified assets in 2009	Reclassified assets up to end of 2009	Reclassified assets in 2009	Reclassified assets up to end of 2009	Profit or loss on income statement	Profit or loss in comprehensive income	Profit or loss on income statement	Profit or loss in comprehensive income	Profit or loss that would have been recorded through profit or loss if there had been no reclassification	Profit or loss that would have been recorded in comprehensive income if there had been no reclassification	Profit or loss that would have been recorded through profit or loss if there had been no reclassification	Profit or loss that would have been recorded in comprehensive income if there had been no reclassification
Fin. assets at FV through P or L	Loans and receivables	debt instruments	272.7	275.8	804.3	276.9	797.6				0.0	4.1		-3.7	0.0
Fin. assets at FV through P or L	Fin. assets AFS	debt instruments			5.8		5.7				-0.1			-0.1	0.0
Fin. assets at FV through P or L	Fin. assets AFS	equity securities			3.9		3.1				-0.7			-0.7	0.0
Fin. assets AFS	Loans and receivables	debt securities			1,566.3		1,608.5								42.3
Total			272.7	275.8	2,380.2	276.9	2,414.9				-0.9	4.1		-4.6	42.3

Details of financial assets and liabilities by level

Amounts in €m

		Level 1		Level 2		Level 3		Total	
		31/12/2009	31/12/2008	31/12/2009	31/12/2008	31/12/2009	31/12/2008	31/12/2009	31/12/2008
Available-for-sale financial assets		13,752.0		551.8		1,010.0		15,313.8	
Financial assets at fair value through profit or loss	Financial assets held for trading	96.1		182.2		186.6		464.9	
	Financial assets at fair value through profit or loss	1,539.4		564.6		5,076.3		7,180.3	
Total		15,387.6		1,298.5		6,272.8		22,958.9	
Financial liabilities at fair value through profit or loss	Financial liabilities held for trading			100.4		16.7		117.2	
	Financial liabilities at fair value through profit or loss					1,987.3		1,987.3	
Total		-		100.4		2,004.0		2,104.5	

The table shows details of the financial assets and liabilities recorded at fair value.

To be specific, the tables 'Details of financial assets' and 'Details of financial liabilities' show the values in more detail in order to take account of the 'levels of fair value':
- Level 1: financial assets or liabilities listed on regulated markets or contributed with sufficient level of liquidity;
- Level 2: financial assets or liabilities not belonging to Level 1 that are valued not according to the market and for which the valuation parameters used can be seen on the market;
- Level 3: financial assets or liabilities not belonging to Level 1 that are valued not according to the market and for which the valuation parameters used cannot be seen on the market.

Financial assets and liabilities not belonging to Level 1 were further distinguished on the basis of the inputs used for the purpose of valuation.

In the case of bonds the parameters listed below were analysed in order to ascertain their provenance from markets or cash instruments identifiable in no uncertain manner on the market by means of an info provider:
- Credit curves, considered to be seen if extrapolated from CDS or asset swap curves with a sufficient level of liquidity and not valued internally or by means of *benchmarks* .
- Rate curves.
- Rate volatility. If the instruments are valued by means of implicit volatility relating to Cap, Floor, Swaption contracts that can be seen on the market and have a sufficient level of liquidity, they are classified as Level 2; if they are valued by means of interest rate volatility calculated on historical bases, instruments are classified as Level 3.
- Correlations between rates. If the models used for valuing financial instruments require the use of correlation between rates, they are considered as belonging to Level 3, since this parameter is always subject to internal valuation.

Equity instruments were valued for being at fair value level only on the basis of whether they were listed or unlisted; in the latter case the instruments were classified as Level 2.

Financial assets and liabilities for which no mark-to-market nor mark-to-model valuations were available on the date of valuation were valued by means of external valuations provided by a trading counterparty. In the case of these types of instrument the same counterparties were asked to provide classification by level, in line with the pricing source. If these valuations were not received, the financial instruments were classified as Level 3 as a precaution.

In the case of financial liabilities belonging to the category of 'financial liabilities at *fair value'* , it was not possible to identify the corresponding assets. Therefore these instruments were classified as Level 3 as a precaution.

As indicated in Article 6 para. 2 of ISVAP ruling 2784 of 8 March 2010, for 2009 only the undertaking was not obliged to record comparative information. Therefore the table 'Details of variations in financial assets and liabilities classified as Level 3' is omitted for 2009.

STATEMENT ON THE CONSOLIDATED FINANCIAL STATEMENTS IN ACCORDANCE WITH ARTICLE 81-ter OF CONSOB REGULATION 11971 OF 14 MAY 1999 AND SUBSEQUENT AMENDMENTS AND ADDITIONS

1. The undersigned Carlo Salvatori, in his capacity as Chief Executive Officer, and Maurizio Castellina, in his capacity as Manager in charge of financial reporting of Unipol Gruppo Finanziario S.p.A., hereby declare that, under the provisions of Article 154-bis, paras 3 and 4, of Legislative Decree 58 of 24 February 1998, the administrative and accounting procedures applied in drawing up the 2009 consolidated financial statements.
   - were appropriate for the type of business concerned and
   - were properly applied.
2. The suitability of the administrative and accounting procedures for drawing up the consolidated financial statements at 31 December 2009 was assessed using a process laid down by Unipol Gruppo Finanziario S.p.A. that is based on the COSO Framework (Internal Control – Integrated Framework, issued by the Committee of Sponsoring Organisations of the Tradeway Commission), which is unanimously recognised as the standard for the implementation and assessment of internal control systems.
3. They also represent that:

   3.1 the Consolidated Financial Statements at 31 December 2009:

   – are drawn up in accordance with the IAS/IFRS endorsed by the European Union in accordance with EC Regulation 1606/200 and with Legislative Decree 38/2005, Legislative Decree 209/2005 and the relevant ISVAP rulings, regulations and circulars;

   – correspond to the information recorded in the books and accounting records;

   – give a true and fair view of the financial position and results of operations of the issuer and the consolidated companies;

   3.2 the management report includes a reliable analysis of the performance, the results and the situation of the issuer and all the consolidated companies, together with a description of the main risks and uncertainties to which they are exposed.

Bologna, 25 March 2010

The Chied Executive Officer	The Manager in charge of financial reporting
Carlo Salvatori	*Maurizio Castellina*

SUMMARY OF FEES FOR THE YEAR FOR SERVICES PROVIDED BY THE AUDITING COMPANY (Art. 149-duodecies of the CONSOB Issuers Regulation)			
Amounts in €K			
Type of services	Provider of the service	Recipient	Remuneration
Auditing	KPMG spa	Unipol Gruppo Finanziario spa	115
Certification services	KPMG spa	Unipol Gruppo Finanziario spa	3
Other services: issuing comfort letters	KPMG spa	Unipol Gruppo Finanziario spa	80
Other services: advisory services	KPMG Advisory spa	Unipol Gruppo Finanziario spa	220
Total Unipol Gruppo Finanziario			418
Auditing	KPMG spa	Subsidiary companies	1,399
Certification services	KPMG spa	Subsidiary companies	297
Other services: advisory services	KPMG Advisory spa	Subsidiary companies	131
Total subsidiary companies			1,827
Overall total			2,245

The remuneration shown includes any indexation but not expenses incurred by the company providing the services nor any non-deductible VAT.

Board of Statutory Auditors' Report on the 2009 Consolidated Financial Statements

Dear Shareholders,

The Board of Statutory Auditors reports as follows on the consolidated financial statements of Unipol Gruppo Finanziario S.p.A. (UGF S.p.A.) for the year ended 31 December 2009.

1. In our opinion Unipol Gruppo Finanziario S.p.A.'s consolidated financial statements for the year ended 31 December 2009 were drawn up in accordance with the IAS/IFRS issued by the IASB and validated by the European Union, with the interpretations issued by IFRIC and with the provisions of EC Regulation 1606/2002 in force on the date the accounts closed. The new version of IAS 1 'Presentation of accounts' came into effect on 1 January 2009. The new version of the standard requires that all variations generated by transactions with members be shown in a statement of variations in capital and reserves. However, all transactions with third parties (comprehensive income) must be set out either in a single statement of comprehensive income or in two separate statements: separate income statement and statement of other elements of comprehensive income (other comprehensive income – OCI). The approach used by your Directors (when drawing up the consolidated financial statements for the year ended 31/12/2009) for recording comprehensive income complies with the provisions of ISVAP Ruling 2784 of 8 March 2010, which amended Regulation 7 of 13 July 2007. You are therefore provided with a separate statement of consolidated comprehensive income, which includes the components that make up the result for the period and the charges and income recorded direct as shareholders' equity in the case of transactions other than those carried out with members. Transactions carried out with members, together with those relating to the comprehensive net result, are shown in the table of movements of shareholders' equity. The retrospective adoption of this principle as from 1 January 2009 has no effect on the value of the items in the accounts.
2. We have ascertained that the layout complies with the provisions of ISVAP Regulation 7 of 13 July 2007 and subsequent amendments. Your attention is drawn to the fact that, referring to the statement 'Details of financial assets and liabilities in each class', Article 6 of ISVAP Ruling 2784 of 8 March 2010 provides that for 2009 alone undertakings not be obliged to record comparative information. Unipol Gruppo Finanziario S.p.A. took advantage of this facility to present only the figures for 2009. This information is not shown in the table 'Details of variations in financial assets and liabilities in each class' either.
3. We have ascertained that the accounting principles and the valuation criteria were applied correctly. In particular the principles of consolidation and the rules on determining the basis of consolidation and the date to which the figures apply were observed.
4. We have ascertained that the Parent Company's organisational and procedural structure was suitable for managing the flows of information and the operations arising from consolidation.
5. We have ascertained that the Parent Company fulfilled CONSOB's requirements relating to accounting information on the performance of the various categories of business and the outlook. We should like to point out that in accordance with the provisions of Article 14 of Legislative Decree 39 of 27 January 2010 (and, until 6/4/2010, those of Article 156 of Legislative Decree 58 of 24/2/1998) it is the responsibility of the Auditors to decide whether

the Management Report gives a true and fair reflection of the consolidated financial statements. Therefore we must inform you that in their Report issued on 9 April 2010 the Auditors stated that in its opinion the Management Report gave a true and fair reflection of the consolidated financial statements, with the exception of the positive effect on the income statement for 2009 of the comment it made, as a consequence of the change made to the Group's impairment policy (adopted for the consolidated financial statements for the year ended 31/12/2009), on the contents of the joint Banca d'Italia, CONSOB and ISVAP Document issued on 3 March 2010 under the agreement to collaborate on applying international accounting standards (IAS/IFRS), and following the communication of 6 February 2009 and publication of the IFRIC document – July 2009 Update. The Board of Statutory Auditors will make its own observations on the comment in question in a later paragraph of this Report.

6. The Parent Company UGF S.p.A. adhered to the Code of Corporate Governance issued by Borsa Italiana S.p.A. and drew up the 'Annual report on corporate governance and ownership'. The Board of Statutory Auditors has evaluated this Report to the best of its ability and has no observations to make. Therefore we must point out that the new wording of Article 123-bis of Legislative Decree 58 of 24 February 1998 introduced by Legislative Decree 173 of 3 November 2008 provides that, starting with the 2009 financial statements, the Auditors express their opinion on whether some information in the 'Report on corporate governance and ownership' gives a true and fair reflection of the Annual Accounts and the consolidated financial statements. This information, relating to corporate governance, ownership and the risk management and internal auditing system, may be included in the management report or in a separate report to be published at the same time as the former. The Parent Company UGF S.p.A. decided to record this information in the 'Annual report on corporate governance and ownership', which was approved by the Board of Directors on 25 March 2010. The Board of Statutory Auditors reports that the Auditors' Report issued on 9 April 2010 contains no comments on the matter mentioned above, with the exception of the positive effect on the consolidated income statement for 2009 of the comment made by the Auditors, as a consequence of the change made to the Group's impairment policy (adopted for the consolidated financial statements for the year ended 31/12/2009) applied to listed equity securities classified as 'Financial assets available for sale', on the contents of the joint Banca d'Italia, CONSOB and ISVAP Document issued on 3 March 2010 in implementation of the collaboration agreement relating to applying international accounting standards (IAS/IFRS), and following the communication of 6 February 2009 and publication of the IFRIC document – July 2009 Update. The Board of Statutory Auditors will make its own observations on the comment in question in a later paragraph of this Report.

7. We wish to point out that before the consolidated financial statements for the year ended 31 December 2009 were approved your Directors approved the criteria (and the results) for determining the recouperable value of the goodwill with an indefinite useful life recorded in the consolidated financial statements for the insurance and banking subsidiaries (impairment testing). Paragraph 5.1 of the Notes to the consolidated financial statements shows the criteria used for the tests, and the results, which revealed that there was no need to write down the goodwill recorded in the UGF Group's CGUs as at 31 December 2009. On the basis of the findings that the Board of Statutory Auditors has, to the best of its ability, made on the above, both direct and by exchanging information with the Auditors, we have no observations to make in this Report.

8. We wish to point out that on 3 March 2010 Banca d'Italia, CONSOB and ISVAP published a Joint Document on the following: *'Financial years 2009 and 2010 – Information to be provided*

in financial reports on monitoring reductions in value of assets (impairment testing), on contractual terms for financial payables, on rescheduling debts and on ranking fair value', in order to reaffirm the need for financial reports to represent clearly, comprehensively and in timely fashion the risks and uncertainties to which companies are exposed, the capital and reserves they have available to face up to them and their ability to generate income. The document identified some areas where companies must provide a higher level of transparency:

(i) valuing goodwill (impairment testing), other intangible assets with an indefinite useful life and shareholdings;
(ii) valuing equity securities classified as 'available for sale';
(iii) classifying financial liabilities when the contractual terms that stipulate that benefits will be lost if contracts are not allowed to run until their expiry date are not observed.

The Joint Document also gives details of the information to be provided on rescheduling debts and calls for the new duties of disclosure relating to 'fair value ranking'.

In the Board of Statutory Auditors' opinion UGF S.p.A.'s consolidated financial statements for the year ended 31 December 2009 contain the evidence required by the Joint Document of 3 March 2010. For this reason, and on the basis of information received from the Auditors, we have no observations to make in this Report.

9. We wish to inform you that the Auditors' Reports on the subsidiary companies' accounts comply with the provisions of Legislative Decree 58 of 24 February 1998 (with effect from 7/4/2010, of Legislative Decree 39 of 27/1/2010).

10. In accordance with Article 2497 et seq. of the Civil Code none of the shareholders carries out any of the administrative and coordination work of the Parent Company UGF S.p.A.

11. We should like to point out the following in relation to the Report on the consolidated financial statements issued by KPMG S.p.A. on 9 April 2010.

- In paragraph 4 KPMG states the following with regard to the consolidated financial statements:

  "In our opinion, except for the positive effect on the 2009 consolidated income statement of the matter described in paragraph 3, the consolidated financial statements of the Unipol Gruppo Finanziario Group as at and for the year ended 31 December 2009 comply with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing Article 9 of Legislative Decree No. 38/2005. Therefore, they are clearly stated and give a true and fair view of the financial position of Unipol Gruppo Finanziario as at 31 December 2009, the results of its operations and its cash flows for the year then ended."
- Paragraph 3 of the Report issued by the Auditors on the consolidated financial statements contains a comment.

  The Board of Statutory Auditors wishes to draw your attention to the contents of the comment:

  "Our report on the consolidated financial statements at 31 December 2008 was qualified with respect to a matter, the effect of which we were unable to determine for reasons given therein, relating to the policy used by the Group to impair the listed equity instruments classified as 'Available-for-sale financial assets'. In note '2.4 Financial assets – IAS 32 and IAS 39 – IFRS 7' to the consolidated financial statements, the directors state that they have changed the above impairment policy in the consolidated financial statements at 31 December 2009 following publication of the Banca d'Italia,

CONSOB and ISVAP Joint Document on 3 March 2010, recognising the related effect in the 2009 income statement under the caption 'Fair value losses'. Consequently, the loss shown in the 2009 income statement is overstated by an amount which we are unable to calculate following the reversal of the effect of the above matter, now overcome, described in our report on the consolidated financial statements at 31 December 2008, which had no impact on the Group's equity at 31 December 2009."

With regard to this comment the Board of Statutory Auditors would like to point out that CONSOB Communication 1025564 of 6 April 2001 requires that as part of its monitoring work the Board of Statutory Auditors consider the comments and observations in the Auditors' reports on the company and consolidated financial statements and that it include 'observations and proposals' on these comments and observations in its Report to the Shareholders' Meeting.

Below are the Board of Statutory Auditors' observations on the comment in the Auditors' Report. First of all we wish to point out that the consolidated financial statements do not have to be approved by the Shareholders' Meeting and therefore the Board of Statutory Auditors will make no 'proposals' but only observations.

We should also like to point out that the consolidated financial statements are for information only and therefore the calculations made when they are drawn up have no direct effect on the bodies referred to in the Italian Civil Code in whose (company) accounts the figures are of prime importance.

Observations on the comment in the Auditors' Report on UGF S.p.A.'s consolidated financial statements for the year ended 31 December 2009.

The Board of Statutory Auditors states that in the Notes to the consolidated financial statements for the year ended 31 December 2009, and in the Management Report, the Directors report that on 3 March 2010, under the agreement to collaborate on applying International Accounting Standards (IAS/IFRS) and following the communication of 6 February 2009 and publication of the IFRIC (International Financial Reporting Interpretations Committee) document – July 2009 Update, Banca d'Italia, CONSOB and ISVAP published a document (Joint Document) on the following: "Financial years 2009 and 2010 – Information to be provided in financial reports on monitoring reductions in value of assets (impairment testing), on contractual terms for financial payables, on rescheduling debts and on ranking fair value, in order to reaffirm the need for financial reports to represent clearly, comprehensively and in timely fashion the risks and uncertainties to which companies are exposed, the capital and reserves they have available to face up to them and their ability to generate income."

The Joint Document invites businesses to adopt impairment procedures for equity securities, particularly those classified as 'available for sale', in line with IFRIC's observations in the document of July 2009 which, whilst not containing a specific Interpretation of IAS 39 (paragraph 58 et seq.), offered guidance on procedures for applying it. In particular, in the wake of these IFRIC guidelines, the Joint Document drew Directors' attention to the fact that, once 'significant' and 'prolonged' have been defined, even only one of these thresholds being crossed is objective evidence of the reduction in value of equity securities classified as assets available for sale (AFS), therefore it is not possible to submit the value to further qualitative checks such as analytical valuation methods. The result is that, once one of the two thresholds of 'significant' or 'prolonged' has been crossed, falls in value of equity securities classified as Financial assets available for sale must be recorded in the income statement, irrespective of any further consideration of their value.

The report provided by your Directors goes on to mention that in its consolidated financial statements for the year ended 31 December 2009 UGF S.p.A. changed its impairment policy to comply with the Banca d'Italia – CONSOB – ISVAP Document of 3 March 2010, eliminating qualitative valuations from its (previous) impairment policy, and applied the quantitative thresholds of 'significant' and 'prolonged' loss objectively and separately (keeping these objective benchmarks the same as those adopted for drawing up the consolidated financial statements for the year ended 31/12/2008), in particular:

- 'significant': a fall in value of more than 20% of the initial subscription value on the reference date;
- 'prolonged': the market price below the initial subscription value for the previous 36 months.

The Directors' report goes on to say that application of these criteria revealed that the Group's share portfolio contained 4 securities that fulfilled the second condition. 63 securities (including the 4 securities the market price of which had remained below the initial subscription value for the previous 36 months) for which the market price as at 31 December 2009 was below the initial subscription value with a spread greater than 20% fulfilled the first condition. This resulted in €798.1m of falls in value being transferred from the 'Provision for profits and losses on assets available for sale' to 'Charges arising out of falls in value of assets available for sale' in the income statement of the consolidated financial statements for the year ended 31 December 2009 (gross of the tax effect and the provision for shadow accounting) but did not affect the Group's consolidated capital and reserves as at 31 December 2009.

The Board of Statutory Auditors has the following observations.

In view of the fact that

in the previous year the Board of Statutory Auditors considered that the analysis procedure followed by Unipol Gruppo Finanziario S.p.A. for measuring any reduction in value and irrecuperability of its financial assets (impairment testing) appeared adequate to indicate whether, in accordance with the provisions of para. 59 of IAS 39, as referred to in para. 67, 'a financial asset or group of financial assets available for sale has suffered a reduction in value and losses resulting from the reduction in value have been incurred' and therefore appeared to comply with the provisions of IAS 39,

noting that

the latest information provided by the Joint Document indicates the objective uncertainty and differences in interpretative procedures encountered when impairment-testing financial assets available for sale and also advises businesses to use more standardised methods of valuation in line with the information that emerged during 2009, after the company accounts had been approved, as a result of IFRIC and CESR communications on this matter,

recorded that

the Directors of your Company have decided to adjust the procedure for impairment-testing Financial assets available for sale to comply with the latest guidelines in the Joint Document,

considers that

the choice made by the Directors of the Company should be shared, as should the decision made by the Directors in a climate of objective interpretative uncertainty to reflect – also for reasons of transparency and clarity – the effects of the valuation of Financial assets available for sale during 2009 on the result for the period.

Finally the Board of Statutory Auditors has determined that the comment made by the Auditors this year does not relate to the criterion for valuing Financial assets available for sale applied by the Directors of your Company but only to the circumstance that a portion of the financial repercussions of the valuation carried out by the Directors this year, the amount of which has, moreover, not been established, would, in the opinion of the Auditors, have already had to be reflected in the income statement for 2008. Moreover, none of this had any effect on the Company's capital and reserves in 2008 nor in 2009, which incorporated the fair value of Financial assets available for sale by adjusting the value of the equity reserves.

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Notes made by the Board of Statutory Auditors.

1. The Board of Statutory Auditors refers to the report provided by the Directors on the fact that, the necessary authorisation having been obtained, Aurora Assicurazioni S.p.A. was incorporated into Unipol Assicurazioni S.p.A. with effect from 1 February 2009, both companies being wholly owned subsidiaries of the holding company U.G.F. S.p.A., giving rise to a single major insurance company which took the name of 'UGF Assicurazioni S.p.A.' On the same date UGF S.p.A.'s insurance business was hived off to UGF Assicurazioni S.p.A. The merger took effect for legal purposes on 1 February 2009 and for accounting and tax purposes as from 1 January 2009. The hive-off came into effect for legal, accounting and tax purposes on 1 February 2009, immediately after the merger. The class of business that was hived off from UGF S.p.A. to UGF Assicurazioni S.p.A. related to insurance-based services. The hive-off had no effect on book and tax values, in accordance with and for the purposes of Article 176 of Presidential Decree 917 of 22 December 1986 (Corporation Tax Consolidation Act). €57.1m of assets and €48m of liabilities were transferred. The statement of assets and liabilities drawn up as at 31 January 2009 recorded that the net equity value of the business that was hived off was €9.1m. Under the hive-off 2,293 employees were also transferred to UGF Assicurazioni S.p.A., 40 of whom were senior executives.
2. The Directors state that on 24 December 2009 UGF S.p.A. signed an agreement to acquire the Arca Vita Group, and procedures for obtaining the necessary authorisation are underway. Subject to the authorisation of the relevant authorities, under the 10-year agreement, UGF will acquire the majority of the ARCA Insurance Group and will be the sole distributor of Life and Non-Life insurance products through the sales outlets of the banking network that already operates with the Arca Group. To be specific, UGF is to acquire 60% of the share capital of Arca Vita S.p.A. from companies in the BPER Banking Group and BPSO at a price of approximately €277m and Arca Vita, which already holds 64.08% of the share capital of Arca Assicurazioni S.p.A., is to acquire a further 28.95% from the BPER Group and BPSO for approximately €43m. These figures will be adjusted and spread over a period to take account of whether growth objectives specified in the agreement are achieved.

Bologna, 12 April 2010

For the Board of Statutory Auditors

Roberto Chiusoli, *Chairman*

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 (now article 14 of Legislative decree no. 39 of 27 January 2010)

To the shareholders of
Unipol Gruppo Finanziario S.p.A.

1 We have audited the consolidated financial statements of the Unipol Gruppo Finanziario Group as at and for the year ended 31 December 2009, comprising the statement of financial position, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes thereto. The parent's directors are responsible for the preparation of these financial statements in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05. Our responsibility is to express an opinion on these financial statements based on our audit.

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 directors. We believe that our audit provides a reasonable basis for our opinion.

We carried out our audit of the consolidated financial statements as at and for the year ended 31 December 2009 in compliance with legislation ruling during the year.

Reference should be made to the report dated 6 April 2009 for our opinion on the prior year consolidated financial statements, which included the corresponding figures presented for comparative purposes that have been restated to reflect the changes in the presentation of financial statements introduced by IAS 1.

3 Our report on the consolidated financial statements at 31 December 2008 was qualified with respect to a matter, the effect of which we were unable to determine for the reasons given therein, relating to the policy used by the Group to impair the listed equity instruments classified as "Available-for-sale financial assets". In note "2.4 Financial assets - IAS 32 and IAS 39 - IFRS 7" to the consolidated financial statements, the directors state that they have changed the above impairment policy in the consolidated financial statements at 31 December 2009 following publication of the Banca d'Italia, Consob and ISVAP Joint Document on 3 March 2010, recognising the related effect in the 2009 income statement under the caption "Fair value losses". Consequently, the loss

shown in the 2009 income statement is overstated by an amount which we are unable to calculate following the reversal of the effect of the above matter, now overcome, described in our report on the consolidated financial statements at 31 December 2008, which had no impact on the Group's equity at 31 December 2009.

4 In our opinion, except for the positive effect on the 2009 consolidated income statement of the matter described in paragraph 3, the consolidated financial statements of the Unipol Gruppo Finanziario Group as at and for the year ended 31 December 2009 comply with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05. Therefore, they are clearly stated and give a true and fair view of the financial position of the Unipol Gruppo Finanziario Group as at 31 December 2009, the results of its operations and its cash flows for the year then ended.

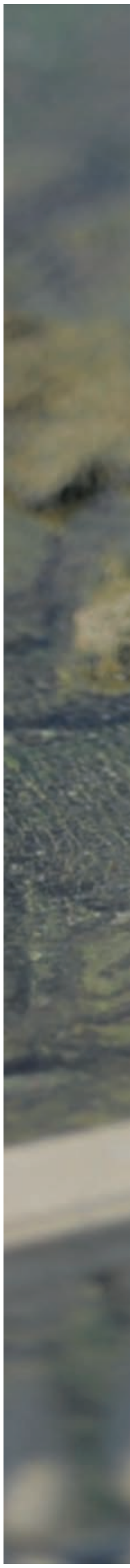
5 The directors of Unipol Gruppo Finanziario S.p.A. are responsible for the preparation of a management report on the financial statements and an "Annual report on corporate governance and ownership for financial year 2009", published in the Corporate Governance section of Unipol Gruppo Finanziario S.p.A.'s website, in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the management report and the information required by article 123-bis.1.c/d/f/l/m and article 123-bis.2.b of Legislative decree no. 58/98 disclosed in the "Annual report on corporate governance and ownership for financial year 2009" with the financial statements to which they refer, as required by the law. For this purpose, we have performed the procedures required by the Italian Standard on Auditing 001 issued by the Italian Accounting Profession and recommended by Consob. In our opinion, except for the positive effect on the 2009 consolidated income statement of the matter described in paragraph 3, the management report and the information required by article 123-bis.1.c/d/f/l/m and article 123-bis.2.b of Legislative decree no. 58/98 disclosed in the "Annual report on corporate governance and ownership for financial year 2009" are consistent with the consolidated financial statements of the Unipol Gruppo Finanziario Group as at and for the year ended 31 December 2009.

Bologna, 9 April 2010

KPMG S.p.A.

(signed on the original)

Luca Ferranti
Director



UNIPOL GRUPPO FINANZIARIO S.P.A.

REGISTERED AND HEAD OFFICES
via Stalingrado, 45
40128 Bologna

Share capital
€ 2,391,426,100.00 fully paid-up

Tax Code and Bologna Company
Registration No. 00284160371
R.E.A. No.160304

Entry in special section in accordance
with Article 113 T.U.B. 40069

www.unipolgf.it