# Vittoria Assicurazioni

SOCIETÀ PER AZIONI
REGISTERED OFFICES VIA CALDERA, 21 - 20153 MILAN – ITALY
SHARE CAPITAL EURO 30,000,000 FULLY PAID-UP
TAX CODE AND MILAN COMPANY REGISTRATION NO. 01329510158 - R.E.A. NO. 54871
COMPANY AUTHORISED TO CARRY OUT INSURANCE ACTIVITIES PURSUANT TO ARTICLE 65 OF ROYAL LAW DECREE NO. 966 OF 29 APRIL 1923

84th year

# 2005 Consolidated Annual Report

Ordinary
Shareholder's meeting
of 28 April 2006

(Translation from the Italian original which remains the definitive version)

# Contents

## BOARD OF DIRECTORS

| | |
|---|---|
| Luigi GUATRI | Chairman |
| Carlo ACUTIS | Executive deputy chairman |
| Giorgio COSTA | Independent deputy chairman |
| Roberto GUARENA | Managing director |
| Adriana ACUTIS BISCARETTI di RUFFIA | Director |
| Andrea ACUTIS | Executive director |
| Francesco BAGGI SISINI | Independent director |
| Tiberto BRANDOLINI d'ADDA | Independent director |
| Marco BRIGNONE | Independent director |
| Arnaud HELLOUIN de MENIBUS | Independent director |
| Pietro Carlo MARSANI | Independent director |
| Giorgio MARSIAJ | Independent director |
| Giacomo MOTTURA | Director |
| Edgar MÜLLER-GOTTHARD | Independent director |
| Luca PAVERI FONTANA | Director |
| Giuseppe SPADAFORA | Independent director |
| Mario RAVASIO | Secretary |

## BOARD OF STATUTORY AUDITORS

| | |
|---|---|
| Angelo CASÒ | Chairman |
| Giovanni MARITANO | Standing auditor |
| Livio STRAZZERA | Standing auditor |
| Ferruccio ARALDI | Substitute auditor |
| Sergio VASCONI | Substitute auditor |

## GENERAL MANAGEMENT

| | |
|---|---|
| Mario RAVASIO | Deputy general manager |
| Cesare CALDARELLI | Central manager |
| Enrico CORAZZA | Central manager |
| Sergio GIOMINI | Central manager |

## INDEPENDENT AUDITORS

BDO Sala Scelsi Farina
Joint-stock audit company

## APPOINTMENTS AND REMUNERATION COMMITTEE

| | |
|---|---|
| Luca PAVERI FONTANA | Non-executive chairman |
| Francesco BAGGI SISINI | non-executive, independent |
| Arnaud HELLOUIN de MENIBUS | non-executive, independent |
| Giacomo MOTTURA | non-executive |

## INTERNAL CONTROL COMMITTEE

| | |
|---|---|
| Giacomo MOTTURA | Non-executive chairman |
| Francesco BAGGI SISINI | non-executive, independent |
| Giorgio COSTA | non-executive, independent |

## FINANCE COMMITTEE

| | |
|---|---|
| Andrea ACUTIS | Executive chairman |
| Carlo ACUTIS | executive |
| Giorgio COSTA | non-executive, independent |
| Roberto GUARENA | executive |
| Luca PAVERI FONTANA | non-executive |

## REAL ESTATE COMMITTEE

| | |
|---|---|
| Andrea ACUTIS | Executive chairman |
| Carlo ACUTIS | executive |
| Francesco BAGGI SISINI | non-executive, independent |
| Giorgio COSTA | non-executive, independent |
| Roberto GUARENA | executive |
| Arnaud HELLOUIN de MENIBUS | non-executive, independent |
| Giacomo MOTTURA | non-executive |
| Luca PAVERI FONTANA | non-executive |

# Format and content

As required by article 3 of Legislative decree no. 38 of 28 February 2005, the consolidated financial statements have been prepared in compliance with the IFRS issued by the International Accounting Standards Board and endorsed by the European Union (EC regulation no. 1606/2002). The term "IFRS" includes all the international accounting standards (IAS) that have been revised, all the interpretations of the International Financial Reporting Interpretations Committee (IFRIC), previously called the Standing Interpretations Committee ("SIC").

Furthermore, article 90 of Legislative decree no. 209 of 7 September 2005 establishes that ISVAP (the Supervisory Institute of private and public-interest insurance companies) should exercise its powers on IFRS-compliant financial statements in accordance with such standards.
In this context, with regulation no. 2404 of 22 December 2005, ISVAP set out instructions for the format to be used by entities should use for the preparation of IFRS financial statements.

Therefore, these consolidated financial statements have been presented using the format established in the above regulation (balance sheet, income statement, statement of changes in equity, cash flow statement and accounting schedules and include additional tables necessary to supplement the disclosure required by IFRS or useful for a better understanding of the financial statements.
The accounting policies adopted are detailed in the notes to the consolidated financial statements.

The 2004 comparative figures included in these consolidated financial statements are those published in the annex entitled "Transition to the International Financial Reporting Standards (IFRS)" to the 2005 consolidated half year report, which is also attached hereto.
No changes were made or new interpretations issued with respect to the IFRS endorsed by the European Union that would have made the recalculation of the IFRS adoption effects published in the above documents necessary.

The figures are shown in thousands of Euros.

# Other relevant information

The Vittoria Assicurazioni Group is active in the insurance business solely through the parent. As part of its strategy aimed at optimising the risk/return ratio, it focused part of its investments in the real estate business (trading, development and real estate brokerage and management services) where it is active through Vittoria Immobiliare S.p.A. and other group companies.
Certain group companies provide services mainly aimed at supporting group insurance operations.

The direct parent of Vittoria Assicurazioni is Vittoria Capital N.V., with registered offices in Amsterdam (Holland), while the ultimate parent is the Luxembourg- based Yura S.A.

# Directors' report

## The economy and insurance market

The US economy confirmed its good performance, with an annual growth of 3.1% in GDP, despite the decrease recorded in the last quarter of 2005 compared to the three previous quarters.
Japan also performed satisfactorily, with GDP in the third quarter of 2005 pushing the 2005 growth up to 2.8%.
Euroland GDP increased by 1.7% on an annual basis, according to first estimates.
The internal demand growth (especially for investments) and the improvement in investors' confidence in the production sector are good signs of recovery.
Restrictive monetary policy measures may shortly be implemented, since the European Central bank is worried about the persistent inflation, which is also caused by oil price trends coupled with increasing internal growth. This can already be seen in the current forward rates and the statements of Governor Trichet at the end of the Executive Committee meeting of 2 February 2006.
On the exchange rate market front, the Euro appreciated against the principal foreign currencies in January.
In this context, the Italian economy shows recovery signs, which are however weaker and less clear than those of the other European countries. The first few months of 2006 saw positive results in car sales (up 11% on an annual basis), retail sales and orders, while industrial production has not yet reached the levels of the previous year.
Despite the jump in exports, generally accepted forecasts put the growth in Italian economy among the lowest in Euroland again for 2006.
On the financial markets side, the S&P/MIB equity index grew more than 15%, while the bond segment rose only roughly 6% in 2005.

The insurance market for 2006 will be affected by the matters summarised below.
2005 was absolutely the most expensive for insurance companies due to the disasters, both natural and man-made, that occurred, causing the payment of huge compensation by insurance companies at a global level. Nevertheless, such events did not impact the overall stability of the system and the majority of insurance and reinsurance companies were able to maintain the same rating category. However, the exceptional amount of damages and the expected increase in claims frequency and seriousness will lead insurance companies, and especially reinsurers, to revise their forecast and pricing models for insurance covers.
According to the latest figures published by ISVAP, premiums grew 1.92% in Italy over the same period of the previous year, driven by the motor lines of business.
With respect to the non-life business, the expected drop in the real estate business should promote greater cash flows towards financial and insurance investments, especially those with limited loss risk. Premiums for the first nine months of 2005 rose in Classes I (Whole and term life insurance) and V (Capitalisation) by 11.8% and 21.2%, respectively, over the same period of 2004, while Class III (index and unit-linked) jumped 20.5%.

Prices in the real estate sector grew for the seventh year in a row. The nominal return on investments for 1998-2005 approximated 100% (including lease income and revaluations) which translates into an actual increase of roughly 70%. Real estate sales rose 3.7% over 2004.
Taking into account that forecasts for the next few years show a slowdown in the growth rate of real estate prices and a subsequent stabilisation, the group has decided to focus future investments on real estate promotional transactions rather than trading and is strengthening its real estate service business to include possible alliances with closed-end real estate fund management companies.

## Performance of Vittoria Assicurazioni Group

The profit for the year attributable to the shareholders of the parent shown in the fifth consolidated financial statements totalled Euro 39,979 thousand, up 80.7% on the Euro 22,120 thousand recorded in 2004. The particularly good performance of real estate trading and promotional operations contributed to the above result.
The net profit of Vittoria Assicurazioni S.p.A. – under Italian GAAP - totalled Euro 20,330 thousand, up 14.3% on the Euro 17,779 thousand recorded in 2004.
Companies forming part of the group are listed in part A) consolidation scope of the notes to the consolidated financial statements.

Investments totalled Euro 1,490,422 thousand. They are split between investments where policyholders bear the risk (Euro 122,758 thousand) and investments where the group bears the risk (Euro 1,367,664 thousand). They amounted to Euro 1,385,042 thousand, Euro 131,761 thousand and Euro 1,253,281 thousand, respectively, at 31 December 2004.

Net income on investments totalled Euro 87,161 thousand, up 23.5% over the previous year.

The profit attributable to the shareholders of the parent is net of a technical accrual of Euro 5,536 thousand to the life business technical reserves, since the investments in the subsidiaries Vittoria Immobiliare S.p.A. and Immobiliare Bilancia S.r.l. are partly allocated to the separately-managed life businesses and, therefore, part of the parent's income is attributed to the policyholders.

## INSURANCE BUSINESS

Profit from the insurance business, gross of taxes and intersegment eliminations, totalled Euro 37,305 thousand (2004: Euro 32,368 thousand). The main operations contributing to this result are described below.

Total premiums written rose 9.7% to Euro 546,724 thousand.

Direct life business premiums grew 24.4% to Euro 113,282 thousand. This result was achieved thanks to the productive collaboration of the agency network and good returns on the products sold. As well as low risk investments found on the market, the parent's financial strategy favours real estate investments acquired through the group companies operating in this sector, whose returns are extremely satisfactory for policyholders, as proved by the results of the separately-managed businesses set out below in descending order according to the relevance of assets managed:
- Vittoria Valore Crescente: gross return 5.03%;
- Vittoria Rendimento Mensile: gross return 4.52%;
- Vittoria Liquinvest: gross return 5.86%.

Total premiums written in the direct non-life business rose 6.6% to Euro 432,416 thousand.

Premiums of the motor business increased 5.3%. In particular, the motor property damage line of business rose 9.1%, which was achieved thanks to both ongoing commercial agreements and those signed during the year. Thanks to the acquisition of new policyholders, the motor third-party liability line increased 4.4%. The rise in premiums is a consequence of the particular care dedicated to the affinity groups and the further strengthening of the commercial organisation through the opening of new points of sale. This was achieved without affecting the frequency of claims objective that the parent achieved in previous years.

Direct other non-life premiums excluding aviation, marine, bonds and credit rose 10.1%, a result that was achieved thanks to the special attention the group paid to this area, which is considered strategic.

Premiums relating to aviation, marine, bonds and credit increased 9.5%. This growth, limited in comparison with the opportunities offered by the market, was affected by a stringent risk underwriting policy.

Overheads as a percentage of premiums fell from 10.1% to 9.6%, in accordance with the strategic objective to contain costs.

## REAL ESTATE BUSINESS

Profit from the real estate business, gross of taxes and intersegment eliminations, totalled Euro 45,717 thousand (2004: Euro 23,934 thousand). The main income statement items contributing to this result, gross of intragroup eliminations, comprise:

- revenue on property held for trading and development (Euro 49,628 thousand);
- revenue on real estate brokerage and management services (Euro 6,073 thousand) and rent income (Euro 2,903 thousand).

The net financial indebtedness of Euro 16,089 thousand improved by Euro 9,525 thousand over the previous year as a results of sales made.

The group's real estate companies continued to avail of the opportunities offered by the market, which continued to show bullish trends, although at a slower growth rate. Demand in the real estate business was boosted by favourable interest rates on loans offered by the market.

Since associates have been measured using the equity method, the portions of profits (Euro 6,532 thousand, against Euro 3,587 thousand in 2004) and losses (Euro 298 thousand) attributable to the group have been recognised respectively in the captions "Gains on investments in subsidiaries and associates and interests in joint ventures" and "Losses on investments in subsidiaries and associates and interests in joint ventures" of the income statement.

## SERVICE BUSINESS

Revenue from the services rendered by group companies, gross of intragroup transactions, totalled Euro 4,627 thousand. It includes Euro 4,247 thousand in commissions and services provided to the parent and Euro 380 thousand to third parties.

Since 2005, the income statements of the group service companies are consolidated on a line-by-line basis. The relevant segment reporting shows profit of Euro 98 thousand, gross of taxes and minority interests.

## Equity and dividend policy

Equity attributable to the shareholders of the parent totalled Euro 203,635 thousand while that attributable to minority interests amounted to Euro 9,898 thousand (31 December 2004: Euro 168,105 thousand and Euro 6,885 thousand, respectively).
One of the parent's strategic objectives is the progressive and steady increase in the value for shareholders, while meeting the minimum reporting capital requirements of the insurance sector.
Forecasts for future years support the sustainability of the parent's self financing policy for growth, i.e. that retained earnings can be used to strengthen the parent's equity to the extent necessary to satisfy capital requirements under both supervisory authorities and company strategies.

## Proposed dividend per share

The board of directors of the parent propose that the shareholders approve the allocation of the net profit of Euro 20,330,016 recognised in the separate financial statements as follows:

| | | | |
|---|---|---|---|
| to the legal reserve | Euro | 34,963 | |
| to an available reserve | Euro | 15,795,053 | |
| dividend | Euro | 4,500,000 | corresponding to Euro 0.15 for each |

of the 30,000,000 shares making up the share capital.

Once approved by the shareholders, the dividend distribution will be recognised in the 2006 separate financial statements.

# INSURANCE BUSINESS

## Performance

Premiums totalled Euro 546,724 thousand at year end. The following table shows the portfolio mix and changes by business and business line:

BREAKDOWN OF GROSS PREMIUMS WRITTEN IN 2005 AND 2004 - DIRECT AND INDIRECT INSURANCE

(in thousands of Euros)

| | 2005 | 2004 | Change % | Percentage of portfolio 2005 | Percentage of portfolio 2004 |
|---|---|---|---|---|---|
| Domestic direct insurance | | | | | |
| Life business | | | | | |
| I Whole and term life insurance | 63,195 | 53,005 | 19.2 | 11.6 | 10.6 |
| IV Health insurance | 280 | 190 | 47.4 | 0.1 | 0.0 |
| V Capitalisation insurance | 49,807 | 37,894 | 31.4 | 9.1 | 7.6 |
| Total life business | 113,282 | 91,089 | 24.4 | 20.8 | 18.2 |
| Non-life business | | | | | |
| Other non-life premiums excluding aviation, marine, bonds and credit | 105,863 | 96,159 | 10.1 | 19.4 | 19.3 |
| Premiums relating to aviation, marine, bonds and credit | 13,606 | 12,431 | 9.5 | 2.5 | 2.5 |
| Motor business | 312,947 | 297,060 | 5.3 | 57.1 | 59.7 |
| Non-life business | 432,416 | 405,650 | 6.6 | 79.0 | 81.5 |
| Total direct insurance | 545,698 | 496,739 | 9.9 | 99.8 | 99.7 |
| Domestic indirect insurance | | | | | |
| Life business | 36 | 29 | 24.1 | 0.0 | 0.0 |
| Non-life business | 990 | 1,413 | -29.9 | 0.2 | 0.3 |
| Total indirect insurance | 1,026 | 1,442 | -28.8 | 0.2 | 0.3 |
| Total | 546,724 | 498,181 | 9.7 | 100.0 | 100.0 |

Revenue on index-linked and unit-linked policies and that relating to the Vittoria Formula Lavoro open pension fund, which do not qualify for recognition as premiums under IFRS 4, totalled Euro 4,478 thousand (2004: Euro 21,087 thousand).

# Life business

## Insurance and investment contracts of the life business

The products currently offered by the parent cover all insurance lines of business, the savings sector (revaluable policies relating to the separately-managed business), protection (policies covering risks of death, disablement and non-self-sufficiency) and supplementary pension plans (individual pension schemes and open pension fund). The product mix includes unit-linked financial policies. None of the products offered provides for guaranteed benefits. Tariffs used comprise endowment, whole life and term life policies, both on an annual and single premium basis, fixed term policies and group tariffs for the whole life, term life and/or disablement policies.
Contractual terms are updated on an ongoing basis and are in line with the market. As required by ISVAP circular no. 551D, the parent integrated them with the new prospectuses and posted them to its website at year end.

## Premiums

Direct insurance premiums rose 24.4%, largely due to the growth in the single premiums of Class V - Capitalisation (up 31.4%) and Class I - Whole and term life insurance (up 19.2%).
The returns on separately-managed funds during the year were as follows:

(in thousands of Euros)

| | Average rate of return | Total investments |
|---|---|---|
| Vittoria Valore Crescente | 5.03% | 323,967 |
| Vittoria Rendimento Mensile | 4.52% | 254,872 |
| Vittoria Liquinvest | 5.86% | 8,915 |

The rate of return allocated to policyholders complies with the specific contractual terms.
As in previous years, acquisition commissions on long-term policies and incentives paid to agents for new products have been capitalised and amortised within the total limit of the related premium loading, in accordance with the expected term of the contract, over a maximum period of ten years.

## Claims, accrued sums and annuities and surrenders

Summarised figures relating to direct insurance claims, accrued sums and annuities and surrenders and comparative prior year figures are set out below.

(in thousands of Euros)

| | 2005 | 2004 |
|---|---|---|
| Claims | 2,025 | 1,490 |
| Accrued sums and annuities | 49,096 | 42,697 |
| Surrenders | 16,266 | 15,033 |
| Total | 67,387 | 59,220 |

## Reinsurance

**Outwards reinsurance**
With respect to Class I of the life business, the following treaties are in place:
- exceeding risk premium;
- pure commercial premiums outwarded in 1996 and 1997.

Ceded premiums amounted to Euro 3,115 thousand in 2005.

**Inwards reinsurance**
With respect to the life business, there is a traditional treaty no longer applied which only records changes in the related portfolio.

# Non-life business

## Premiums

Premiums written as part of the direct insurance business grew 6.6%.

## Claims

**Reported claims**

The following table of reported claims derives from open positions during the period. Comparative prior year figures are also given.

(in thousands of Euros)

| | 2005 | | 2004 | | Change % | |
|---|---|---|---|---|---|---|
| | number | total cost | number | total cost | number | total cost |
| Other non-life lines of business excluding aviation, marine, bonds and credit | 30,710 | 59,906 | 36,921 | 52,416 | -16.82 | 14.29 |
| Aviation, marine, bonds and credit lines of business | 661 | 8,288 | 766 | 17,953 | -13.71 | -53.84 |
| Motor business | 85,019 | 213,004 | 79,180 | 188,275 | 7.37 | 13.13 |
| Total non-life business | 116,390 | 281,198 | 116,867 | 258,644 | -0.41 | 8.72 |

The decreased number of reported claims in the Other non-life lines of business excluding aviation, marine, bonds and credit is due to the termination of two agreements in the health insurance business.

**Claims paid**

Claims paid, net of recoveries, related to the direct business and the reinsurers' share may be analysed as follows:

(in thousands of Euros)

| | Claims paid 2005 | | | In gross recovered from reinsurers | Claims paid 2004 | | | Change in gross claims % |
|---|---|---|---|---|---|---|---|---|
| | Current year | Previous years | Total | | Current year | Previous years | Total | |
| Other non-life lines of business excluding aviation, marine, bonds and credit | 20,125 | 25,332 | 45,457 | 2,453 | 17,806 | 24,140 | 41,946 | 8.37 |
| Aviation, marine, bonds and credit lines of business | 2,153 | 8,412 | 10,565 | 5,594 | 6,361 | 9,476 | 15,837 | -33.29 |
| Motor business | 94,272 | 118,945 | 213,217 | 46,902 | 83,840 | 95,235 | 179,075 | 19.07 |
| Total non-life business | 116,550 | 152,689 | 269,239 | 54,949 | 108,007 | 128,851 | 236,858 | 13.67 |

The additional charge to the guarantee fund for road casualties amounted to Euro 6,025 thousand in 2005 (2004: Euro 5,767 thousand).

**Claims settlement rate**

A breakdown of the claims settlement rate by number of reported claims, net of claims cancelled without pay out, split by current and previous generations of the main lines of business is set out below.

(percentages)

| | current generation | | previous generations | |
|---|---|---|---|---|
| | 31/12/2005 | 31/12/2004 | 31/12/2005 | 31/12/2004 |
| Accident insurance | 55.26 | 54.05 | 64.71 | 62.24 |
| Health insurance | 74.96 | 86.80 | 69.61 | 94.85 |
| Motor property damage | 84.83 | 82.76 | 90.97 | 83.12 |
| Fire and natural events | 67.03 | 69.96 | 42.12 | 43.21 |
| Miscellaneous damage - theft | 79.34 | 81.94 | 74.29 | 78.17 |
| Motor third-party liability | 67.68 | 67.08 | 70.20 | 67.73 |
| General third-party liability | 55.83 | 57.02 | 42.37 | 38.99 |

## Technical performance

An analysis of the technical account of each line of business shows the following:

**Other non-life lines of business excluding aviation, marine, bonds and credit**

Other non-life premiums excluding aviation, marine, bonds and credit grew 10.1% increasing their share of the parent's portfolio. The positive technical result shows a sharp improvement over the previous year.

**Accident insurance**: Premiums increased by 7.2% which, considering that the growth was focused on highly profitable lines, confirms this line's positive performance. Specifically, the persistent decrease in the frequency of claims was confirmed, although partially offset by the considerable increase in the average cost of claims caused by the increase in large claims. The technical result improved again over the previous year.

**Health insurance**: After they plummeted in 2004, premiums of this line of business rose slightly (1.9%) and are suffering a stagnation period. Thanks to the parent's risk underwriting policies, the claims rate remained stable at the same level of the previous year and the technical result was positive. The parent is currently revising its products to better tailor them to market needs and assist their commercial development.

**Fire and natural events**: The 6.2% growth in premiums written was achieved thanks to the careful risk underwriting policy adopted, promoting especially the personal and SMEs sectors; however without neglecting larger companies whose policies are covered by a suitable reinsurance policy. The proactive contribution of the agency network to this activity has enabled the parent to maintain the technical result at the good level attained in the previous year.

**Miscellaneous damage**: This line of business includes theft, electronic equipment damage and hail damage; premiums grew by 9.9%. The claims rate worsened over the previous year mainly due to claims related to water damage and damage detection costs. The technical result was negative.

**General third-party liability**: The 3.9% increase in premiums is mainly due to the tariff adjustments made over the last few years, which are still being made in order to rebalance the operating results. The technical result is still negative although better than the previous year figure and is affected by an inconsistent trend of incurred but not reported claims.

**Pecuniary losses**: The development of this business is mainly due to the start up of activities in the "*Cessione del Quinto*" (transfer of one fifth of one's salary) sector. Premiums written increased by 46.5% and the technical result was positive, with a slight improvement over the previous year.

**Legal protection**: Activities in this business were launched on a large scale during the year, with covers mainly related to risks arising from the use of cars. Premiums jumped and the technical result was positive.

**Aviation, marine, bonds and credit lines of business**

Premiums rose 9.5% due to the full toll-out of activities in the general aviation business and the growth in the space risk line. The overall technical result is negative but clearly better than the previous year.

**Credit and bond insurance**: Premiums written grew 0.8%, confirming a turnabout with respect to the past few years, which had seen a decrease due to the effects of the restructuring process implemented in 2001 and 2002. The claims rate, related almost entirely to the products of two agencies that were closed in 2001, was significantly better due to the new business. The technical result also improved although it continued to be negative.

**Aviation property damage**: Premium rose 43.5% mainly due to a recovery recorded in the space risk line of business as well as the new policies written in the entire aviation business. The technical result was positive.

**Cargo insurance**: Premiums written fell 3.5%. Thanks to the careful risk underwriting policy implemented and an accurate management of recharges, the technical result continued to be positive despite a worsening in the claims rate.

**Motor business**

Overall premiums written grew 5.3%, mainly due to the rise in ancillary covers in the motor third party liability line. The technical result was positive.

**Third party motor, aviation, watercraft liability**: Premiums rose by 4.5%, mainly due to the rise in insured vehicles, which increased 6.3% on an annual basis. Tariffs remained substantially the same as in the previous year.

The parent policy for this line provides for adoption of highly customised tariffs aimed at reducing reported claims which were in line with the previous year. The average claims charge increased also due to the further and recent trend of court resolutions in favour of compensation relating to damage to the person's health. As a result of this trend, doubts arise as to the future growth in this sector and, therefore, the group prudently increased technical captions in order to cope with any decline and put in place actions to restructure its portfolio of sectors at greater risk. These actions had a negative impact on the volume of premiums written, which fell by 3%. The negative technical result is in line with the previous year.

**Motor vehicle, marine, railway truck property damage and support and assistance**: These lines of business include all ancillary covers to vehicles included in this sector. The 10% rise in premiums follows the risk underwriting policy implemented in this sector which, in addition to the particular care taken in matching ancillary covers to motor third-party liability policies and the further strengthening of affinity groups, is aimed at developing new business areas linked to the sale of vehicles and related services. The positive technical result confirms the validity of the group's underwriting policy.

## Overheads

Total insurance overheads, which include personnel expenses, other costs and amortisation/depreciation charges, gross of allocation to specific functions, such as claims settlement, sales organisation and asset management, increased by 3.7% from Euro 50,446 thousand in the previous year to Euro 52,304 thousand.
These costs include not only current operating expense, but also depreciation charges on investments in IT structures and processes aimed at controlling future overheads incurred by the headquarters and agencies while also improving assistance given to policyholders with respect to insurance policies and claims settlement.

They may be analysed by nature as follows:

(in thousands of Euros)

| ANALYSIS OF COSTS - Direct insurance | 2005 | 2004 | Change |
|---|---|---|---|
| Personnel expenses | 27,909 | 24,985 | 11.7% |
| Other costs and amortisation/depreciation | 24,395 | 25,461 | -4.2% |
| Total overheads | 52,304 | 50,446 | 3.7% |

Other costs mainly include office operating costs, IT costs, legal and corporate expenses, mandatory contributions and membership fees.

Changes in allocation of operating costs, charges relating to claims and other costs by function are analysed below.

(in thousands of Euros)

| ALLOCATION BY FUNCTION | 2005 | 2004 | Change |
|---|---|---|---|
| Investment management costs | 991 | 1,031 | -3.9% |
| Commissions and other acquisition costs | 18,419 | 16,293 | 13.1% |
| Other administrative costs | 19,646 | 17,659 | 11.3% |
| Charges relating to claims | 9,545 | 8,717 | 9.5% |
| Other costs (unallocated depreciation) | 873 | 817 | 6.9% |
| Other costs (amortisation) | 2,830 | 5,929 | -52.3% |
| Total costs by function | 52,304 | 50,446 | 3.7% |

Overheads decreased from 10.1% to 9.6% of total premiums.

## Reinsurance

**Outwards reinsurance**
Group policies on outwards reinsurance are focused on the underwriting selection criteria, the increase and maintenance of the portfolio in line with risks covered and are aimed at reaching the net retention balance. Transactions are carried out at an international level with highly rated reinsurers.

The main existing treaties relate to:

| **Non-life business** | **Type of treaty** |
|---|---|
| Accident insurance | Pure premium for general aviation |
| Aviation hulls | Pure premium for space risks |
| | Pure premium for general aviation |
| Cargo insurance | Voluntary-mandatory |
| Fire and natural events | Claims excess |
| Motor third-party liability | Pure premium |
| | Claims excess |
| Aviation third-party liability | Pure premium for general aviation |
| Bond insurance | Pure premium |
| General third-party liability | Claims excess |
| | Pure premium for general aviation |
| Legal protection | Pure premium |

Ceded premiums amounted to Euro 82,758 thousand in 2005.

**Inwards reinsurance**
Inwards insurance mainly arises from participation in syndicates and activities carried out in the Aviation hulls - space risks sector.

## Commercial organisation

Development of the sales network continued steadily during the year, in line with previous years. Fourteen new agencies were opened and 21 were restructured. Two agencies were closed. The group also extended the network of professional sub-agencies opening another 11 points of sale together with the agencies.
The parent company had 229 general agencies and 251 professional sub-agencies at year end.

The project aimed at setting up a new insurance promoter network to develop the sale of life products at agencies was continued during the year with 34 active promoters at year end. The group continued to put considerable effort in boosting non-life premiums excluding aviation, marine, bonds and credit during the year, in order to achieve a better portfolio mix while at the same time continuing to pay close attention to the risks underwritten and further improving technical results and profits.
The new life business increased with respect to the previous year. The agency network was the key contributor to this result, operating in line with the parent's objective that prefer a growth in the annual premium traditional policies while continuing actions aimed at reinvesting sums arising from matured policies.

The parent paid even more attention to the affinity groups by continuing to carry out activities aimed at enhancing customer loyalty and growth.
On the communications side, the Astralis Club initiative continued the top customer club which, in 2005, gave remarkable results, increasing purchases of life policies with annual premiums by the members. At the same time, a new project was launched targeting "Monoramo Auto" customers. The project is aimed at increasing their loyalty and subsequently developing other non-life premiums excluding aviation, marine, bonds and credit as well as life premiums.
As part of the project for improving the quality of services to policyholders, both in terms of risk underwriting and claims settlement, the parent developed its corporate website during the year in order to support continuous relations with end users.

### Products

New products were developed and others were reviewed during the year. Changes during the years may be summarised as follows:

**Life business: New products**

- "Vittoria Formula Coupon": single premium whole life product with annual distribution of return;
- "Polizza Collettiva caso morte in abbinamento a contratti di finanziamento o mutui";
- "Vittoria Formula Deposito" and "Vittoria Formula Crescita Capitale".

**Other non-life lines of business excluding aviation, marine, bonds and credit: New products**

- "Vittoria Formula Assistenza": repayment of medical costs; this product is solely for affinity groups;
- "Vittoria Formula R.C. Professione": General third-party for professionals;
- "METIS EASY": Flat repayment of surgery costs;
- "Infortuni e rimborso spese sanitarie": Specific product for affinity groups;
- "Formula Infortuni": Product of banking channels;
- "Polizze Cumulative in abbinamento a contratti di finanziamento o mutui";
- "Polizza Leasing Immobiliare";
- "Vittoria Formula Salute".

# Insurance risk management and analysis

## Risk management

### Objectives

The group insurance business is managed focusing on the following objectives:

- diversification of insurance covers offered;
- accurate and correct pricing of policies;
- diversification of risks on the basis of the composition of the customer portfolio (families, individuals, professionals, small business operators, SMEs and large companies). Net retention of risks on personal and SMEs is preferred, without however neglecting larger companies whose policies are covered by a suitable reinsurance policy;
- diversification of sales channels (agents, bankassurance agreements, brokers);
- careful risk underwriting policy and monitoring risk trends on an ongoing basis;
- organisation of the agency network in such a way as to professionally address changes in customer needs on a timely basis;
- strengthening of the policy for the affinity groups;
- enhancing customer loyalty by selling integrated products and services;
- increasing the non-life business market share, focusing especially on lines other than motor, and increasing new life business growth rates;
- consolidation of acquired portfolio;
- consolidation of technical profitability and further improvement in the combined ratio, which shows the coverage level of charges relating to claims, sales costs and overheads in the non-life business;
- keeping the New Age system updated, taking into account changes in headquarters and agency management processes, in order to monitor the portfolio, risk concentration and adequacy of the claims settlement rate on an ongoing basis, paying special attention to changes in insurance markets.

### Policies

The group will pursue the above objectives through the following policies:

- strengthening the agency network throughout Italy, thus ensuring the diversification of risk by area and at the same time paying utmost attention to areas with irregular claims rate trends;
- reinforcing the agency network in terms of continuous training for both agents and their consultants;
- creation of clear products for policyholders;
- incentive campaigns for agents aimed at ensuring the ideal mix of covers offered;
- resort to outwards reinsurance in order to achieve a technical balance in mass risks and to cover large claims and those of a catastrophic nature;
- containing costs, especially through the use of the new integrated headquarters/agency management system, which improves the combined ratio;
- hiring of actuaries expert in the non-life business, different from those in the life business, thus enabling not only a correct risk pricing (adjustment to the expected claims rate) but also customised tariffs with innovative content. The motor third party liability line of business reached the highest level of customisation with the leading product of the parent. Tariffs in the corporate sector, which includes large companies, have always considered policyholder reliability and risk levels.

In order to monitor risks underwritten, agents work independently but their independence level is constantly monitored and updated, with limits defined based on the type of cover and risk size. Beyond these limits, only headquarters personnel can sign policies.

## Financial and actuarial assumptions about life business products

The assumptions used for the measurements of distributed products, in terms of both their financial and demographic nature, take into account regulatory restrictions (e.g., maximum limits for financial covers) and the latest information on demographic trends (e.g., mortality and/or survivorship) and portfolio trends (e.g., terminations, surrenders, etc.).
When a new product is being created, certain assumptions are adopted (first order technical bases) which, where consistent with the factors mentioned above, are examined when developing actuarial valuations using profit testing techniques. The latter require the adoption of assumptions different from those defined as first order above, which relate to:

- Macro-economic assumptions: market rate trends, inflation, cash flow discount rates, etc.;
- Second order assumptions: mortality and expected portfolio trends, rate of return on investments, etc.;
- Industrial assumptions: costs levels and expenses of both a commercial and administrative nature.

As part of such valuations, sensitivity analyses of how the outcome varies according to changes in the above assumptions are carried out.
A similar procedure is applied when moving from the ex ante valuation to the ex post valuation carried out on the entire portfolio in order to check the valuations made when designing the portfolio.

## Risk analysis

### Credit risk

With respect to the credit risk, the parent resorts to leading reinsurers. The balance sheet balances existing at the reporting date broken down by Standard & Poor's rating are set out below.

(in thousands of Euros)

| S&P rating | Deposits (positive balances) | Deposits (negative balances) | Current accounts (positive balances) | Current accounts (negative balances) | Reinsurers' share of technical reserves | Indirect business technical reserves | Total net balance sheet items | % of breakdown |
|---|---|---|---|---|---|---|---|---|
| AAA | 0 | 0 | 41 | 0 | 812 | 0 | 853 | 2.0% |
| AA+ | 0 | 0 | 23 | 0 | 0 | 0 | 23 | 0.1% |
| AA | 56 | -414 | 989 | -433 | 5,910 | -679 | 5,429 | 12.5% |
| AA- | 0 | -358 | 30 | -603 | 3,519 | 0 | 2,588 | 6.0% |
| A+ | 0 | -1,030 | 307 | -2,452 | 8,869 | 0 | 5,694 | 13.1% |
| A | 0 | -752 | 2,078 | -657 | 8,553 | 0 | 9,222 | 21.2% |
| A- | 0 | -330 | 4,954 | -263 | 8,278 | 0 | 12,639 | 29.1% |
| BBB+ | 0 | 0 | 26 | -174 | 793 | 0 | 645 | 1.5% |
| BBB | 0 | -1 | 76 | -5 | 10 | 0 | 80 | 0.2% |
| Unrated | 0 | -21 | 3,285 | -346 | 3,343 | 0 | 6,261 | 14.4% |
| Total | 56 | -2,906 | 11,809 | -4,933 | 40,087 | -679 | 43,434 | 100.0% |

## Concentration risk

In order to mitigate the concentration risk, the Vittoria Group distributes its non-life and life products throughout the whole of Italy using a multi-channel sales approach.

Based on the analysis of 2005 premiums earned, the non-life business accounts for roughly 80% of total premiums, with the motor lines reaching 57.3%.
This concentration means that group profitability is largely dependent on the claims frequency and average charge as well as on an efficient tariff management.
Furthermore, as a result of this concentration, the group may become more vulnerable to legislative changes and market trends. These may, from time to time, lead to increases in compensation to policyholders (e.g., due to the extension of the range of compensable damage to a person's health).
The parent protects itself against this risk by increasing loyalty in those customers that do not report claims, through a very favourable tariff customisation, normalising the loss amount as well as, as a consequence of the above, a reduction in the portfolio volatility.

### Earthquake risk

Reinsurance covers put in place to mitigate the parent's exposure to earthquake risks have been determined using the main tools available on the market, based on the maximum probable loss on the fire and miscellaneous damage lines of business (technological risk sector), calculated over a return period of 250 years, which is that largely used in the Italian market.
This cover is approximately twice the requirement in the worse case scenario.

### Hail risk

The cover acquired to mitigate exposure to the risks of the motor property damage line of business is again approximately twice the amount of the worse claim occurred in this line.

### Space risk

Thanks to the outwards reinsurance programme, the maximum net theoretical exposure per risk has been limited with more than 80% of the parent's portfolio being outwarded.

Moreover, the portfolio written has a maximum actual exposure 60% lower than the theoretical exposure.

### Flooding risk

Exposure to this catastrophic risk has again been calculated based on an assessment model used by other market operators and the related reinsurance cover is again largely in excess of the requirement resulting from the worse scenario in the model.

# REAL ESTATE BUSINESS

Operations of the group in the real estate sectors include trading, brokerage and management of own and third party property.
The key operating results of the group companies are set out below.

## Brokerage activities

Interimmobili S.r.l. – Rome is active in this sector.
Its real estate brokerage activities brought in Euro 9,882 thousand in revenue, gross of intragroup eliminations. During the year, the company continued to sell buildings in Rome, Turin and Milan on the basis of the warrants of sale granted by group companies and leading institutional investors, social security bodies and building contractors.

## Trading activities

The following companies are active in this sector:

- **Vittoria Immobiliare S.p.A. - Milan**
  This company mainly operates in the real estate trading sector, both directly and through special purpose real estate companies. Turnover from the sale of property amounted to Euro 87,636 thousand. Closing inventory totalled Euro 40,040 thousand.
- **V.R.G. Domus S.r.l. - Turin**
  The company continued its real estate operation in Turin, named "Spina 1". Closing inventory totalled Euro 16,290 thousand.
- **Immobiliare Bilancia S.r.l. - Milan**
  This company achieved revenue on the sale of property totalling Euro 44,006 thousand. Closing inventory totalled Euro 32,355 thousand.
- **Immobiliare Bilancia Prima S.r.l. - Milan**
  The company sold the entire prestigious building located in Rome – Via delle Quattro Fontane, for Euro 35,000 thousand, achieving a gross gain of Euro 12,154 thousand.
- **Immobiliare Bilancia Seconda S.r.l. - Milan**
  This company achieved revenue on the sale of property totalling Euro 21,748 thousand. Closing inventory totalled Euro 4,990 thousand.

## Management activities

Gestimmobili S.r.l. based in Milan, is active in this sector, especially in the administrative and technical management of property. Its overall revenue totalled Euro 1,633 thousand.

## Overheads

Real estate overheads are set out below:

(in thousands of Euros)

| ANALYSIS OF COSTS | 2005 | 2004 | Change |
|---|---|---|---|
| Personnel expenses | 3,230 | 3,044 | 6.1% |
| Other costs | 10,315 | 3,912 | 163.7% |
| Amortisation/depreciation | 216 | 189 | 14.3% |
| Total cost by nature | 13,761 | 7,145 | 92.6% |

Personnel expenses and other costs are classified as operating costs, under “Other administrative costs”. Amortisation/depreciation charges are also recognised under “Other administrative costs” in the income statement.

# SERVICE BUSINESS

Since 2005, the income statements of the group service companies have been consolidated on a line-by-line basis. The relevant segment reporting shows profit of Euro 98 thousand, gross of taxes and minority interests.

## Overheads

Service business overheads are set out below:

(in thousands of Euros)

| ANALYSIS OF COSTS | 2005 | 2004 | Change |
|---|---|---|---|
| Personnel expenses | 762 | - | n.a. |
| Other costs | 3,750 | - | n.a. |
| Amortisation/depreciation | 32 | - | n.a. |
| Total cost by nature | 4,544 | 0 | n.a. |

Personnel expenses and other costs are classified as operating costs, under “Other administrative costs”, while amortisation/depreciation charges are recognised under “Other administrative costs” in the income statement.

The income statements of the service business have been consolidated on a line-by-line basis since 2005.

# Investments – Cash and cash equivalents - Property

## Investment policies

The group objectives in managing its financial operations are as follows:

### A) Life and non-life business investments where the group bears the risk

- ensuring the group's sound financial position adopting a policy that contains the potential portfolio loss risk due to adverse changes in interest rates, share prices or foreign exchange rates;
- limiting the credit risk by preferring highly rated issuers;
- ensuring adequate diversification of investments, including by prudently taking the opportunities offered in the real estate business;
- with respect to the life business, ensuring a stable return, greater than the technical return rate of the contracts in portfolio, optimising the management of expected cash flows consistently with the insurance liabilities;
- with respect to non-life business, ensuring a stable return, in line with the forecasts included in the relevant product tariffs as well as positive cash flows such as to be able to address any significant increase in claims charges and settlement rates;
- matching the duration of the securities portfolio with that of liabilities;
- preferring consistency of returns to obtaining high returns in particular periods;
- hedging exchange rate risks, including by using derivatives.

### B) Life business investments where policyholders bear the risk

- managing investments benefiting policyholders bearing the risk (index-linked and unit-linked policies) and those arising from pension fund management in accordance with the objectives established by the related policies and regulations of the pension funds, pursuant to the total transparency obligation to policyholders and compliance with relevant legislation;
- defining hedging levels against exchange rate risks, including by using derivatives.

Investments, cash and cash equivalents and property totalled Euro 1,490,422 thousand, up Euro 105,380 thousand, or 7.6%, over the previous year.
They may be analysed as follows:

(in thousands of Euros)

| INVESTMENTS - CASH AND CASH EQUIVALENTS - PROPERTY | 31/12/2005 | 31/12/2004 | Change |
|---|---|---|---|
| Investment property | - | - | n.a. |
| - Investments in subsidiaries | - | - | |
| - Investments in associates | 31,477 | 23,790 | |
| - Interests in joint venture | - | - | |
| Investments in subsidiaries and associates and interests in joint ventures | 31,477 | 23,790 | 32.3% |
| - Reinsurance deposits | 618 | 976 | |
| - Other loans and receivables | 16,244 | 19,425 | |
| Loans and receivables | 16,862 | 20,401 | -17.3% |
| Held to maturity investments | 71,687 | 61,013 | 17.5% |
| - Equity investments | 69,593 | 56,031 | |
| - OEIC units | 8,744 | 9,100 | |
| - Bonds and other fixed-interest securities | 983,470 | 838,462 | |
| Financial assets available for sale | 1,061,807 | 903,593 | 17.5% |
| - Investments where policyholders bear the risk | 122,758 | 131,761 | |
| - Investments where the group bears the risk at fair value through profit or loss | - | - | |
| Financial assets at fair value through profit or loss | 122,758 | 131,761 | -6.8% |
| - Equity investments held for trading | - | - | |
| - OEIC units held for trading | - | - | |
| - Bonds and other fixed-interest securities held for trading | 1,607 | 2,505 | |
| - Other financial assets held for trading | - | - | |
| Financial assets held for trading | 1,607 | 2,505 | -35.8% |
| Financial assets at fair value through profit or loss | 124,365 | 134,266 | -7.4% |
| Cash and cash equivalents | 75,016 | 55,552 | 35.0% |
| Property under construction | 35,056 | 52,995 | |
| Property held for trading | 58,458 | 117,769 | |
| Owner-occupied property | 15,694 | 15,663 | |
| Property | 109,208 | 186,427 | -41.4% |
| TOTAL INVESTMENTS | 1,490,422 | 1,385,042 | 7.6% |

Investments where the group bears the risk totalled Euro 1,367,664 thousand (31 December 2004: Euro 1,253,281 thousand).

## Investments in financial instruments and investment property

**<u>Equity investments - Bonds and other fixed-interest securities - OEIC units (sections A, B, D of the previous table)</u>**

These investments in group companies and securities held to maturity, available for sale or held for trading, where the group companies bear the risk, totalled Euro 1,135,101 thousand at 31 December 2005 up 17.4% on the Euro 967,111 thousand of 31 December 2004.

The yield curve on the fixed-interest securities portfolio continued to flatten during the year and the group maintained its policy focused on the acquisition of Italian treasury bonds, mainly with variable rates.
Variable rate securities acquired totalled Euro 195,869 thousand (of which Euro 4,500 thousand in held to maturity investments and Euro 191,369 thousand in assets available for sale) while fixed rate securities acquired amounted to Euro 4,987 thousand, all relating to held to maturity investments.
Bonds sold during the year totalled Euro 17,526 thousand and related to investments classified as available for sale. The group realised gains of Euro 4,096 thousand thereon.
Such sales included Argentine bonds for Euro 1,859 thousand, which brought in Euro 820 thousand in gains.

Equity investments available for sale changed as follows during the year:

- Banca Passadore S.p.A. - Genoa.: increase in the investment from 2.679% to 2.756% through the acquisition of 26,993 shares at a cost of Euro 159 thousand;
- BCC Banca Comprensorio del Cuoio - Pisa: subscription of Euro 100 thousand of the capital of this newly set up bank; This investment was made for the purposes of a commercial cooperation agreement for the sale of insurance products;
- BCM & Partners LLP - London: subscription of a 10% stake in this London-based company operating in the fund management sector, at a cost of Euro 207 thousand;
- B.P.C. S.p.A. - Genoa: the relevant portion of the share capital increase of BPC S.p.A. (Euro 496 thousand) was subscribed and paid-up and further shares totalling Euro 72 thousand were subscribed, increasing the investment to 19.92%;
- Cam Finanziaria S.p.A. - Milan: subscription of the relevant portion of the share capital increase (Euro 10,144 thousand) keeping the group’s investment therein unchanged;
- Liguria S.p.A. - Milan: paid up Euro 22 thousand, i.e., 20% of the 109,798 shares (out of a total of 576,800 shares) which are now 45% paid-up;
- Marina S.r.l. - Milan: subscription of a 19.98% stake in this holding company for Euro 829 thousand;
- Mediorischi S.p.A. - Milan: acquisition of 5.35% of this insurance brokerage company for Euro 11 thousand.

**Investments benefiting life policyholders bearing the risk and investments arising from pension fund management (section C of the previous table)**

These investments decreased 6.8% to Euro 122,758 thousand at year end. They relate to unit-linked and index-linked policies (Euro 120,796 thousand) and the Vittoria Formula Lavoro open pension fund (Euro 1,962 thousand).
Overall net return was a positive Euro 9,342 thousand.

**Investments in property**

The book value of the group real estate at year end was Euro 109,208 thousand, down 41.1% over the previous year. It may be analysed as follows:
- Euro 13,071 thousand relating to the parent;
- Euro 96,137 thousand relating to subsidiaries, of which:
    - Euro 2,663 thousand in owner-occupied property held through Vittoria Properties S.r.l.;
    - Euro 35,056 thousand in areas being built on; the balance include the gross carrying amount of Euro 45,372 thousand, net of payments on account for Euro 11,278 thousand;
    - Euro 58,458 thousand in property held for trading.

**Investments in associates**

The performance in the main associates is set out below.

**Yarpa International Holding N.V. group - Holland**
This is a real estate holding company active in Europe, especially Paris. Through its investment in Inbro B.V. (39.43%) and Yam Invest N.V. (75.00%), it controls the French real estate group Cogedim S.A.S., whose turnover totalled Euro 405,542 thousand in 2005.

The year end profit of Yarpa International Holding N.V. group amounted to Euro 20,514 thousand.

**Laumor B.V. Group - Holland**
The parent is a real estate holding company active in France. Through special purpose vehicles, it performs real estate trading with 2005 sales of Euro 51,553 thousand. It also holds a stake in the French group Materis, active in the building materials sector, through the French investment fund F.C.P.R. Francois III.

The total profit of Laumor B.V. group was Euro 1,088 thousand at year end. Vittoria Assicurazioni's share was Euro 272 thousand.

**White Finance S.A. - Luxembourg**
This is a financial company which invests in closed-end securities funds.
The 2005 draft financial statements show equity of Euro 15,955 thousand, including the loss for the year of Euro 928 thousand.

**Rovimmobiliare S.r.l. - Italy**
This associate is a real estate company held via Vittoria Immobiliare S.p.A..
Taking into consideration the tax transparency charge, the 2005 draft financial statements show equity of Euro 3,360 thousand, including the profit for the year of Euro 2,672 thousand.

**Gimatrading S.r.l. – Italy**
This associate is a real estate company held via Vittoria Immobiliare S.p.A..
The 2005 draft financial statements show equity of Euro 97 thousand, including the profit for the year of Euro 8 thousand.

**Sivim S.r.l. – Italy**
This associate is a real estate company held via Vittoria Immobiliare S.p.A..
The 2005 draft financial statements show equity of Euro 49 thousand, including the loss for the year of Euro 4 thousand.

**Le Api S.r.l. – Italy**
This associate is a service company held via Interbilancia S.r.l..
The 2005 draft financial statements show equity of Euro 39 thousand, including the profit for the year of Euro 11 thousand.

# Financial liabilities

A breakdown of financial liabilities relating to contracts where the investment risk is borne by policyholders and other financial liabilities with disclosure of subordinated liabilities is set out below.

(in thousands of Euros)

| FINANCIAL LIABILITIES | 31/12/2005 | 31/12/2004 | Change |
|---|---|---|---|
| - Financial liabilities where the investment risk is borne by policyholders relating to index- and unit-linked policies | 120,796 | 129,546 | |
| - Financial liabilities where the investment risk is borne by policyholders relating to pension funds | 1,962 | 2,215 | |
| Financial liabilities where the investment risk is borne by policyholders and arising from pension fund management | 122,758 | 131,761 | -6.8% |
| - Reinsurance deposits | 106,301 | 103,210 | |
| - Payables to banks | 55,782 | 44,412 | |
| - Other financial payables | 3,685 | 9,109 | |
| - Subordinated liabilities | 17,760 | 17,562 | 1.1% |
| Other financial liabilities | 183,528 | 174,293 | 5.3% |
| TOTAL FINANCIAL LIABILITIES | 306,286 | 306,054 | 0.1% |

Reference should be made to the notes to the consolidated financial statements for greater details.

# Gains and losses on investments

A breakdown of net gains on investments with separate disclosure of investments where risk is borne by life policyholders is set out below.

(in thousands of Euros)

| | Gains and losses on investments | Interest and other net income | Net realised gains | Unrealised gains | Unrealised losses | 2005 total net realised and unrealised gains | 2004 total net realised and unrealised gains |
|---|---|---|---|---|---|---|---|
| **Investments** | | **45,289** | **6,946** | **6,057** | **577** | **57,715** | **67,085** |
| a | Investment property | 0 | 0 | 0 | 0 | 0 | 0 |
| b | Investments in subsidiaries and associates and interests in joint ventures | 6,234 | 0 | 0 | 0 | 6,234 | 3,587 |
| c | Held to maturity investments | 3,154 | 0 | 0 | 0 | 3,154 | 3,035 |
| d | Loans and receivables | 671 | 0 | 28 | 0 | 699 | 555 |
| e | Financial assets available for sale | 34,144 | 4,097 | 0 | 0 | 38,241 | 51,200 |
| f | Financial assets held for trading | 14 | 20 | 20 | 9 | 45 | -12 |
| l | Financial assets at fair value through profit or loss | 1,072 | 2,829 | 6,009 | 568 | 9,342 | 8,720 |
| **Other receivables** | | **532** | **0** | **0** | **0** | **532** | **544** |
| **Cash and cash equivalents** | | **1,967** | **0** | **0** | **0** | **1,967** | **1,523** |
| **Financial liabilities** | | **5,117** | **0** | **0** | **9,342** | **14,459** | **13,863** |
| a | Financial liabilities held for trading | 0 | 0 | 0 | 0 | 0 | 0 |
| b | Financial liabilities at fair value through profit or loss | 0 | 0 | 0 | 9,342 | 9,342 | 8,720 |
| c | Other financial liabilities | 5,117 | 0 | 0 | 0 | 5,117 | 5,143 |
| **Payables** | | **0** | **0** | **0** | **0** | **0** | **0** |
| **Total gains and losses on financial instruments** | | **42,671** | **6,946** | **6,057** | **9,919** | **45,755** | **55,289** |
| **Real estate business** | | | | | | | |
| a | Gains on property trading | 0 | 45,365 | 0 | 0 | **45,365** | **14,325** |
| b | Revenue from work in progress (percentage of completion method) | 2,382 | 0 | 0 | 0 | **2,382** | **7,685** |
| c | Rent income on owner-occupied property and property held for trading | 3,001 | 0 | 0 | 0 | **3,001** | **1,981** |
| **Total real estate business** | | **5,383** | **45,365** | **0** | **0** | **50,748** | **23,991** |
| **Total gains and losses on investments** | | **48,054** | **52,311** | **6,057** | **9,919** | **96,503** | **79,280** |
| | **of which** | | | | | | |
| | **Investments where policyholders bear the risk** | **1,072** | **2,829** | **6,009** | **568** | **9,342** | **8,720** |
| | **Investments where the group bears the risk** | **46,982** | **49,482** | **48** | **9,351** | **87,161** | **70,560** |

Net gains where the group bears the risk rose from Euro 70,560 thousand to Euro 87,161 thousand, up 23.5% over the previous year.

The weighted average return on the bonds and other fixed-interest securities portfolio is 4.4%.

# Financial risk management and analysis

## Risk management

### Objectives and principles

Financial risk management policies aim at ensuring the group's sound financial position by monitoring the potential portfolio loss risk due to adverse changes in market conditions.

The different risks, how they are managed and the group's exposure to each of them are summarised below.

### Procedures

The group uses an organised system of procedures and activities to monitor its exposure to financial risks. This includes the regular reporting on:

- the market value of assets and their consequent potential impairment loss;
- macro-economic and market variables trends;
- for bond portfolios, the rating of the issuers and interest rate risk sensitivity measurements;
- the compliance with the investment limits defined by the board of directors;
- the overall exposure to an individual issuer.

Furthermore, the group carries out Asset & Liability Management analyses which, in the medium term, mainly aim at:

- providing joint dynamic projections of cash flows and the other asset and liability figures in order to show any income statement and/or financial mismatching ;
- providing an indication of the expected trends of rate of returns of the asset portfolio covering life insurance contracts compared to the minimum returns provided for by contracts;
- identifying the variables (financial, actuarial and commercial) that may have the greatest negative impact on results by carrying out specific stress test and scenario analyses.

The results of the above activities are checked by the Finance Committee on a regular basis. This committee comprises members of the board of directors which is responsible for the supervision of securities portfolio trends and setting investment strategies.

## Risk analysis

Breakdown of the securities portfolio

A breakdown of the carrying amounts of the securities portfolio where the risk is borne by the group by investment nature (debt securities, equity instruments and OEIC units) at 31 December 2005 is set out in the following table, which also give indications on the group's exposure to financial risks and flow uncertainties.

The carrying amounts are those at 31 December 2005.

(in thousands of Euros)

| Investment nature | Amount | % of breakdown | Amount | % of breakdown |
|---|---|---|---|---|
| Listed treasury bonds: | 924,231 | 81.4% | | |
| Fixed interest rate | 416,506 | 36.7% | | |
| Variable interest rate | 507,725 | 44.7% | | |
| Unlisted treasury bonds: | 2,896 | 0.3% | | |
| Fixed interest rate | - | 0.0% | | |
| Variable interest rate | 2,896 | 0.3% | | |
| Listed corporate bonds: | 105,317 | 9.3% | | |
| Fixed interest rate | 95,126 | 8.4% | | |
| Variable interest rate | 10,191 | 0.9% | | |
| Unlisted corporate bonds: | 5,060 | 0.4% | | |
| Fixed interest rate | 307 | 0.0% | | |
| Variable interest rate | 4,753 | 0.4% | | |
| Bonds of supranational issuers: | 19,260 | 1.7% | | |
| Fixed interest rate | 19,260 | 1.7% | | |
| Variable interest rate | - | 0.0% | | |
| DEBT SECURITIES | 1,056,764 | 93.1% | | |
| of which | | | | |
| Total fixed-interest securities | | | 531,199 | 50.3% |
| Total variable-interest securities | | | 525,565 | 49.7% |
| Total debt securities | | | 1,056,764 | 100.0% |
| of which | | | | |
| Total listed securities | | | 1,029,548 | 97.4% |
| Total unlisted securities | | | 27,216 | 2.6% |
| Total debt securities | | | 1,056,764 | 100.0% |
| listed shares | 47,429 | 4.2% | | |
| unlisted equity instruments | 22,164 | 2.0% | | |
| EQUITY INSTRUMENTS | 69,593 | 6.1% | | |
| OEIC UNITS | 8,744 | 0.8% | | |
| TOTAL | 1,135,101 | 100.0% | | |

The fixed-interest securities portfolio has a duration of 3.04 years.

Group investments at fair value through profit or loss (index-linked and unit-linked policies and pension funds) are not mentioned in this section since they are strictly linked to the related liabilities.

**Market risk**

The market risk comprises the interest rate risk, price risk and exchange rate risk.
Debt securities are recognised at a certain interest rate risk.
The interest rate risk on fair value is the risk that the value of a financial instrument varies as a result of changes in the market interest rates.
A decrease in the interest rate would result in an increase in the fair value of such securities, while an increase would decrease their fair value.
The interest rate risk on cash flows relates to the possible change in the coupons of variable-interest securities.

The carrying amount of fixed-interest debt securities at interest rate risk on fair value totalled Euro 531,199 thousand, accounting for 50.3% of the bond portfolio with investment risk borne by the group.
The quantitative impacts on the fair value of an assumed parallel variation in the interest rate curve of ±100 basis points (BP) are analysed below.
These impacts related to the fixed-interest debt securities classified as "Financial assets available for sale".

(in thousands of Euros)

| Fixed-interest securities at fair value | Amount |
|---|---|
| Carrying amount | 492,657 (1) |
| **Change** | |
| 100 BP increase | -22,382 |
| 100 BP decrease | 25,941 |

(1) of which Euro 343,605 thousand allocated to the separately-managed life business.

The carrying amount of variable-interest debt securities at interest rate risk on cash flows totalled Euro 525,565 thousand, accounting for 49.7% of the bond portfolio with investment risk borne by the group. In terms of variable interest rate cash flow sensitivity, a positive or negative change of 100 BP would result in an increase or decrease in interest income of Euro 4,766 thousand.

The life business insurance contracts have a direct relationship between investments and benefits to be paid to policyholders. They may also provide for a minimum guarantee interest rate.
This direct relationship between obligations to policyholders and investments of assets allocated to the benefits is regulated through the above-mentioned ALM model.

The group manages the interest rate risk by matching asset and liability cash flows and the liability duration with those of the related investment portfolio.
Duration is an indicator of the sensitivity of the asset and liability fair value to changes in interest rates.

The following tables show the carrying amounts of fixed-interest securities broken down by maturity and those of variable-interest securities broken down by type of rate.

**Fixed-interest securities** (in thousands of Euros)

| Maturity | Amount | % of breakdown |
|---|---|---|
| < 1 year | 28,858 | 5.4% |
| 1<X<2 | 63,856 | 12.0% |
| 2<X<3 | 53,470 | 10.1% |
| 3<X<4 | 53,737 | 10.1% |
| 4<X<5 | 84,005 | 15.8% |
| 5<X<10 | 183,394 | 34.5% |
| more | 63,879 | 12.0% |
| Total | 531,199 | 100.0% |
| of which repayable in advance | 5,146 | |

**Variable-interest securities** (in thousands of Euros)

| Type of rate | Indexation | Amount | % of breakdown |
|---|---|---|---|
| Constant mat. swaps | Euroswaps 10Y | 33,591 | 6.4% |
| Constant mat. swaps | Euroswaps 30Y | 8,868 | 1.7% |
| variable | 3 month treasury bonds | 5,496 | 1.0% |
| variable | 6 month treasury bonds | 470,996 | 89.6% |
| variable | other | 6,614 | 1.3% |
| Total | | 525,565 | 100.0% |

The contractual refixing date of most of these securities is in the first half of the year.
The group holds variable-interest financial liabilities, mainly comprising bank loans taken out by the real estate companies, totalling Euro 59,466 thousand.
In terms of their sensitivity, a 100 BP increase would mean that interest expense would rise by Euro 595 thousand and, vice versa, an equal decrease would lead to a Euro 595 thousand fall in interest expense.

Equity investments are exposed to the **price risk**, i.e., the possibility that their fair value varies as a result of changes arising from factors that are specific to the individual instrument or issuer or that affect all traded instruments.
If the listed shares classified as “Financial assets available for sale” had incurred a loss of 10%, equity attributable to the shareholders of the parent would have been Euro 3,972 thousand lower.

The group does not face any **foreign exchange risk** since almost all investments in portfolio at year end where it bears the risk are expressed in Euros.

**Liquidity risk**

The group makes daily payments arising from insurance and financial contracts.
The liquidity risk is the risk that available funds may not suffice to meet the group's obligations and it is monitored through ALM on an ongoing basis.
This risk may also arise as a result of the group's inability to quickly sell a financial assets at an amount approximating its fair value.
This is less probable when the financial assets are listed in active markets.
Financial assets listed in an active market accounted for more than 95% of the group portfolio at year end.

**Credit risk**

The group limits its exposure to credit risk by investing in highly-rated issuers.
As shown in the table below, almost all bonds held by the group at year end were classified as investment grade.

(in thousands of Euros)

| Rating (Standard & Poor's) | Amount | % of breakdown |
|---|---|---|
| AAA | 106,122 | 10.0% |
| AA+ / AA- | 859,171 | 81.3% |
| A+ / A- | 41,402 | 4.0% |
| BBB+ / BBB- | 37,629 | 3.5% |
| Non investment grade | 2,784 | 0.3% |
| Unrated | 9,656 | 0.9% |
| Total | 1,056,764 | 100.0% |

# Relationships with group companies and related parties

Transactions with group companies were carried out during the normal course of business, using the specific professional skills and on an arm's length basis. There were no atypical or unusual transactions.
This section sets out all transactions carried out with group companies, excluding those with companies consolidated on a line-by-line basis.

The most significant transactions with unconsolidated group companies, directors and statutory auditors are summarised below.

(in thousands of Euros)

| Related parties | Loans | Other receivables | Financial liabilities | Revenue | Costs | Total |
|---|---|---|---|---|---|---|
| Parents | | | 10,094 | | 562 | 10,656 |
| Related companies | | | | | 577 | 577 |
| Associates | 3,856 | 89 | | 73 | | 4,018 |
| Directors' fees | | | | | 1,302 | 1,302 |
| Statutory auditors' fees | | | | | 75 | 75 |
| Total | 3,856 | 89 | 10,094 | 73 | 2,516 | 16,628 |

## Relationships with subsidiaries

Vittoria Assicurazioni S.p.A. opted to use the consolidated tax system pursuant to articles 117 and following of Presidential decree no. 917 of 22 December 1986, acting as the consolidating company. The effective period is from 2005 to 2007. The fiscally-consolidated companies under this system are Immobiliare Bilancia S.r.l., Immobiliare Bilancia Prima S.r.l., Immobiliare Bilancia Seconda S.r.l. and Immobiliare Bilancia Terza S.r.l..

## Relationships with parents

No transactions of a trading or supply nature were carried out with Vittoria Capital N.V. - Holland, which directly held 15,307,200 Vittoria Assicurazioni ordinary shares, equal to 51.024% of the share capital, at year end, unchanged with respect to 31 December 2004. Moreover, the direct parent holds subordinated convertible bonds issued by Vittoria Assicurazioni amounting to Euro 9,240 thousand. The related interest, recognised under losses on other financial instruments and investment property, totalled Euro 508 thousand.
No transactions of a trading or supply nature were carried out with the indirect ultimate parent Yura International Holding B.V. - Holland, which holds a 66% stake in Vittoria Capital N.V.. Its direct investment at year end was 6.55%, equal to 1,965,114 shares. Moreover, the ultimate parent holds subordinated convertible bonds issued by Vittoria Assicurazioni amounting to Euro 990 thousand. The related interest, recognised under losses on other financial instruments and investment property, totalled Euro 54 thousand.

## Relationships with related companies

Services provided by S.In.t. S.r.l. to the parent related to the “Formula Salute” policies and commercial agreements signed by Vittoria. The total cost of these services amounted to Euro 577 thousand plus VAT.

## Relationships with associates

### Yarpa International Holding N.V. - Holland

This company repaid part of the share premiums to its shareholders. The amount paid to Vittoria Assicurazioni was Euro 3,000 thousand.

### Laumor B.V. - Holland

The parent decreased the loans granted to this associate from Euro 7,115 thousand to Euro 3,687 thousand. Equivalent decreases were made by the other shareholders.

Part of the loan (Euro 3,063 thousand) was given for the real estate trading performed by this company through its special purpose vehicles and bears interest at the three-month Euribor rate plus 30 basis points. The related interest was Euro 73 thousand. The remainder does not bear interest and was given for the acquisition, through the French investment fund F.C.P.R. Francois III, of a stake in the French group Materis, which is active in the building materials sector. It amounts to Euro 625 thousand after the repayment of Euro 3,500 thousand.

# Performance of the first few months of 2006 and expected future developments

## Insurance business

Subsequent to the year end, a share premium of Euro 2,447 thousand was paid with respect to White Finance S.A..

The parent will continue to build up its sales network during 2006: it has opened three new agencies, restructured 9 and closed one special agency.

## Real estate business

In January 2006, the subsidiary Immobiliare Bilancia Seconda acquired a building in Rome, Via Ojetti 16, for Euro 4 million. The trading plan provides for the sale of the office building in lots for an expected gross profit of approximately Euro 1.4 million.

Board of directors
(signed on the original)

Milan, 23 March 2006

The board of directors approved the draft annual report on 23 March 2006.
It is subject to change by the shareholders.

# Consolidated Financial Statements
# As at and for the Year ended
# 31 december 2005

# BALANCE SHEET

## Vittoria Assicurazioni S.p.A. - Consolidated financial statements as at and for the year ended 31 December 2005

### BALANCE SHEET - ASSETS

(in thousands of Euros)

| | | Note | 31/12/2005 | 31/12/2004 |
|---|---|---|---|---|
| 1 | INTANGIBLE ASSETS | | 14,924 | 14,600 |
| 1.1 | Goodwill | 1 | 0 | 1,114 |
| 1.2 | Other intangible assets | 2 | 14,924 | 13,486 |
| 2 | PROPERTY, PLANT AND EQUIPMENT | | 114,586 | 191,809 |
| 2.1 | Property | 2 | 109,208 | 186,426 |
| 2.2 | Other items of property, plant and equipment | 2 | 5,378 | 5,383 |
| 3 | REINSURERS' SHARE OF TECHNICAL RESERVES | 3 | 143,306 | 138,436 |
| 4 | INVESTMENTS | | 1,306,198 | 1,143,063 |
| 4.1 | Investment property | | 0 | 0 |
| 4.2 | Investments in subsidiaries and associates and interests in joint ventures | 4 | 31,477 | 23,790 |
| 4.3 | Held to maturity investments | 5 | 71,687 | 61,013 |
| 4.4 | Loans and receivables | 5 | 16,862 | 20,401 |
| 4.5 | Financial assets available for sale | 5 | 1,061,807 | 903,593 |
| 4.6 | Financial assets at fair value through profit or loss | 5 | 124,365 | 134,266 |
| 5 | OTHER RECEIVABLES | | 188,417 | 134,025 |
| 5.1 | Receivables relating to direct insurance | 6 | 107,151 | 109,410 |
| 5.2 | Receivables relating to reinsurance business | 7 | 10,375 | 11,731 |
| 5.3 | Other receivables | 8 | 70,891 | 12,884 |
| 6 | OTHER ASSETS | | 45,619 | 49,722 |
| 6.1 | Non-current assets or assets of a disposal group classified as held for sale | | 0 | 0 |
| 6.2 | Deferred acquisition costs | 9 | 12,818 | 12,937 |
| 6.3 | Deferred tax assets | 10 | 10,682 | 4,025 |
| 6.4 | Current tax assets | 11 | 19,910 | 30,058 |
| 6.5 | Other assets | 12 | 2,209 | 2,702 |
| 7 | CASH AND CASH EQUIVALENTS | 13 | 75,016 | 55,552 |
| | TOTAL ASSETS | | 1,888,066 | 1,727,207 |

## BALANCE SHEET - EQUITY AND LIABILITIES

(in thousands of Euros)

| | | Note | 31/12/2005 | 31/12/2004 |
|---|---|---|---|---|
| 1 | EQUITY | | 213,533 | 174,990 |
| 1.1 | attributable to the shareholders of the parent | | 203,635 | 168,105 |
| 1.1.1 | Share capital | 14 | 30,000 | 30,000 |
| 1.1.2 | Other equity instruments | 14 | 1,398 | 1,398 |
| 1.1.3 | Equity-related reserves | 14 | 20,142 | 20,142 |
| 1.1.4 | Income-related and other reserves | 14 | 91,715 | 73,680 |
| 1.1.5 | (Treasury shares) | 14 | 0 | 0 |
| 1.1.6 | Translation reserve | 14 | 6 | 5 |
| 1.1.7 | Fair value reserve | 14 | 21,585 | 20,837 |
| 1.1.8 | Other gains or losses recognised directly in equity | 14 | -1,190 | -77 |
| 1.1.9 | Profit for the year attributable to the shareholders of the parent | | 39,979 | 22,120 |
| 1.2 | attributable to minority interests | 14 | 9,898 | 6,885 |
| 1.2.1 | Share capital and reserves attributable to minority interests | | 5,518 | 3,727 |
| 1.2.2 | Gains or losses recognised directly in equity | | 0 | 0 |
| 1.2.3 | Profit for the year attributable to minority interests | | 4,380 | 3,158 |
| 2 | PROVISIONS | 15 | 5,344 | 1,587 |
| 3 | TECHNICAL RESERVES | 16 | 1,258,577 | 1,160,591 |
| 4 | FINANCIAL LIABILITIES | | 306,286 | 306,054 |
| 4.1 | Financial liabilities at fair value through profit or loss | 17 | 122,758 | 131,761 |
| 4.2 | Other financial liabilities | 17 | 183,528 | 174,293 |
| 5 | PAYABLES | | 57,646 | 48,773 |
| 5.1 | Payables arising from direct insurance business | 18 | 7,879 | 7,973 |
| 5.2 | Payables arising from reinsurance business | 19 | 7,154 | 7,785 |
| 5.3 | Other sums payable | 20 | 42,613 | 33,015 |
| 6 | OTHER LIABILITIES | | 46,680 | 35,212 |
| 6.1 | Liabilities of a disposal group held for sale | | 0 | 0 |
| 6.2 | Deferred tax liabilities | 21 | 10,474 | 13,173 |
| 6.3 | Current tax liabilities | 22 | 19,832 | 5,300 |
| 6.4 | Other liabilities | 23 | 16,374 | 16,739 |
| | TOTAL EQUITY AND LIABILITIES | | 1,888,066 | 1,727,207 |

# Income statement

(in thousands of Euros)

| | | Note | 2005 | 2004 |
|---|---|---|---|---|
| 1.1 | Net premiums | | 452,955 | 390,983 |
| *1.1.1* | *Gross premiums* | 24 | 539,385 | 483,537 |
| *1.1.2* | *Ceded premiums* | 24 | 86,430 | 92,554 |
| 1.2 | Commission income | 25 | 1,943 | 2,015 |
| 1.3 | Gains or losses on remeasurement of financial instruments at fair value through profit or loss | 26 | 45 | -12 |
| 1.4 | Gains on investments in subsidiaries and associates and interests in joint ventures | 26 | 6,532 | 3,587 |
| 1.5 | Gains on other financial instruments and investment property | 26 | 44,593 | 56,857 |
| *1.5.1* | *Interest income* | | 38,863 | 40,972 |
| *1.5.2* | *Other income* | | 1,605 | 1,019 |
| *1.5.3* | *Realised gains* | | 4,097 | 14,866 |
| *1.5.4* | *Unrealised gains* | | 28 | 0 |
| 1.6 | Other income | 27 | 60,314 | 29,374 |
| 1 | TOTAL REVENUE | | 566,382 | 482,804 |
| 2.1 | Net charges relating to claims | | 353,429 | 316,563 |
| *2.1.2* | *Amounts paid and change in technical reserves* | 24 | 422,812 | 392,554 |
| *2.1.3* | *Reinsurers' share* | 24 | 69,383 | 75,991 |
| 2.2 | Commission expense | 28 | 722 | 724 |
| 2.3 | Losses on investments in subsidiaries and associates and interests in joint ventures | 26 | 298 | 0 |
| 2.4 | Losses on other financial instruments and investment property | 26 | 5,117 | 5,143 |
| *2.4.1* | *Interest expense* | | 5,117 | 5,143 |
| *2.4.2* | *Other expense* | | 0 | 0 |
| *2.4.3* | *Realised losses* | | 0 | 0 |
| *2.4.4* | *Unrealised losses* | | 0 | 0 |
| 2.5 | Operating costs | | 125,519 | 101,509 |
| *2.5.1* | *Commissions and other acquisition costs* | 29 | 88,006 | 74,890 |
| *2.5.2* | *Investment management costs* | 29 | 729 | 813 |
| *2.5.3* | *Other administrative costs* | 29 | 36,784 | 25,806 |
| 2.6 | Other costs | 30 | 12,061 | 14,064 |
| 2 | TOTAL COSTS | | 497,146 | 438,003 |
| | PROFIT FOR THE YEAR BEFORE TAXATION | | 69,236 | 44,801 |
| 3 | Income taxes | 31 | 24,877 | 19,523 |
| | PROFIT FOR THE YEAR | | 44,359 | 25,278 |
| 4 | GAIN (LOSS) ON DISCONTINUED OPERATIONS | | 0 | 0 |
| | CONSOLIDATED PROFIT | | 44,359 | 25,278 |
| | of which attributable to the shareholders of the parent | | 39,979 | 22,120 |
| | of which attributable to minority interests | 14 | 4,380 | 3,158 |

| | | | |
|---|---|---|---|
| Basic EARNINGS per share | | 1.33 | 0.74 |
| Diluted EARNINGS per share | | 1.21 | 0.68 |

### Calculation of earnings per share

| | | 2005 | 2004 |
|---|---|---|---|
| Profit for the year attributable to the shareholders of the parent | Euro | 39,979,161 | 22,119,640 |
| Average number of shares | no. | 30,000,000 | 30,000,000 |
| Basic earnings per share | Euro | 1.33 | 0.74 |
| Adjustments | | | |
| Financial charges on the convertible subordinated bond issue | Euro | 796,110 | 789,237 |
| Number of potential shares | no. | 3,750,000 | 3,750,000 |
| Adjusted profit for the year attributable to the shareholders of the parent | Euro | 40,775,271 | 22,908,877 |
| Adjusted average number of shares | no. | 33,750,000 | 33,750,000 |
| Diluted earnings per share | Euro | 1.21 | 0.68 |

Adjustments refer to the number of potential shares arising from the conversion of the convertible subordinated bond issue and the related financial charges.

# Statement of changes in equity

Vittoria Assicurazioni S.p.A. - Consolidated financial statements as at and for the year ended 31 December 2005

STATEMENT OF CHANGES IN EQUITY

(in thousands of Euros)

| | | | Balance at 31/12/2003 | Adjustment to closing balance | Allocation | Reclass. to profit or loss | Other reclassifications | Balance at 31/12/2004 | Adjustment to closing balance | Allocation | Reclass. to profit or loss | Other reclassifications | Balance at 31/12/2005 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Equity attributable to the shareholders of the parent | Share capital | | 30,000 | | | | | 30,000 | | | | | 30,000 |
| | Other equity instruments | | | 1,398 | | | | 1,398 | | | | | 1,398 |
| | Equity-related reserves | | 20,142 | | | | | 20,142 | | | | | 20,142 |
| | Income-related and other reserves | | 53,161 | 5,126 | 19,294 | | -3,900 | 73,681 | | 22,234 | | -4,200 | 91,715 |
| | (Treasury shares) | | | | | | | 0 | | | | | 0 |
| | Translation reserve | | | | 5 | | | 5 | | 1 | | | 6 |
| | Fair value reserve | | | 16,406 | 4,430 | | | 20,836 | | 749 | | | 21,585 |
| | Other gains or losses recognised directly in equity | Hedging reserve | | | | | | 0 | | | | | 0 |
| | | Gains or losses on hedging instruments of net investment in foreign operations | | | | | | 0 | | | | | 0 |
| | | Reserve for changes in the equity of investees | | | -77 | | | -77 | | -1,113 | | | -1,190 |
| | | Intangible asset revaluation reserve | | | | | | 0 | | | | | 0 |
| | | Property, plant and equipment revaluation reserve | | | | | | 0 | | | | | 0 |
| | | Gains or losses on non-current assets or assets of a disposal group classified as held for sale | | | | | | 0 | | | | | 0 |
| | | Other reserves | | | | | | 0 | | | | | 0 |
| | Profit for the year | | 19,290 | | 2,830 | | | 22,120 | | 17,859 | | | 39,979 |
| | **Total attributable to the shareholders of the parent** | | **122,593** | **22,930** | **26,482** | **0** | **-3,900** | **168,105** | **0** | **39,730** | **0** | **-4,200** | **203,635** |
| Equity attributable to minority interests | Share capital and reserves attributable to minority interests | | 4,309 | 1,878 | -2,460 | | | 3,727 | | 2,641 | | -850 | 5,518 |
| | Gains or losses recognised directly in equity | | | | | | | 0 | | | | | 0 |
| | Profit for the year | | 238 | | 2,920 | | | 3,158 | | 1,222 | | | 4,380 |
| | **Total attributable to minority interests** | | **4,547** | **1,878** | **460** | **0** | **0** | **6,885** | **0** | **3,863** | **0** | **-850** | **9,898** |
| **Total** | | | **127,140** | **24,808** | **26,942** | **0** | **-3,900** | **174,990** | **0** | **43,593** | **0** | **-5,050** | **213,533** |

For further information, reference should be made to the notes to the consolidated financial statements.

# Cash flow statement – indirect method

Vittoria Assicurazioni S.p.A. - Consolidated financial statements as at and for the year ended 31 December 2005

(in thousands of Euros)

| | 2005 |
|---|---|
| Profit for the year before taxation | 69,236 |
| Change in non-monetary items | 115,941 |
| Change in non-life premium reserve | 4,625 |
| Change in claims reserve and other non-life technical reserves | 28,661 |
| Change in mathematical reserves and other life technical reserves | 59,830 |
| Change in deferred acquisition costs | 119 |
| Change in provisions | 3,757 |
| Non-monetary gains and losses on financial instruments, investment property and investments in subsidiaries and associates and interests in joint ventures | 3,497 |
| Other changes | 15,452 |
| Change in receivables and payables arising from operating activities | 60,052 |
| Change in receivables and payables relating to direct insurance and reinsurance | -2,890 |
| Change in other receivables and payables | 62,942 |
| Taxes paid | 10,344 |
| Net cash flow generated by/used for monetary items from investing and financing activities | 2,992 |
| Liabilities from financial contracts issued by insurance companies | 18,345 |
| Payables to bank and interbank customers | |
| Loans and receivables from bank and interbank customers | |
| Other financial instruments at fair value through profit or loss | -15,353 |
| NET CASH FLOW FROM OPERATING ACTIVITIES | 111,789 |
| Net cash flow generated by/used for investment property | |
| Net cash flow generated by/used for investments in subsidiaries and associated companies and interests in joint ventures | -6,574 |
| Net cash flow generated by/used for loans and receivables | 3,567 |
| Net cash flow generated by/used for held to maturity investments | -10,674 |
| Net cash flow generated by/used for financial assets available for sale | -158,962 |
| Net cash flow generated by/used for property, plant and equipment | 76,899 |
| Other net cash flows generated by/used for investing activities | |
| NET CASH FLOW FROM INVESTING ACTIVITIES | -95,744 |
| Net cash flow generated by/used for equity instruments attributable to the shareholders of the parent | |
| Net cash flow generated by/used for treasury shares | |
| Dividends distributed to the shareholders of the parent | -4,200 |
| Net cash flow generated by/used for share capital and reserves attributable to minority interests | -1,616 |
| Net cash flow generated by/used for subordinated liabilities and equity instruments | |
| Net cash flow generated by/used for other financial liabilities | 9,235 |
| NET CASH FLOW FROM FINANCING ACTIVITIES | 3,419 |
| Effect of exchange rate gains/losses on cash and cash equivalents | 0 |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR | 55,552 |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 19,464 |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR | 75,016 |

There are no cash and cash equivalents that the group cannot use (e.g., due to foreign currency restrictions).
The net financial indebtedness of the real estate companies totalled Euro 16,089 thousand, an improvement of Euro 9,525 thousand over the previous year.
Credit lines available to the group and not yet used at year end amounted to Euro 1,039 thousand.

# Accounting standards

## Foreword

### Statement of compliance with IFRS

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IRFS).

The standards adopted are those effective at the balance sheet date of the first set of IFRS-compliant financial statements, except for that specified in the section on the exemptions that the group has opted to apply.

The group has not applied any IFRS before they actually became effective.

### IFRS 1 - Exemptions adopted by the group

As allowed by IFRS 1 "First time adoption", the group opted to adopt the following exemptions in the preparation of its opening balance sheet as at 1 January 2004:

Business combinations: the group decided not to apply IFRS 3 (Business combinations) retrospectively for transactions that took place before the transition date.

Therefore, this standard has been applied for combinations that took place after 1 January 2004. The related goodwill generated on acquisitions carried out before the transition date has been maintained at its carrying amount at 31 December 2003 measured under Italian GAAP, after testing it for impairment.
Property, plant and equipment – Owner-occupied property: as allowed by IFRS 1, parent property was measured at fair value (deemed cost) at the transition date based on the appraisals performed on the basis of the ISVAP requirements set out in regulation no. 1915 G. of 20 July 2001. Therefore, the carrying amount of such property at the transition date amounted to Euro 14,693 thousand (Euro 8,735 thousand in the separate financial statements of the parent) and the related equity reserve amounted to Euro 3,441 thousand (revaluation of Euro 5,573 thousand on which deferred tax liabilities of Euro 2,132 thousand have been recognised).

### Basis of preparation

The financial statements have been prepared on the historical cost basis except that available for sale financial assets and financial assets or liabilities at fair value through profit or loss are stated at fair value.

### Use of estimates

Application of IFRS when preparing the financial statements and related notes means that the group makes estimates that affect the assets and liabilities and notes to assets and contingent liabilities at the balance sheet date. The actual results may differ from such estimates. The estimates are used to make provisions for insurance liabilities, risks of bad debts, amortisation and depreciation, measurements of assets, employee benefits, taxes, other provisions and allowances.

When the carrying amount of a caption is significantly affected by estimates and related underlying assumptions, the relevant note discloses the nature of such assumptions or any other uncertainties.

Where significant and when required by IFRS, the effects of the methods, assumptions and estimates used by management in the calculation on the carrying amounts are disclosed, including the underlying reasons.
The estimates are reviewed on an ongoing basis. The effects of any changes are immediately recognised in profit or loss or, in the case of financial assets available for sale, in equity.

# Consolidation scope

## Subsidiaries

Subsidiaries are companies over which the group has permanent control. Control exists when the group has the power, directly or indirectly, to govern the financial and operating policies of a company so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Control is presumed to exist when Vittoria Assicurazioni S.p.A. has, directly or through its subsidiaries, the majority of voting powers in ordinary shareholders' meetings.
Subsidiaries performing activities different from those of the parent are included in consolidation.

## Associates

Associates are those companies in which the group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the group has, directly or indirectly through subsidiaries, at least 20% of the voting rights. The consolidated financial statements include the group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the group's share of losses exceeds its interest in an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the group has incurred legal or constructive obligations or made payments on behalf of an associate.

## Business combinations

Business combinations are those transactions that combine separate entities or businesses in a single entity which is required to prepare financial statements.
Therefore, the acquirer recognises the identifiable assets acquired and the liabilities and contingent liabilities assumed at fair value at the acquisition date. Any resulting goodwill is also recognised and tested for impairment.

# Consolidation method

1) The financial statements of all consolidated companies have been prepared at 31 December 2005.
2) The figures of the financial statements of consolidated companies have been adjusted to the accounting policies applied by the parent for consistency of presentation.
3) Minority interests in subsidiaries are included in the specific liability and income statement captions of the consolidated financial statements.
4) The consolidated financial statements are expressed in Euros.
5) Acquisitions of subsidiaries are recognised using the purchase method whereby the identifiable assets acquired and the liabilities and contingent liabilities assumed are measured at fair value at the acquisition date which is the date on which the related consideration is paid.

   The consolidated companies' adjusted equities are eliminated against the related equity investments recorded in the financial statements of the holding companies.

The fair values initially allocated to the assets acquired and liabilities assumed may be adjusted within twelve months of the acquisition date, if they had been originally measured on a provisional basis.

In this case, any goodwill or gain recognised in the acquisition period is adjusted accordingly and comparative prior period figures are recalculated.

6) Any positive difference between the cost and the group's interest in the present value of the assets acquired and liabilities assumed is classified as goodwill and recognised as an intangible asset. Any negative difference (negative goodwill) is taken to profit or loss as revenue at the acquisition date. Minority interests are measured in line with the fair value of the assets and liabilities of the investee at the acquisition date.

   Goodwill is tested for impairment annually or more frequently if specific events or changes in circumstances indicate that it might be impaired, in accordance with IAS 36 Impairment of assets. After initial recognition, goodwill is measured at cost net of any impairment losses.

7) Intragroup balances and transactions, including revenue, income and dividends, are eliminated in full as are gains or losses arising on intragroup transactions and included in the carrying amount of assets, such as inventory or non-current assets. Any intercompany losses are eliminated when they are not due to impairment in the inherent value of the assets transferred.

8) Differences arising from the measurement of investments in associates using the equity method are recognised in the relevant balance sheet asset caption with a balancing entry under the "Income-related and other reserves" as fair value adjustments to non-consolidated equity investments. The group's share of the profit or loss of associates is recognised in the caption "Gains (losses) on investments in subsidiaries and associates and interests in joint ventures" of the income statement. When the group's share of losses is equal to or exceeds the carrying amount of the investment in that associate, the parent no longer recognises its share of further losses. The carrying amount of the investment is reduced to nil further losses are provided for and recognised to the extent that the parent has incurred legal or constructive obligations or made payments on behalf of the associate. Should the associate subsequently record profits, the parent resumes recognition of its share of profits only after such portion has covered all previously unrecognised shares of losses.

   After it has recognised the associate's losses, the parent applies the provisions of IAS 39 to verify whether its net investment in the associate has been impaired.

# Segment reporting

## Primary segment reporting (business segment)

The income statement and balance sheet captions relating to insurance contracts (as defined by IFRS 4), are allocated to the life insurance business segment (which, briefly, includes all contracts providing for the payment of a premium against the payment of benefits should the policyholder be dead or alive at a certain date) or to the non-life business segment (which includes all other insurance contracts).
The life insurance segment also includes all balance sheet and income statement captions relating to investment contracts.
The real estate segment includes all balance sheet and income statement captions relating to trading and promotional activities and related services.
The services segment includes the balance sheet and income statement captions relating to the services rendered, mainly to the parent.
The share of investments and profits or losses of associates that operate in more than one segment is classified in the segment where the investment is held.

## Secondary segment reporting (geographical segment)

For secondary segment reporting purposes, we note the following:
- the main revenue (premiums, profits on real estate activities and services) by geographical segment of customer, as well as figures on deferred costs (costs incurred during the year) are mainly combined at Italian macro-regional level (North, Centre and South);
- the following areas have been identified for the allocation of assets by geographical segment: Italy, Rest of Europe and Rest of World. This allocation enables an effective presentation of the diversification of investments in securities.

# Accounting policies

## Insurance contracts and investment contracts – definition and accounting treatment

Based on the definition of IFRS 4, insurance contracts provide for the transfer of a significant insurance risk, different from a financial risk, by the policyholder to the contract issuer and compensation for the policyholder of damage arising from a specified uncertain future event.
Pending completion by the International Accounting Standards Board (IASB) of "Phase II" of its insurance contract project, IFRS 4 introduced limited improvements to the recognition of insurance-related captions, substantially providing for continuing application of most of the local GAAP used up to 2004.

Based on an analysis of the insurance policies in portfolio, all non-life business contracts are covered by IFRS 4. With reference to the life business:

<u>Contracts where the investment risk is borne by policyholders – pension funds</u>

Under the IFRS 4 definition of insurance contract, life contracts under Class III (index-linked and unit-linked) and Class VI (pension funds), despite the fact that they are insurance contracts from a legal standpoint, they do not have a significant insurance risk and, therefore, fall within the scope of IAS 39 (Financial instruments: recognition and measurement) and IAS 18 (Revenue).

Therefore:
- the financial assets and liabilities relating to such contracts are measured at fair value through profit or loss;
- the revenue for fixed contract issue costs incurred by the policyholder is recognised in full in profit or loss in the year the contract is acquired;

- the initial loading and acquisition commissions paid to brokers and agents at the contract acquisition date are recognised as other liabilities and other assets respectively as they relate to prepaid costs and deferred income related to long-term services charged to profit or loss in line with the costs incurred over the actual or estimated term of the policies;
- the estimate of the policies' term is partly based on historic trends of the policyholders' propensity to require settlement or on assessments made during their study for new products;
- profit or loss items that occur annually, such as management commission income and portfolio management costs are expensed when incurred.

Capitalisation policies

As allowed by paragraph 35 of IFRS 4, premiums, payments and changes in the reserves of the capitalisation policies, connected to the parent's separately-managed businesses, are recognised in profit or loss.
IAS 32 (Financial instruments: presentation and disclosure) requires that specific disclosures on such contracts be provided in the notes.

# Balance sheet

## ASSETS

## Intangible assets

- **Goodwill**

Reference should be made to the section on the consolidation procedures.

- **Other intangible assets**

Other intangible assets are recognised under IAS 38 when:

- it is probable that their use will generate future economic benefits;
- the group can control or has the power to obtain these benefits;
- their cost can be measured reliably.

Assets are measured at cost net of amortisation and impairment losses. Amortisation is calculated on a straight-line basis over the assets' estimated useful lives.

As required by IFRS, they are tested for impairment at least annually with the recognition of any difference between their carrying amount and their recoverable value as a loss. An entity also tests their residual useful lives.

The group's assets have finite useful lives.

The other intangible assets recognised after acquisition of an entity are recognised separately from goodwill if their present value can be determined reliably.

## Property, plant and equipment

- **Owner-occupied property**

Property for own use is stated at cost less depreciation and cumulative impairment losses.

This includes costs directly attributable to bringing the asset to the condition necessary for it to be capable of operating in the manner intended by management.

Ordinary maintenance costs are expensed when incurred.

Costs incurred after acquisition are capitalised only if they can be determined reliably and increase the future economic lives of the assets to which they relate; all other costs are expensed.

Depreciation is calculated on a straight-line basis over the property's estimated useful life, between 30 and 50 years.

As land has an unlimited useful life, it is not depreciated. Therefore, land and buildings are recognised separately even when they are acquired together.

Under IAS 36, buildings are tested for impairment at least annually with recognition of any difference between their carrying amount and their recoverable value as a loss.

- **Property held for trading - Property under construction**

The caption includes property under construction and that acquired for trading purposes by group companies.

The profit arising from building sales, purchases and promotional transactions (which is the balance of sales revenue, purchases, improvement costs and variations in inventory in the statutory financial statements of the real estate companies) is reclassified to “Other income”.

Real estate companies capitalise all improvement costs which may be directly allocated, including relevant borrowing costs, up to completion of the building construction works.

Property held for trading

Property held for trading are recognised at the lower of cost and net realisable value based on market trends. This lower value is not maintained in subsequent periods if the reasons for the adjustments are no longer valid. The amount of the write-down of inventory to net realisable value is recognised as a cost as is its possible adjustment.

Property under construction

Investment property which will not be held long-term and that consists of buildings under construction is measured using the percentage of completion method. This method is only applied to building units for which preliminary sales agreements have been signed. The related revenue or costs are taken to the income statement in line with the stage of completion of construction.

Engineering and construction costs incurred are compared to the related expected total costs to determine the percentage of completion at the balance sheet date.

Profits or losses on the contracts are calculated by applying such percentage to the expected total profit/loss.

Any expected losses on long-term contracts are recognised as an expense immediately.

- **Other items of property, plant and equipment**

Plant and equipment are stated at cost less depreciation and cumulative impairment losses.

This includes costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Ordinary maintenance costs are expensed when incurred.

Costs incurred after acquisition are capitalised only if they can be determined reliably and increase the future economic lives of the assets to which they relate; all other costs are expensed.
Leasehold improvements are classified as property, plant and equipment. If they can be separated from the asset to which they relate, they are recognised in the relevant category depending on the nature of the cost incurred. Otherwise, they are classified in a different category. The depreciation period is equal to the smaller of the remaining useful life of the item of property, plant and equipment and residual term of the lease.

Depreciation is calculated on a straight-line basis over the asset’s estimated useful life.

Assets are tested for impairment at least annually with the recognition of any difference between their carrying amount and their recoverable value as a loss. An entity also tests their residual useful lives.

## Reinsurers’ share of technical reserves

Reinsurers’ obligations arising from reinsurance treaties covered by IFRS 4 are recognised in this caption.
The reinsurers’ share of technical reserves is recognised in line with the criteria applicable to the related direct insurance contracts. It is adjusted to their expected recoverable value at each balance sheet date.

## Investments

Initial recognition and subsequent measurement

All financial assets are initially recognised at fair value.

Transaction costs are expensed if related to financial assets at fair value through profit or loss or included in initial recognition if related to other financial assets.

After initial recognition, financial instruments available for sale and at fair value through profit or loss are measured at fair value. Financial instruments held to maturity and loans and receivables are measured at amortised cost.

The fair value of securities traded in active markets is determined based on the closing stock exchange price at the balance sheet date.

If the market price is unavailable, the fair value is measured on the basis of the present market value of other similar financial instruments or by using the most suitable valuation techniques that include utilisation of recent transactions, discounted cash flow analysis or option pricing models. If the fair value cannot be measured reliably, the financial asset is measured at cost, adjusted for any impairment losses.

The fair value of OEICs is the official unit price.

The fair value of non-interest bearing loans and those bearing interest at other than market rates is estimated as the present value of all discounted inflows using the existing market rate for a similar instrument.

Recognition date

Purchases and sales of financial assets are recognised at the transaction date.

Investments are classified as follows:

- **Investments in subsidiaries and associates and interests in joint ventures**

This caption includes equity investments that are not consolidated on a line-by-line basis, measured using the equity method or at cost.
Immaterial investments in subsidiaries or associates are measured at cost, adjusted for impairment losses.

Investments in subsidiaries are eliminated during consolidation.

- **Held to maturity investments**

These include non-derivative assets with fixed or determinable payments and fixed maturity that the group has the positive intention and ability to hold until maturity. They do not include assets:

- designated upon initial recognition as at fair value through profit or loss;
- designated as available for sale;
- that meet the definition of loans and receivables.

These assets are measured at amortised cost using the effective interest method.

If there is objective evidence of an impairment loss, an entity decreases the asset's carrying amount recognising the loss directly in the income statement.

Gains and losses related to amortisation and any difference between the carrying amount and consideration paid at the time of derecognition are taken to profit or loss.

- **Loans and receivables**

Loans and receivables are non-derivative assets with fixed or determinable payments that are not listed in an active market.

Assets held for trading, designated at fair value through profit or loss or as available for sale, are not classified in this category.

These assets are measured at amortised cost using the effective interest method.

Mortgage loans, loans on life insurance policies, loans granted to employees and agents by the parent and reinsurance deposits are included in this caption.
If there is objective evidence of an impairment loss, an entity decreases the asset's carrying amount recognising the loss directly in the income statement.

- **Financial assets available for sale**

These are assets designated as available for sale or however not classified as:

- Financial assets at fair value through profit or loss;
- Held to maturity investments;
- Loans and receivables.

They are measured at their fair value.

Unrealised gains and losses are recognised directly in equity except for impairment losses and exchange rate gains and losses. At the time of sale or impairment of the financial asset, the cumulative gains or losses, including those previously recognised in equity, are taken to profit or loss.

Interest pertaining to the year is recognised directly in profit or loss using the effective interest method, which considers the annual portion of amortisation charge of the trading discount. Dividends are recognised when the shareholders' right to payment arises.

- **Financial assets at fair value through profit or loss**

These assets are those held for trading and to obtain a profit in the short term or that are designated upon initial recognition at fair value through profit or loss.

The group classifies its financial assets hedging investment contracts where the investment risk is borne by the policyholders and those related to pension fund management in this category.

They are measured at their fair value.

Any gains or losses are directly recognised in profit or loss.

## Other receivables

This caption comprises:

- **Receivables relating to direct insurance**
  These are receivables due from policyholders for unpaid premiums and from agents, insurance brokers and coinsurance companies. The caption also includes amounts to be recovered from policyholders and third parties for claims surrenders on policies with "no claims bonus" clauses, excess clauses and subrogations.

  They are stated at nominal value and are adjusted at each balance sheet date to their estimated realisable value calculated on the basis of historic trends of collections by individual line of business.

- **Receivables relating to the reinsurance business**
  These are receivables due from reinsurance or insurance companies for reinsurance transactions. They are stated at nominal value and are adjusted at each balance sheet date to their estimated realisable value.

- **Sundry receivables**
  This caption includes those receivables that do not have an insurance or tax nature. It includes advances paid to third parties. These receivables are recognised at nominal value and subsequently measured at the estimated realisable value, discounted where necessary.

## Other assets

This caption comprises:

- **Deferred acquisition costs**

In accordance with IFRS 4, this caption includes acquisition costs paid in advance when signing long-term contracts which are amortised over the term of the contract.
As required by IFRS 4, such costs are accounted for in conformity with local GAAP.

<u>Non-life business</u>: Acquisition costs on long-term contracts are capitalised and amortised over three years from the year in which they are incurred. The amortisation period is adequate taking into account the term of the contracts and relevant legislation governing the applicability of commission charges.

<u>Life business:</u> The portion of acquisition costs relating to new contracts not subject to outwards reinsurance is capitalised to the extent of the related loading and amortised on a straight-line basis

over the term of the underlying contracts within the ten-year limit established by ISVAP circular no. 183 dated 3 September 1992. The amortisation period is deemed adequate.

The residual commissions on policies cancelled during the amortisation period are taken to the income statement of the year in which such policies are no longer included in the portfolio.

- **Current and deferred tax assets**

These captions include current and deferred tax assets in accordance with IAS 12, including any deferred tax assets on the life business mathematical reserves pursuant to article 1, point 2, of Legislative decree no. 209/2002 as converted by article 1 of Law no. 265/2002 and subsequent modifications.
These assets are recognised in line with current tax legislation on an accruals basis.
At each reporting date, the group verifies whether any changes have been made to the tax legislation governing deferred tax assets, which are adjusted accordingly, where necessary.
Reference should also be made to the accounting policy on "Current and deferred taxation" of the income statement.

- **Other assets**

This caption includes reinsurance suspense accounts, deferred commission expense on investment contracts, prepayments and accrued income relating to general expenses and sundry income, respectively.

## Cash and cash equivalents

Cash and cash equivalents include cash on hand and demand deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash free of charge and which are subject to an insignificant risk of changes in value. They are stated at nominal value.

# LIABILITIES

## Share capital

Ordinary shares are recognised as share capital (subscribed and paid-up) at their nominal value.

## Other equity instruments

This caption includes equity instruments not included in share capital, comprising special classes of shares and the equity portion of compound financial instruments. In particular, it includes the equity portion of the option relating to the convertible subordinated bonds issued by the parent.

### Equity-related reserves

This caption includes the share premium reserve.

### Income-related and other reserves

The caption especially includes:

- retained earnings or losses carried forward, including the legal reserve;
- the reserve for gains or losses on IFRS first-time adoption;
- consolidation reserves;
- reserves for the reclassification of the catastrophe and equalisation reserves accounted for under previous GAAP which can no longer be recognised as technical liabilities under IFRS 4;
- reserves recognised in accordance with the Italian Civil Code or special laws before adoption of IFRS, including the property revaluation reserve;
- reserves for share-based payment transactions, settled using own equity instruments (IFRS 2).

It also includes any gains or losses due to material errors or changes in accounting policies or estimates (IAS 8).

## Translation reserve

The caption includes the exchange rate gains or losses arising on foreign currency transactions and the translation to the presentation currency, which, under IAS 21, are to be recognised in equity.

## Fair value reserve

This caption includes the unrealised gains or losses on investments classified as “Financial assets available for sale”. Reference should be made to the relevant balance sheet caption for details on the nature and accounting treatment of these assets.
Amounts are stated net of the portion attributable to the policyholders and allocated to the insurance liabilities, as better described in the section on Shadow accounting, and related deferred taxation.

## Other gains or losses recognised directly in equity

The caption includes the gains or losses recognised directly in equity, specifically the reserve for changes in the equity of investees not recognised in profit or loss by such companies.

Any revaluation reserves of property, plant and equipment and intangible assets are also included.

## Minority interests

The caption includes the equity instruments and items and related equity reserves attributable to minority interests.
Any minority interests in the “fair value reserve” are also included.

## Provisions

The group recognises provisions for risks and charges when:

- it has a constructive or legal obligation with third parties;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation;
- a reliable estimate can be made of the amount of the obligation.

Changes in the estimate are taken to profit or loss in the period in which the change occurs.

The provisions for charges recognised by the real estate companies include the costs to be incurred for the flats for which a notarial act has already been made, in order to correctly match the related costs and revenue.

## Technical reserves

This caption includes obligations relating to insurance and inwards reinsurance, gross of outwards reinsurance.

- ### Premium reserve (non-life business)

The premium reserve of the non-life business is calculated on a pro-rata temporis basis for each contract, considering recognised premiums net of direct acquisition costs and gross of the fraction of premium pertaining to the subsequent year.

For the bond line of business, where the risk does not decrease in proportion to the time elapsed and the relationship between premiums and potential claims costs does not follow the usual criteria, the premium reserve is calculated on the basis of the following rules: the mixed criterion established by ISVAP regulation no. 1978 of 4 December 2001, which provides for the pro-rata temporis method together with the additional reserve calculated in accordance with the type of risk as per schedule no. 33 of ISVAP regulation no. 1059 G of 4 December 1998.

Where required by the technical result, the premium reserve also includes the reserve for unexpired risks which is set up to cover risks incumbent upon the company after the balance sheet date. It is a technical accrual required by Legislative decree no. 173/1997, in order to cover any expected claims charges relating premiums in portfolio, which exceed the reserve for premium portions increased by the premium to be collected, net of acquisition costs for policies with split premium.

- ### Claims reserve (non-life business)

The claims reserve for direct business reflects claims incurred where some or all of such amounts have not been settled at the balance sheet date. It is calculated considering the specific characteristics of each line and each component forming the ultimate cost. The “ultimate cost” is an estimate of all foreseeable costs based on a prudent assessment of objective evidence (document examination) and forecasts (expected claims settlement time frame and related inflation rates).

The assessment of each claim is carried out as follows:

- the claims settlement inspectors prepare estimates for each open position;
- company management analyses and checks data and reviews documentation supporting significant claims.

Claims assessment procedures are based on the following general criteria:

- accurate and complete year-end inventory of all claims partly or fully unsettled, highlighting the disputed amount;
- analysis of claims with different positions in order to verify evidence supporting each position;

- separate disclosure of the calculation of personal and property damage;
- inclusion of the estimated direct and settlement costs in the claims reserve. Settlement costs include amounts paid to professionals involved and internal costs relating to company departments in charge of claims settlement and management.
- assessment of claims relating to credit and bond insurance in accordance with the provisions of articles 4 and 5 of ISVAP regulation no. 1978 of 4 December 2001.

Current generation claims are examined at least quarterly to verify their progress and whether the previous assessment was correct. In addition, the "continuous reserve" operating procedure is used and, therefore, at each partial settlement or should new information be gathered, the claims are reassessed.

The area coordinators support the area settlement network by verifying whether management guidelines have been correctly applied, with respect to both the merits and methods.

The claims reserve includes estimated claims not yet reported at year end but pertaining to the year. Amounts are calculated considering the average cost of the current generation.

The resulting claims reserves are subject to statistical and actuarial checks and adjusted, where necessary, to the ultimate cost.

- **Reserve for payable amounts (life business)**

The caption includes the parent's obligations to policyholders for settlement of claims, surrenders and, with respect to expired policies, accrued sums and annuities. Accordingly, the mathematical reserves do not include these amounts.

- **Mathematical reserves (life business)**

The life business technical reserves are calculated on the basis of the pure premiums and the actuarial assumptions held to be adequate on the date on which contracts were signed, and still valid. Technical reserves are calculated using the rate of return determined on the basis of the related investments for the relevant revaluable benefit and the mortality rate applied when calculating pure premiums. In accordance with relevant legislation, premiums carried forward in the mathematical reserves are calculated on a pure premium basis.

The mathematical reserve is never lower than the surrender value.

In accordance with ISVAP regulation no. 1380 G of 21 December 1999 implementing the provisions of point 14 of article 25 of Legislative decree no. 174/95, the reserve for contracts relating to sums insured with contractually-guaranteed annuity and to deferred and beneficial life annuities has been adjusted to the demographic survival projection.

Where held to be necessary, mathematical reserves are adjusted to consider the decrease in interest rates on assets covering the same reserves.

Pursuant to ISVAP regulation no. 1801-G of 21 February 2001, an ALM (Asset & Liability Management) procedure has been implemented in order to jointly analyse the two asset and liability portfolios for the purpose of calculating the forecast returns of each separately-managed life business.

- **Other reserves (non-life business and life business)**

The caption includes the following reserves:

- the ageing reserve for health insurance (non-life business) required by paragraph 5 of article 25 of Legislative decree no. 175 of 17 March 1995.

  As in previous years, the reserve is calculated on a lump sum basis by accruing 10% of gross premiums written on those products which do not consider the policyholder's age when calculating the premium and include provisions by which the company's faculty to terminate the contract is limited.

- profit participation and reversal reserve (non-life business and life business)

  profit participation includes all amounts pertaining to the year, paid and to be paid to policyholders or other beneficiaries, including amounts used to increase technical reserves or decrease future premiums, if these can be considered an allocation of technical profits arising from both non-life and life insurance management activities, net of previous years' accruals which are no longer necessary.

  Reversals include the partial reimbursement of premiums calculated on the basis of the performance of each contract.

- reserve for deferred liabilities to policyholders (life business)

  This reserve shows the share of unrealised gains or losses attributable to policyholders, as described in the section on shadow accounting.

- reserve for management expenses (life business)

  This reserve is calculated based on the loading for management expenses and other technical bases of the tariffs applied.

- complementary insurance premium reserve (life business)

  The premium reserve for additional accident insurance is calculated on an analytical basis by applying the premiums brought forward criterion to the related pure premiums.

- LAT reserve (non-life and life business)

  This reserve includes any accruals made following the Liability Adequacy Test (LAT), as better described in the relevant section.

## Financial liabilities

### • Financial liabilities at fair value through profit or loss

The caption includes financial liabilities held for trading or designated at fair value through profit or loss.
They include liabilities related to investment contracts covered by IAS 39, the fair value of which is determined considering the fair value of the asset plus the fair value of any guarantees and options existing in the contract (i.e., the financial liabilities relating to investment contracts where the investment risk is borne by the policyholders and those related to pension fund management).
Any gains or losses are recognised directly in profit or loss.

### • Other financial liabilities

The caption includes the financial liabilities defined and covered by IAS 39 not classified as "Financial liabilities at fair value through profit or loss", including deposits received from reinsurers, debt securities issued, payables to banks and other financial payables other than trade payables.
Other financial liabilities are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

Specifically, in the case of bonds convertible into shares of the issuer (compound financial instruments), the carrying amount of the instruments is split into the following two components:

- conversion option, classified as an equity instrument under equity;
- debt component, classified as a financial liability under subordinated liabilities.

Initial measurement

When the bonds are issued, the financial liability component is recognised at fair value, discounting the expected future cash flows, considering any existing options, at the market rate applicable to a similar financial liability that does not have an equity component (conversion option).

The equity component is determined as the difference between the fair value of the entire financial instrument (nominal amount of the subordinated bond issue) and the amount calculated separately for the financial liability component.

The costs incurred to issue the convertible bonds are split proportionally between the two components and offset.

Subsequent measurement

Non-conversion

The financial liability component is recognised at amortised cost using the effective interest method.

The equity component is not subject to changes in its original carrying amount.

Conversion

The financial liability component is reversed and charged to equity. The initially recognised equity reserve is transferred to the share premium reserve.

Reimbursement or call up

At the time of reimbursement or call up, the consideration paid and costs related to the transaction are allocated between the financial liability component and the equity component using criteria similar to that used for the original allocation.

Any related gain or loss is treated under the accounting policies applicable to the related component, as follows:

- the amount of the gain or loss related to the liability component is recognised in profit or loss;
- the amount of the consideration related to the equity component is recognised in equity.

## Payables

This caption comprises:

- **payables arising from direct insurance business**

the caption includes balances not yet settled and leaving incentives to be paid upon termination of the agency contract, current account payables consisting of the co-insurance technical result, guarantee deposits on insurance guarantees paid by policyholders and the payable to Consap for the contribution to the guarantee fund for road casualties.

These payables are recognised at nominal value.

- **payables arising from reinsurance business**

This caption includes current account payables consisting of the reinsurance technical result and the reinsurers' share of amounts to be recovered.

These payables are recognised at nominal value.

- **other sums payable**

Other sums payable include the accruals made for the employee termination benefit.
They also include trade payables, including payments on account collected by the real estate companies when signing the preliminary sales agreements, which are recognised at nominal value.

## Other liabilities

- **Current and deferred tax liabilities**

They include current and deferred tax liabilities in accordance with IAS 12.
These liabilities are recognised in line with current tax legislation on an accruals basis.
At each reporting date, the group verifies whether any changes have been made to the tax legislation governing deferred tax liabilities, which are adjusted accordingly, where necessary.

Reference should also be made to the accounting policy on “Current and deferred taxation” of the income statement.

- **Other liabilities**

This caption includes reinsurance suspense accounts, deferred commission income on investment contracts, accrued expenses and the liabilities relating to defined benefit plans and other long-term employee benefits (medical services, seniority bonuses and termination benefits, net of the amount recognised under payables). Reference should be made to the section on “Employee benefits” for details on the measurement of these items.

# Income statement

## REVENUE

## Revenue recognition

Revenue is recognised to the extent it is probable that the group will have economic benefits and they can be measured reliably. Revenue is recognised net of discounts, allowances and returns.

Revenue from services is recognised when the services have been provided or in relation to the stage of completion of the service.

Revenue from construction work in progress is posted using the percentage of completion method.

## Net premiums

Recognised premiums include the amounts accrued during the year on the insurance contracts, as defined by IFRS 4.

Premiums and related charges, gross of ceded premiums, are recognised as revenue upon maturity, regardless of their recording and actual collection.

With reference to the non-life business, write-offs of a technical nature of individual securities are directly deducted from premiums as long as they are issued in the same year. With respect to the life business, the caption includes all write-offs, except for those relating to first yearly instalments issued in previous years.

Recognition of premiums on an accruals basis is made through a charge to the premium reserve (see relevant accounting policy) with respect to the non-life business, while it is implicit in the calculation of the mathematical reserves, the complementary insurance premium reserve and other technical reserves of the life business.

Ceded and retroceded reinsurance premiums are accounted for in line with the agreements signed with reinsurers.

## Commission income

This caption includes commission income on financial services provided not included in the calculation of the effective interest of a financial instrument, as required by IAS 18.

It includes commission income relating to investment contracts not covered by IFRS 4, such as loadings (explicit and implicit) and, for those contracts that provide for investment in internal funds, management commission income and other similar items.

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

This caption includes realised gains and losses, interest, dividends, charges and changes in the fair value of financial assets and liabilities at fair value through profit or loss, which include assets and liabilities relating to index-linked and unit-linked investments and to pension fund management.

## Gains on investments in subsidiaries and associates and interests in joint ventures

The caption includes gains on investments in subsidiaries and associates and interests in joint ventures recognised in the related asset caption. Specifically, it includes the share of profit for the year of group companies accounted for using the equity method.

## Gains on other financial instruments and investment property

This caption includes gains on investment property and financial instruments that are not recognised at fair value through profit or loss. It mainly includes interest income on financial instruments measured using the effective interest method, other income on investments, comprising dividends and revenue arising on the use by third parties of investment property,  income on the disposal of financial assets or liabilities or investment property, reversals of impairment losses and gains on the subsequent measurement of investment property initially measured at fair value and financial assets and liabilities.

## Other income

This caption includes:

- trading profits and revenue on construction work in progress of the real estate trading and promotion companies, recognised with the signing of the notarial act and using the percentage of completion method, respectively;
- revenue on the sale of goods and rendering of services other than of a financial nature and the third-party use of items of property, plant and equipment, intangible assets or other assets of the group, as required by IAS 18. In this respect, the real estate brokerage companies recognise commission income upon the signature of the preliminary sale agreements;
- other technical income on insurance contracts;
- realised profits on and write-backs of property, plant and equipment and intangible assets;
- exchange rate gains to be recognised in profit or loss under IAS 21;
- gains on non-current assets or of disposal groups classified as held for sale other than discontinued operations

Other technical income on insurance contracts includes commissions relating to premiums written off included in other technical charges of the non-life and life businesses and income arising from the management of the knock for knock agreement and from ANIA incentives for scrapping damaged vehicles in the non-life business.

# COSTS

## Charges relating to claims

The caption comprises the amounts paid during the year for claims, maturities, surrenders and accrued annuities, including settlement costs and excluding recoveries and outwards reinsurance, as well as the changes in technical reserves relating to contracts covered by IFRS 4.

It also includes the portion charged to the income statement of the change in deferred liabilities to policyholders (shadow accounting) as well as any change in the LAT reserve.

Specifically, charges relating to claims of the non-life business include damage compensation paid, related direct expenses, settlement costs and the additional charge to the guarantee fund for road casualties.

Direct expenses are those incurred to avoid or minimise the claim damage, including litigation costs as per article 1917, paragraph 3, of the Italian Civil Code, loss containment costs in the transport and aviation insurance and extinguishing costs in fire insurance.

Settlement costs include amounts paid to professionals involved, personnel expenses, logistics costs and costs for services and goods of the company departments involved in claims settlement and management.

The reinsurers' share is calculated in accordance with relevant treaties.

## Commission expense

This caption includes commission expense on financial services received not included in the calculation of the effective interest of a financial instrument, as required by IAS 18. Specifically, it includes commission expense relating to investment contracts not covered by IFRS 4.

## Losses on investments in subsidiaries and associates and interests in joint ventures

The caption includes losses on investments in subsidiaries and associates and interests in joint ventures recognised in the related asset caption. Specifically, it includes the share of loss for the year of group companies accounted for using the equity method.

## Losses on other financial instruments and investment property

This caption includes losses on investment property and financial instruments that are not recognised at fair value through profit or loss. It mainly comprises interest expense on financial instruments measured using the effective interest method, other losses on investments and expenses on investment property, such as condominium expenses and maintenance and repair cost to be recognised in profit or loss. It also includes losses on the disposal of financial assets or liabilities or investment property, depreciation charges, impairment losses and losses on the subsequent measurement of investment property measured at fair value and financial assets and liabilities.

## Operating costs

This caption comprises:

- commissions and other acquisition costs, including acquisition costs, net of outwards reinsurance, relating to insurance contracts.

  In particular, the caption includes:

  - commissions paid on the acquisition and renewal, including tacit, of contracts;
  - commission bonuses and rappels;
  - personnel expenses, logistics costs, costs for services and purchase of goods of the management departments involved in the assessment, issue and management of insurance contracts;
  - medical check-up costs;
  - the amortisation charge for the year of acquisition commissions and other acquisition costs;
  - commissions paid on the collection of premiums related to long-term contracts.

  Profit participation and other contractual commissions paid to reinsurers for premiums ceded and retroceded are accounted for on the basis of the relevant contractual terms.

- investment management costs, including general costs and personnel expenses allocated to financial instrument, investment property and equity investment management. They also comprise custody and administration costs.

- other administrative costs, including general costs and personnel expenses that are not allocated to charges relating to claims, insurance contract acquisition costs or investment management costs. Specifically, the caption includes general costs and personnel expenses incurred for the acquisition and administration of investment contracts as well as general costs and personnel expenses relating to non-insurance companies which do not carry out financial activities. It also includes those charges incurred in connection with the termination of agency agreements not subject to compensation.

  Commissions paid by real estate trading and promotion companies to brokers and agents when the preliminary sales agreements are signed are accounted for as prepayments and recognised in profit or loss when the notary deeds are signed or in line with the stage of completion of the contracts, in accordance with the matching principle.

  The costs incurred by brokerage companies are reclassified to prepayments and recognised in profit or loss when the trading companies signed the notary deeds, if such costs are incurred in relation to sales or purchases ordered by group companies and not yet executed at the balance sheet date.

## Other costs

This caption includes:

- costs for the sale of goods and rendering of services other than of a financial nature and the third-party use of items of property, plant and equipment, intangible asset or other assets of the group, as required by IAS 18;
- other technical costs on insurance contracts;
- additional provisions made during the year;
- exchange rate losses to be recognised in profit or loss under IAS 21;
- realised losses, impairment losses, depreciation charges relating to items of property, plant and equipment not allocated to other captions and amortisation of intangible assets;

- losses on non-current assets or of disposal groups classified as held for sale other than discontinued operations.

Specifically, other technical costs on insurance contracts comprise:

- premiums cancelled, justified by write-offs of a technical nature, relating to single policies issued in previous years (non-life business);
- the cancellation of first yearly premium instalments issued in previous years (life business);
- write-downs due to policyholders' bad debts (non-life and life business);
- costs relating to goods and services purchased to complement non-life insurance covers;
- costs arising from the management of the knock for knock agreement.

## Current and deferred taxation

Taxation on profit for the year includes all the taxes calculated on the basis of the estimated taxable income of each period and stated on an accruals basis in accordance with ruling legislation.

Income taxes are taken to profit or loss except for those that are directly debited or credited to equity, when the tax effect is also recognised directly in equity.

Deferred taxes are calculated - except when expressly provided for by paragraphs 15 and 20 of IAS 12 - on all temporary differences that arise between the taxable base of an asset or liability and their carrying amount, to the extent that it is probable that future taxable profit will be sufficient for their use.

Deferred tax assets on tax losses and unused tax credits that can be carried forward are recognised to the extent that it is probable that future taxable profits will be available against which they can be recovered.

Deferred tax assets and liabilities are determined using tax rates expected to be applicable based on the rates and legislation ruling at the balance sheet date in the periods in which the temporary differences will be realised or reversed.

Current and deferred tax assets and liabilities are offset when the taxes are applied by the same tax authority and when a legal right to offset exists.

# Additional information

### Inwards reinsurance

The effects of inwards life reinsurance are recorded on an accruals basis, except for risks retroceded by C.I.R.T. (the Italian consortium of impaired life insurance) which, however, are not material.

If there are no specific negative indications, the effects of non-life inwards reinsurance are accounted for the year after that to which they relate, as the necessary information was not available at the balance sheet date. The related financial movements are recorded in the balance sheet under other assets – other liabilities in the suspense reinsurance accounts.

Treaties relating to the aviation property damage line of business represent an exception to the above accounting treatment as the space risk business is accounted for on an accruals basis.

Indirect business claims reserves generally reflect those reported by the reinsurer and the parent company supplements them when deemed inadequate.

## Retrocession

Retroceded business mainly relates to treaties concerning the aviation property damage line of business.

Captions relating to retroceded business are stated in accordance with the criteria applied to inwards reinsurance.

## Impairment losses

- ### Impairment of intangible assets and items of property, plant and equipment (IAS 36)

The group checks the recoverability of the carrying amount of the intangible assets and property, plant and equipment at least annually to determine if there is any indication of impairment. If so, it estimates the recoverable value of the asset to determine the amount of the impairment loss.

Intangible assets not yet available for sale and goodwill are tested for impairment annually and more frequently if there is an indication that the asset may be impaired.

When the group cannot estimate the recoverable amount of an individual asset, it determines the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. In measuring value in use, an entity discounts the future estimated cash inflows and outflows to be derived from continuing use of the asset and its ultimate disposal to their present value. A loss is recognised if the recoverable amount is lower than the asset's carrying amount. When a loss for an asset, other than goodwill, decreases or no longer exists, the carrying amount of the asset or cash-generating unit is increased to the new recoverable value and cannot exceed the amount that would be determined if an impairment loss had not been recognised. The impairment loss or its full or partial reversal is taken immediately to profit or loss.

Possible indications of an impairment loss include, for example, a decline in the market value of similar assets, changes with an adverse effect (in the technological, legal or market environment), obsolescence or physical damage of an asset, evidence that indicates that the economic performance of an asset is, or will be, worse than expected and plans to restructure the operation to which an asset belongs.

Further, the cash-generating units to which goodwill acquired in a business combination has been allocated are tested for impairment at least annually and whenever there is an indication that they may be impaired. The test compares the carrying amount of a cash-generating unit, including goodwill, with its recoverable value.

An impairment loss is recognised when the carrying amount of the cash-generating unit exceeds its recoverable value.

- ### Impairment of financial assets (IAS 39)

The group checks if there is objective evidence that the financial assets have undergone impairment at least every balance sheet date.

Impairment losses on loans and receivables and held to maturity investments carried at amortised cost, calculated as the difference between the carrying amount and present value of expected future cash flows discounted using the effective interest rate, are recognised in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases, the previously recognised impairment loss is reversed through profit or loss. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised.

Impairment losses on equity investments carried at cost, calculated as the difference between the carrying amount and present value of expected future cash flows discounted using current market return rates for similar financial assets, are recognised in profit or loss and cannot be reversed.
When there is objective evidence that a financial asset classified as available for sale, which has seen a decrease in its fair value that is recognised in equity, is impaired, the cumulative loss recognised in equity is reversed to profit or loss. The total loss is calculated as the difference between the acquisition cost (net of any principal repayment and amortisation) and present fair value (less any loss due to impairment previously taken to the income statement). If, in a subsequent period, the amount of the impairment loss decreases, the previously recognised impairment loss is reversed through profit or loss.

If there is objective evidence that loans and receivables may be impaired, the group assesses each asset individually or, as an alternative, splits them into risk categories and calculates the impairment loss of each category on the basis of historical loss trends.
Indications of possible impairment losses include, for example, significant financial difficulties of the issuer, default or delinquency in interest or principal payments, it becoming probable that the borrower will enter bankruptcy or other financial reorganisation and the disappearance of an active market for that financial asset. A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is also objective evidence of impairment.

## Shadow accounting

Paragraph 30 of IFRS 4 permits an insurer to change its accounting policies so that a recognised but unrealised gain or loss on an asset affects the measurement of its insurance liabilities, related deferred acquisition costs and related intangible assets in the same way that a realised gain or loss does.
The related adjustment to the insurance liability (or deferred acquisition costs or intangible assets) shall be recognised in equity if, and only if, the unrealised gains or losses are recognised directly in equity.
Unrealised gains or losses on assets, recognised in profit or loss (including impairment losses), require a related adjustment through profit or loss of the insurance liability or other insurance balance sheet item.

The procedure consists of the following steps:

1) the unrecognised net gains on the assets measured at fair value at the balance sheet date are determined for the separately-managed businesses;
2) the actual retrocession rates due to policyholders are calculated by splitting the entire portfolio into groups of similar policies;
3) the amount of the unrecognised net gain due to the policyholders is calculated applying the retrocession rates calculated in point 2) to the unrecognised net gains measured in point 1);
4) if the assets allocated to the separately-managed business partly belong to the fair value through profit or loss category and partly to the available for sale category, the offsetting amount of the increase in the insurance liabilities is split equally between the costs charged to profit or loss and the equity reserves.

Furthermore, for consolidation purposes, the effect of the allocation to the separately-managed businesses of the investments in the subsidiaries Vittoria Immobiliare S.p.A. and Immobiliare Bilancia S.r.I. has been assessed.

Since dividends paid by such subsidiaries to Vittoria Assicurazioni S.p.A. (or any gains recognised on the sale of the equity investments) are retroceded to life policyholders in accordance with the relevant insurance contracts, an amount equal to portion attributable to the life policyholders of the profits of the subsidiaries recorded in the consolidated financial statements, net of profits already paid to policyholders in the form of dividends, is added to the reserves of the parent calculated on an actuarial basis.

This accrual is not necessary in the separate financial statements as financial income relating to dividends arises concurrently with related costs, in terms of amounts recognised to policyholders.

## Liability Adequacy Test (LAT)

As required by IFRS 4, the group tests its insurance liabilities for adequacy using current estimates of future cash flows deriving from its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities is inadequate, the entire deficiency is recognised in profit or loss.

If an insurer applies a liability adequacy test that meets local accounting standards which comply with the International Financial Reporting Standards, IFRS 4 imposes no further requirements. If this is not the case, an entity shall perform a current estimate of future cash flows in line with IAS 37.

Life business

For LAT purposes, the technical reserves, excluding deferred acquisition costs, were compared with the present value of the future cash flows obtained by projecting the expected cash flows of the existing portfolio at the assessment date and taking into account mortality rate and surrender assumptions and expense trends.

Non-life business

Under Italian GAAP, the claims reserve is measured at ultimate cost. This does not allow discounting and means that the provision is decidedly greater than the current estimate of the expected cash flows.
The premium reserve is increased by the reserve for unexpired risks, if any, under Italian GAAP. This treatment complies with paragraph 16 of IFRS 4.

## Employee benefits

### Actuarial valuation of termination benefits, seniority bonuses and medical services

The measurement was performed in accordance with IAS 19: employee benefits and medical services can be considered to be “post-employment benefits” of “defined benefit plans” while the seniority bonuses are “other long-term benefits” of “defined benefit plans”.

An entity assesses the amounts that it is committed to paying when certain events occur that relate to the employees’ working life and also, in special cases provided for by national labour contracts, their retirement period. These amounts are discounted using the projected unit credit method to calculate the time period involved before the actual payment takes place.

The calculation of termination benefits considers the amount already matured at the valuation date and future planned provisions. Only the future planned provisions are included in the calculation for seniority bonuses and medical services.
The actuarial valuation of the provision for termination benefits, seniority bonuses and medical services during retirement was performed using the projected unit credit method or the accrued benefit method pro-rated on service. This method requires an entity to attribute the benefit to the current period (in order to determine current service cost) and the current and prior periods (in order to determine the present value of defined benefit obligations). The entity attributes benefit to periods in which the obligation to provide post-employment benefits arises.
The actuarial valuation was performed using assumptions on length of service and of a economic and financial nature. The latter relate to theories on the remuneration by position, the interest rate used to discount future service costs and the inflation rate to which the provision for termination benefits is linked.

Where possible, the assumptions are derived from historical trends of the parent, integrated and projected on the basis of market experience and best practice.

## Prepayments and accruals

Accrued income and expense are recognised in the specific balance sheet item to which they relate, in order to reflect income and costs related to the year that will be collected/paid after the balance sheet date.

Prepayments and deferred income are recognised under other sundry assets and liabilities, respectively, in order to reflect costs and income relating to periods after that balance sheet date and paid/collected during the year.

## Financial charges

Financial charges directly attributable to the acquisition, construction or production of an asset that qualifies for capitalisation are capitalised as part of the cost of such asset when it is probable that they will generate future economic benefits for the group and if they can be reliably measured.
All other financial charges are expensed when incurred.

## Conversion into Euros

Captions expressed in foreign currencies are converted into Euros at spot rates. Balance sheet captions still existing at year end are converted at year-end exchange rates.

# Notes to the financial statements

The notes to the financial statements comprise:

- tables and notes of a general nature listed below in alphabetic order;
- tables and notes of a specific nature on the individual balance sheet, income statement, equity and cash flow statement captions, listed below in numerical order.

## Notes of a general nature

## A) Consolidation scope

Vittoria Assicurazioni S.p.A. - Consolidated financial statements at 31 December 2005

| | Country | Method (1) | Business (2) | % of direct holding | % of total investment (3) | % of voting rights in ordinary meetings (4) | % of consolidation |
|---|---|---|---|---|---|---|---|
| Vittoria Assicurazioni S.p.A. | Italy | L | 1 | | | | |
| Vittoria Immobiliare S.p.A. | Italy | L | 10 | 87.24 | 87.24 | | 87.24 |
| Immobiliare Bilancia S.r.l. | Italy | L | 10 | 97.66 | 97.66 | | 97.66 |
| Immobiliare Bilancia Prima S.r.l. | Italy | L | 10 | 100.00 | 100.00 | | 100.00 |
| Immobiliare Bilancia Seconda S.r.l. | Italy | L | 10 | 100.00 | 100.00 | | 100.00 |
| Immobiliare Bilancia Terza S.r.l. | Italy | L | 10 | 100.00 | 100.00 | | 100.00 |
| Vittoria Properties S.r.l. | Italy | L | 10 | 99.00 | 99.87 | 100.00 | 99.87 |
| Interbilancia S.r.l. | Italy | L | 9 | 80.00 | 97.45 | 100.00 | 97.45 |
| Gestimmobili S.r.l. | Italy | L | 11 | | 69.79 | 80.00 | 69.79 |
| Interimmobili S.r.l. | Italy | L | 11 | | 69.79 | 80.00 | 69.79 |
| V.R.G. Domus S.r.l. | Italy | L | 10 | | 44.49 | 51.00 | 44.49 |
| Parco Fidenae S.r.l. | Italy | L | 10 | | 44.49 | 51.00 | 44.49 |
| Aspevi S.r.l. | Italy | L | 11 | | 99.87 | 100.00 | 99.87 |
| Vittoria.Net S.r.l. | Italy | L | 11 | | 99.87 | 100.00 | 99.87 |
| Aspeca S.r.l. | Italy | L | 11 | | 79.90 | 80.00 | 79.90 |

(1) Consolidation method: Line-by-line =L, Proportionate =P, Proportionate by common management =C

(2) 1=Italian insurance; 2=EU insurance; 3=non-EU insurance; 4=insurance holding; 5=EU reinsurance; 6=non-EU reinsurance; 7=banking; 8=fund management; 9=other holding; 10=real estate 11=other

(3) the total of the stakes held by all the companies that, in the shareholding structure, are placed between the company that prepares the consolidated financial statements and the investee. If the latter is directly held by more than one subsidiary, the individual products should be added.

(4) total voting rights percentage available in ordinary meetings if different from the direct or indirect investment percentage.

### Changes in holding percentages and other changes of the year:

Vittoria Immobiliare S.p.A.: share capital increase against consideration from Euro 6,600 thousand to Euro 7,700 thousand; Vittoria Assicurazioni paid its portion of Euro 960 thousand thus keeping its investment therein unchanged; in December, a capital injection for future capital increases of Euro 614 thousand was made, Euro 536 thousand of which made by the parent;

**Immobiliare Bilancia S.r.l.:** quota capital decrease from Euro 64 million to Euro 2 million with an increase of Euro 120 thousand in the legal reserve and a transfer of Euro 61,880 thousand to the quota premium reserve; subsequent partial return of Euro 32,000 thousand to the quotaholders from the quota premium reserve;
**Immobiliare Bilancia Prima S.r.l.:** quota capital decrease from Euro 29 million to Euro 2 million with an increase of Euro 400 thousand in the legal reserve and a transfer of Euro 26,600 thousand to the quota premium reserve, fully returned to quotaholders during the year;
**Immobiliare Bilancia Seconda S.r.l.**: repayment of part of the quota premium reserve (Euro 14,500 thousand) to the parent;
**Gestimmobili Intermediazione S.r.l.:** Gestimmobili S.r.l. acquired 100% of this subsidiary (80% from Vittoria Immobiliare S.p.A.) which was subsequently merged into Gestimmobili S.r.l.;
**Parco Fidenae S.r.l.:** set up of the new SPV with subscription – through Vittoria Immobiliare S.p.A. – of 51% of its quota capital for Euro 26 thousand;

## B) Unconsolidated equity investments

Vittoria Assicurazioni S.p.A. - Consolidated financial statements at 31 December 2005

### List of unconsolidated investments

| | Country | Business (1) | Type (2) | % of direct holding | % of total investment (3) | % of voting rights in ordinary meetings (4) | Carrying amount |
|---|---|---|---|---|---|---|---|
| Yarpa International Holding N.V. | Holland | 9 | b | 25.00 | 25.00 | | 24,112 |
| Laumor B.V. | Holland | 9 | b | 25.00 | 25.00 | | 488 |
| White Finance S.A. | Luxembourg | 9 | b | 32.17 | 32.17 | | 5,133 |
| Gimatrading S.r.l. | Italy | 10 | b | | 30.53 | 35.00 | 34 |
| Sivim S.r.l. | Italy | 10 | b | | 43.18 | 49.50 | 23 |
| Rovimmobiliare S.r.l. | Italy | 10 | b | | 43.62 | 50.00 | 1,680 |
| Le Api S.r.l. | Italy | 11 | b | | 29.23 | 30.00 | 7 |

(1) 1=Italian insurance; 2=EU insurance; 3=non-EU insurance; 4=insurance holding; 5=EU reinsurance; 6=non-EU reinsurance; 7=banking; 8=fund management; 9=other holding; 10=real estate 11=other
(2) a)=subsidiaries (IAS 27) ; b)=associated companies (IAS 28); c=*joint ventures* (IAS 31)
(3) the total of the stakes held by all the companies that, in the shareholding structure, are placed between the company that prepares the consolidated financial statements and the investee. If the latter is directly held by more than one subsidiary, the individual products should be added.
(4) total voting rights percentage available in ordinary meetings if different from the direct or indirect investment percentage.

## Changes in holding percentages and other changes of the year:

**Yarpa International Holding N.V.:** collection of Euro 3,000 thousand as partial repayment of the share premium reserve.
**White Finance S.A.:** set up of this financial holding company with an investment of 32.17% for a cost of Euro 5,419 thousand.

## C) Segment reporting

### C1) Primary segment

Vittoria Assicurazioni S.p.A. - Consolidated financial statements at 31 December 2005

Balance sheet by business segment

(in thousands of Euros)

| | | Non-life business | | Life business | | Real estate operations | | Services | | Intersegment eliminations | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 31/12/05 | 31/12/04 | 31/12/05 | 31/12/04 | 31/12/05 | 31/12/04 | 31/12/05 | 31/12/04 | 31/12/05 | 31/12/04 | 31/12/05 | 31/12/04 |
| 1 | **INTANGIBLE ASSETS** | 14,404 | 13,159 | **225** | 93 | **291** | 220 | **4** | 17 | **0** | 1,111 | **14,924** | **14,600** |
| 2 | **PROPERTY, PLANT AND EQUIPMENT** | 18,127 | 19,086 | 0 | 0 | 96,406 | 170,763 | 53 | 78 | 0 | 1,882 | **114,586** | **191,809** |
| 3 | **REINSURERS' SHARE OF TECHNICAL RESERVES** | 117,388 | 115,172 | 25,918 | 23,264 | 0 | 0 | 0 | 0 | 0 | 0 | **143,306** | **138,436** |
| 4 | **INVESTMENTS** | 566,136 | 516,956 | 799,730 | 756,929 | 2,277 | 1,796 | 108 | 56 | -62,053 | -132,674 | **1,306,198** | **1,143,063** |
| 4.1 | Investment property | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 4.2 | Investments in subsidiaries and associates and interests in joint ventures | 49,712 | 83,699 | 41,825 | 72,137 | 1,805 | 462 | 8 | 6 | -61,873 | -132,514 | 31,477 | 23,790 |
| 4.3 | Held to maturity investments | 1,313 | 1,480 | 70,374 | 59,533 | 0 | 0 | 0 | 0 | 0 | 0 | 71,687 | 61,013 |
| 4.4 | Loans and receivables | 10,377 | 13,030 | 6,317 | 6,321 | 348 | 1,210 | 0 | 0 | -180 | -160 | 16,862 | 20,401 |
| 4.5 | Financial assets available for sale | 504,734 | 418,747 | 556,849 | 484,672 | 124 | 124 | 100 | 50 | 0 | 0 | 1,061,807 | 903,593 |
| 4.6 | Financial assets at fair value through profit or loss | 0 | 0 | 124,365 | 134,266 | 0 | 0 | 0 | 0 | 0 | 0 | 124,365 | 134,266 |
| 5 | **OTHER RECEIVABLES** | 124,804 | 113,931 | 22,889 | 12,776 | 44,994 | 7,985 | 1,164 | 943 | -5,434 | -1,610 | **188,417** | **134,025** |
| 6 | **OTHER ASSETS** | **17,989** | **16,766** | **11,663** | **13,560** | **13,392** | **19,590** | **144** | **196** | **2,431** | **-390** | **45,619** | **49,722** |
| 6.1 | Deferred acquisition costs | 7,410 | 6,503 | 5,408 | 6,434 | 0 | 0 | 0 | 0 | 0 | 0 | 12,818 | 12,937 |
| 6.2 | Other assets | 10,579 | 10,263 | 6,255 | 7,126 | 13,392 | 19,590 | 144 | 196 | 2,431 | -390 | 32,801 | 36,785 |
| 7 | **CASH AND CASH EQUIVALENTS** | 18,258 | 25,458 | 16,095 | 10,042 | 39,641 | 18,746 | 1,022 | 1,306 | 0 | 0 | 75,016 | 55,552 |
| | **TOTAL ASSETS** | **877,106** | **820,528** | **876,520** | **816,664** | **197,001** | **219,100** | **2,495** | **2,596** | **-65,056** | **-131,681** | **1,888,066** | **1,727,207** |
| 1 | **EQUITY** | | | | | | | | | | | **213,533** | **174,990** |
| 2 | **PROVISIONS** | 741 | 741 | 546 | 650 | 4,057 | 196 | 0 | 0 | 0 | 0 | **5,344** | **1,587** |
| 3 | **TECHNICAL RESERVES** | 587,689 | 552,187 | 657,005 | 600,057 | 0 | 0 | 0 | 0 | 13,883 | 8,347 | **1,258,577** | **1,160,591** |
| 4 | **FINANCIAL LIABILITIES** | **91,061** | **90,504** | **155,759** | **162,029** | **59,415** | **53,470** | **51** | **211** | **0** | **-160** | **306,286** | **306,054** |
| 4.1 | Financial liabilities at fair value through profit or loss | 0 | 0 | 122,758 | 131,761 | 0 | 0 | 0 | 0 | 0 | 0 | 122,758 | 131,761 |
| 4.2 | Other financial liabilities | 91,061 | 90,504 | 33,001 | 30,268 | 59,415 | 53,470 | 51 | 211 | 0 | -160 | 183,528 | 174,293 |
| 5 | **PAYABLES** | 37,051 | 36,135 | 4,128 | 4,307 | 19,748 | 7,703 | 2,233 | 2,238 | -5,514 | -1,610 | **57,646** | **48,773** |
| 6 | **OTHER LIABILITIES** | 25,042 | 18,628 | 3,945 | 2,787 | 18,479 | 13,451 | 69 | 34 | -855 | 312 | **46,680** | **35,212** |
| | **TOTAL EQUITY AND LIABILITIES** | | | | | | | | | | | **1,888,066** | **1,727,207** |

## Income statement by business segment

(in thousands of Euros)

| | | Non-life business | | Life business | | Real estate operations | | Services | | Intersegment eliminations | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| 1.1 | Net premiums | 342,752 | 302,764 | 110,203 | 88,219 | 0 | 0 | 0 | 0 | 0 | 0 | 452,955 | 390,983 |
| *1.1.1* | *Gross premiums* | 426,067 | 392,419 | 113,318 | 91,118 | 0 | 0 | 0 | 0 | 0 | 0 | 539,385 | 483,537 |
| *1.1.2* | *Ceded premiums* | 83,315 | 89,655 | 3,115 | 2,899 | 0 | 0 | 0 | 0 | 0 | 0 | 86,430 | 92,554 |
| 1.2 | Commission income | 0 | 0 | 1,943 | 2,015 | 0 | 0 | 0 | 0 | 0 | 0 | 1,943 | 2,015 |
| 1.3 | Gains or losses on remeasurement of financial instruments at fair value through profit or loss | 0 | 0 | 45 | -12 | 0 | 0 | 0 | 0 | 0 | 0 | 45 | -12 |
| 1.4 | Gains on investments in subsidiaries and associates and interests in joint ventures | 5,988 | 3,548 | 4,703 | 829 | 1,343 | 55 | 1 | 22 | -5,503 | -867 | 6,532 | 3,587 |
| 1.5 | Gains on other financial instruments and investment property | 15,011 | 30,680 | 28,508 | 25,411 | 1,056 | 770 | 31 | 0 | -13 | -4 | 44,593 | 56,857 |
| 1.6 | Other income | 2,753 | 2,371 | 581 | 5 | 58,691 | 31,239 | 4,648 | 0 | -6,359 | -4,241 | 60,314 | 29,374 |
| **1** | **TOTAL REVENUE** | 366,504 | 339,363 | 145,983 | 116,467 | 61,090 | 32,064 | 4,680 | 22 | -11,875 | -5,112 | 566,382 | 482,804 |
| 2.1 | Net charges relating to claims | 230,557 | 218,392 | 117,336 | 91,572 | 0 | 0 | 0 | 0 | 5,536 | 6,599 | 353,429 | 316,563 |
| *2.1.2* | *Amounts paid and change in technical reserves* | 296,598 | 291,486 | 120,678 | 94,469 | 0 | 0 | 0 | 0 | 5,536 | 6,599 | 422,812 | 392,554 |
| *2.1.3* | *Reinsurers' share* | 66,041 | 73,094 | 3,342 | 2,897 | 0 | 0 | 0 | 0 | 0 | 0 | 69,383 | 75,991 |
| 2.2 | Commission expense | 0 | 0 | 722 | 724 | 0 | 0 | 0 | 0 | 0 | 0 | 722 | 724 |
| 2.3 | Losses on investments in subsidiaries and associates and interests in joint ventures | 298 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 298 | 0 |
| 2.4 | Losses on other financial instruments and investment property | 1,696 | 2,787 | 1,699 | 1,596 | 1,729 | 764 | 6 | 0 | -13 | -4 | 5,117 | 5,143 |
| 2.5 | Operating costs | 98,836 | 82,403 | 13,498 | 12,436 | 13,293 | 6,956 | 4,512 | 0 | -4,620 | -286 | 125,519 | 101,509 |
| 2.6 | Other costs | 10,479 | 13,067 | 61 | 485 | 351 | 410 | 64 | 3 | 1,106 | 99 | 12,061 | 14,064 |
| **2** | **TOTAL COSTS** | 341,866 | 316,649 | 133,316 | 106,813 | 15,373 | 8,130 | 4,582 | 3 | 2,009 | 6,408 | 497,146 | 438,003 |
| | **PROFIT FOR THE YEAR BEFORE TAXATION** | 24,638 | 22,714 | 12,667 | 9,654 | 45,717 | 23,934 | 98 | 19 | -13,884 | -11,520 | 69,236 | 44,801 |

**C2) Secondary segment**

## Segment reporting by geographical area

(in thousands of Euros)

| Revenue (gross of intersegment eliminations) | Italy | | | | | | Total external revenue | |
|---|---|---|---|---|---|---|---|---|
| | North | | Centre | | South and Islands | | | |
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Insurance premiums - direct business | 491,441 | 304,254 | 268,573 | 150,492 | 78,052 | 41,993 | 838,066 | 496,739 |
| Trading and construction profits | 11,604 | 2,346 | 36,142 | 13,114 | 0 | | 47,746 | 15,460 |
| Services and rent income | 6,284 | 1,146 | 7,073 | 3,141 | 0 | | 13,357 | 4,287 |
| **Total** | **509,329** | **307,746** | **311,788** | **166,747** | **78,052** | **41,993** | **899,169** | **516,486** |

(in thousands of Euros)

| Deferred costs incurred during the year | Italy | | | | | | Total external deferred costs | |
|---|---|---|---|---|---|---|---|---|
| | North | | Centre | | South and Islands | | | |
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Property, plant and equipment | 3,521 | 1,455 | 117 | 60 | 0 | 0 | 3,638 | 1,515 |
| Software | 5,153 | 4,965 | 6 | 0 | 0 | 0 | 5,159 | 4,965 |
| Other intangible assets | 1,110 | 827 | 0 | 0 | 0 | 0 | 1,110 | 827 |
| Owner-occupied property | 993 | 410 | 0 | 0 | 0 | 0 | 993 | 410 |
| **Total** | **10,777** | **7,657** | **123** | **60** | **0** | **0** | **10,900** | **7,717** |

(in thousands of Euros)

| Assets | Italy | | Europe | | Rest of the world | | Total assets | |
|---|---|---|---|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Debt instruments | 803,068 | 642,638 | 212,184 | 212,593 | 41,513 | 212,593 | 1,056,765 | 1,067,824 |
| Equity instruments and OEIC units | 71,986 | 54,001 | 37,828 | 31,200 | 0 | 31,200 | 109,814 | 116,401 |
| Property | 109,208 | 186,427 | 0 | 0 | 0 | 0 | 109,208 | 186,427 |
| Other assets | 612,279 | 356,555 | 0 | 0 | 0 | 0 | 612,279 | 356,555 |
| **Total** | **1,596,541** | **1,239,621** | **250,012** | **243,793** | **41,513** | **243,793** | **1,888,066** | **1,727,207** |

# Notes of a specific nature

## Consolidated balance sheet

Note 1

| | 31/12/2005 | 31/12/2004 | Change |
|---|---|---|---|
| Goodwill | 0 | 1,114 | -1,114 |

The goodwill recognised at 31 December 2004, arising from the increase in the investments in the real estate service companies through the acquisition of a 32.49% stake in Vittoria Immobiliare S.p.A., is nil at year end.

Indeed, as described in the directors' report, during 2005, the group substantially completed the construction work in progress at the 2004 year end, carrying out significant trading transactions as well.

During the year, the real estate brokerage company completed the extraordinary transaction that was taken into account in its measurement at 31 December 2004. Therefore, by applying the discounted cash flows method, the normalised ordinary business showed a decrease in value, recognised in profit or loss as other costs, which has been allocated to eliminations at a segment reporting level, since it related to the parent's acquisitions of real estate companies.

Note 2

| | 31/12/2005 | 31/12/2004 | Change |
|---|---|---|---|
| Other intangible assets | 14,924 | 13,486 | 1,438 |
| Property | 109,208 | 186,426 | -77,218 |
| Other items of property, plant and equipment | 5,378 | 5,383 | -5 |

A breakdown of property, other items of property, plant and equipment and other intangible assets based on the policy adopted by the group for the measurement subsequent to initial recognition is set out below.

Vittoria Assicurazioni S.p.A. - Consolidated financial statements at 31 December 2005

Breakdown of property, plant and equipment and intangible assets

(in thousands of Euros)

| | At cost | Deemed cost or fair value | Total carrying amount |
|---|---|---|---|
| Investment property | - | - | - |
| Other property | 109,208 | - | 109,208 |
| Other items of property, plant a | 5,378 | - | 5,378 |
| Other intangible assets | 14,924 | - | 14,924 |

## Other intangible assets and other items of property, plant and equipment

Other intangible assets and other items of property, plant and equipment are made up as follows:

(in thousands of Euros)

| | Software | Software under developm ent | Other intangible assets | TOTAL OTHER INTANGIBLE ASSETS | Renovations | Furniture, fittings, plant and machinery | Ordinary and electronic office machines | Cars | TOTAL OTHER ITEMS OF PROPERTY, PLANT AND EQUIPMENT |
|---|---|---|---|---|---|---|---|---|---|
| **GROSS CARRYING AMOUNT** | | | | | | | | | |
| **31/12/2004** | 29,056 | 1,264 | 397 | **30,718** | 3,559 | 8,949 | 7,655 | 659 | **20,822** |
| Acquisitions | 3,876 | 145 | 0 | 4,021 | 329 | 646 | 826 | 281 | 2,082 |
| Improvement costs | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Sales | -26 | 0 | 0 | -26 | 0 | -0 | -33 | -166 | -199 |
| Reclassification of assets under | 1,164 | -1,164 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **31/12/2005** | 34,071 | 245 | 397 | **34,713** | 3,888 | 9,595 | 8,447 | 774 | **22,704** |
| **ACCUMULATED AMORTISATION/DEPRECIATION** | | | | | | | | | |
| **31/12/2004** | 16,987 | 0 | 245 | **17,232** | 2,865 | 6,840 | 5,400 | 334 | **15,439** |
| Amortisation | 2,455 | 0 | 108 | 2,562 | 288 | 592 | 986 | 158 | 2,025 |
| Decrease due to sales | -5 | 0 | 0 | -5 | 0 | -0 | -9 | -128 | -138 |
| **31/12/2005** | 19,436 | 0 | 353 | **19,789** | 3,153 | 7,432 | 6,377 | 364 | **17,326** |
| **Carrying amount at 31/12/2004** | **12,070** | **1,264** | **152** | **13,486** | **694** | **2,109** | **2,255** | **325** | **5,383** |
| **Carrying amount at 31/12/2005** | **14,634** | **245** | **45** | **14,924** | **735** | **2,163** | **2,070** | **410** | **5,378** |

The group’s assets have finite useful lives. Amortisation/depreciation is calculated on a straight-line basis over the asset’s estimated useful life.

Specifically, the estimated useful life of each category of property, plant and equipment and intangible assets may be summarised as follows:

- Software: between 5 to 10 years;
- Other intangible assets: between 2 to 5 years.
- Furniture, fittings, plant and equipment: between 5 to 10 years;
- Ordinary and electronic office machines: between 3 to 5 years;
- Cars: between 4 to 5 years.

Amortisation of intangible assets is recognised under “Other costs”.

From 2005, the NewAge management system has become the integrated management tool for all relationships between the agencies, the sales network, the settlement network and the parent. Therefore, all IT applications developed have been integrated in a single tool that currently covers the technical management of the motor, bond and other non-life, excluding aviation, marine, bonds and credit lines of business. The costs incurred up to now have been therefore grouped net of amortisation already recognised and considered as overall cost of the package. The resulting carrying amount was deemed to be adequate for the present configuration of the project.
The NewAge management system had a carrying amount of Euro 12,044 thousand at year end and an estimated useful life of 10 years.

## Property

A breakdown of this caption is set out below:

- Owner-occupied property

(in thousands of Euros)

| | 31/12/2005 | 31/12/2004 | Change |
|---|---|---|---|
| Owner-occupied property | 15,694 | 15,662 | 32 |
| Property held for trading | 58,458 | 117,769 | -59,311 |
| Property under construction | 35,056 | 52,995 | -17,939 |
| Total | 109,208 | 186,426 | -77,218 |

The carrying amount of owner-occupied property at 31 December 2005 relates to the parent (Euro 13,072 thousand) and to the subsidiary Vittoria Properties S.r.l. (Euro 2,622 thousand).
Changes during the year are set out below:

(in thousands of Euros)

| Owner-occupied property | 31/12/2004 | Acquisitions | Improvement costs | Sales | Deprecia-tion | 31/12/2005 |
|---|---|---|---|---|---|---|
| Gross carrying amount | 16,026 | 994 | 34 | -663 | | 16,391 |
| Accumulated depreciation | 364 | | | -19 | 352 | 697 |
| Carrying amount | 15,662 | 994 | 34 | -644 | -352 | 15,694 |

Depreciation is calculated on a straight-line basis over the property's estimated useful life, between 30 and 50 years.

- Property held for trading and under construction

Changes during the year are set out below:

(in thousands of Euros)

| Property | Trading activities | Construction work | Total |
|---|---|---|---|
| Carrying amount at 31/12/2004 | 117,769 | 52,995 | 170,764 |
| Acquisitions, net of capitalised financial charges | 50,499 | 29,960 | 80,459 |
| Capitalised financial charges | 0 | 314 | 314 |
| Revaluations due to work in progress | 0 | | 0 |
| Sales | -146,425 | -59,345 | -205,770 |
| Write-downs | 0 | 0 | 0 |
| Recognised gains | 36,615 | 11,132 | 47,747 |
| Recognised losses | 0 | 0 | 0 |
| Exchange rate gains or losses | 0 | 0 | 0 |
| Carrying amount at 31/12/2005 | 58,458 | 35,056 | 93,514 |
| Other information on inventory | | | |
| Inventory expected to be sold after one year | 0 | 0 | 0 |
| Inventory charged to secure liabilities | 4,855 | 16,044 | 20,899 |
| Fair value net of costs to sell | 72,413 | 35,550 | 107,963 |
| Commitments for acquisitions to be settled | 0 | 122,460 | 122,460 |
| Other information on construction work at 31/12/2005 | | | |
| Costs incurred | | 29,960 | |
| Net recognised gains | | 11,133 | |
| Advances received | | 11,278 | |
| Guarantee withholdings | | 0 | |

The main real estate transactions carried out during the year may be summarised as follows:

- acquisition of a Rome-based building portfolio from an insurance company for Euro 34,529 thousand, with respect to which the group made sales for Euro 24,007 thousand, at a profit of Euro 5,882 thousand;
- acquisition and subsequent sale of the entire building located in Rome– Via Lovanio, realising a profit of Euro 3,187 thousand, compared to the initial investment of Euro 14,313 thousand;
- acquisition of a plot of land on which construction work had commenced in Peschiera Borromeo (Milan), for Euro 15,081 thousand.

The main transactions commenced in previous years progressed as follows:

- Property under construction in Turin ("Spina 1" district) and Peschiera Borromeo (Milan): costs incurred for the progress of construction work totalled Euro 13,964 thousand; notary deeds have already been signed on such buildings for Euro 107,906 thousand (recognised net of advances of Euro 48,561 thousand already collected in previous years) which, considering revenue on the work in progress recognised using the percentage of completion method led to a profit of Euro 11,133 thousand; the related financial charges have been capitalised on the basis of the specific loans (Euro 88 thousand at Euribor + 60 b.p. and Euro 179 thousand at 3.5%);
- Building to be used in the service sector in Rome – Via delle Quattro Fontane: sale of the entire building for Euro 35,000 thousand, at a profit of Euro 11,935 thousand;
- Buildings in Rome – Via Benedetto Croce: sale in lots for Euro 30,571 thousand, at a profit of Euro 6,809 thousand;
- Buildings in Rome – Via Capuana: sales for Euro 21,748 thousand, at a profit of Euro 4,877 thousand.

Note 3

| | 31/12/2005 | 31/12/2004 | Change |
|---|---|---|---|
| Reinsurers' share of technical reserves | 143,306 | 138,436 | 4,870 |

A breakdown of the reinsurers' share of technical reserves by non-life and life business is set out below:

Vittoria Assicurazioni S.p.A. - Consolidated financial statements at 31 December 2005

**Breakdown of reinsurers' share of technical reserves**

(in thousands of Euros)

| | Direct business | | Indirect business | | Total carrying amount | |
|---|---|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| **Non-life reserves** | **115,751** | **112,853** | **1,637** | **2,319** | **117,388** | **115,172** |
| Premium reserve | 39,006 | 35,621 | 271 | 691 | 39,277 | 36312 |
| Claims reserve | 76,745 | 77,232 | 1,366 | 1,628 | 78,111 | 78860 |
| Other reserves | 0 | 0 | 0 | 0 | 0 | 0 |
| **Life reserves** | **25,918** | **23,264** | **0** | **0** | **25,918** | **23,264** |
| Reserve for payable amounts | 21 | 21 | 0 | 0 | 21 | 21 |
| Mathematical reserves | 25,858 | 23,205 | 0 | 0 | 25,858 | 23205 |
| Technical reserves where investment risk is borne by policyholders and reserves arising from pension fund management | 0 | 0 | 0 | 0 | 0 | 0 |
| Other reserves | 39 | 38 | 0 | 0 | 39 | 38 |
| **Total reinsurers' share of technical reserves** | **141,669** | **136,117** | **1,637** | **2,319** | **143,306** | **138,436** |

Note 4

| | 31/12/2005 | 31/12/2004 | Change |
|---|---|---|---|
| Investments in subsidiaries and associates and interests in joint ventures | 31,477 | 23,790 | 7,687 |

This caption is made up as follows:

(in thousands of Euros)

| Investments in associates | 31/12/2005 | 31/12/2004 |
|---|---|---|
| Yarpa International Holding N.V. | 24,112 | 22,962 |
| Laumor B.V. | 488 | 215 |
| White Finance S.A. | 5,133 | 0 |
| Gimatrading S.r.l. | 34 | 31 |
| Sivim S.r.l. | 23 | 25 |
| Rovimmobiliare S.r.l. | 1,680 | 551 |
| Le Api S.r.l. | 7 | 6 |
| Total | 31,477 | 23,790 |

The increase of Euro 7,687 thousand is due to acquisitions and sales made and the group's share of the change in the equity of associates measured using the equity method, as follows:

(in thousands of Euros)

| Change | Investments in associates |
|---|---|
| Carrying amount at 31/12/2004 | 23,790 |
| Acquisitions and subscriptions: | 5,431 |
| White Finance S.A. | 5,431 |
| Sales and repayments | -3,000 |
| Yarpa International Holding B.V. - partial repayment of share premium reserve | -3,000 |
| Change due to equity method measurement | 5,256 |
| Yarpa International Holding B.V. | 4,151 |
| Laumor B.V. | 272 |
| White Finance S.A. | -298 |
| Gimatrading S.r.l. | 3 |
| Sivim S.r.l. | -2 |
| Rovimmobiliare S.r.l. | 1,129 |
| Le Api S.r.l. | 1 |
| Carrying amount at 31/12/2005 | 31,477 |

The Euro 5,256 thousand revaluation is net of the decrease in the equities of the associates of Euro 977 thousand.

Note 5

| | 31/12/2005 | 31/12/2004 | Change |
|---|---|---|---|
| Held to maturity investments | 71,687 | 61,013 | 10,674 |
| Loans and receivables | 16,862 | 20,401 | -3,539 |
| Financial assets available for sale | 1,061,807 | 903,593 | 158,214 |
| Financial assets at fair value through profit or loss | 124,365 | 134,266 | -9,901 |

Investments are made up as follows:

Vittoria Assicurazioni S.p.A. - Consolidated financial statements at 31 December 2005

**Breakdown of financial assets**

(in thousands of Euros)

| | Held to maturity investments | | Loans and receivables | | Financial assets available for sale | | 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 | | | |
| | 31/12/05 | 31/12/04 | 31/12/05 | 31/12/04 | 31/12/05 | 31/12/04 | 31/12/05 | 31/12/04 | 31/12/05 | 31/12/04 | 31/12/05 | 31/12/04 |
| Equity and derivative instruments measured at cost | 0 | 0 | 0 | 0 | 14,644 | 13,478 | 0 | 0 | 0 | 0 | 14,644 | 13,478 |
| Equity instruments at fair value | 0 | 0 | 0 | 0 | 54,949 | 42,553 | 0 | 0 | 5,544 | 9,653 | 60,493 | 52,206 |
| of which listed | 0 | 0 | 0 | 0 | 47,429 | 36,171 | 0 | 0 | 5,544 | 9,653 | 52,973 | 45,824 |
| Debt securities | 71,687 | 61,013 | 0 | 0 | 983,470 | 838,462 | 1,607 | 2,505 | 35,956 | 44,152 | 1,092,720 | 946,132 |
| of which listed | 63,881 | 57,550 | 0 | 0 | 983,470 | 838,462 | 1,607 | 2,505 | 35,956 | 44,152 | 1,084,914 | 942,669 |
| OEIC units | 0 | 0 | 0 | 0 | 8,744 | 9,100 | 0 | 0 | 76,626 | 75,528 | 85,370 | 84,628 |
| Loans and receivables from bank customers | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Interbank loans and receivables | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Deposits with ceding companies | 0 | 0 | 618 | 976 | 0 | 0 | 0 | 0 | 0 | 0 | 618 | 976 |
| Financial asset portion of insurance contracts | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other loans and receivables | 0 | 0 | 16,244 | 19,425 | 0 | 0 | 0 | 0 | 0 | 0 | 16,244 | 19,425 |
| Non-hedging derivatives | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Hedging derivatives | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other financial assets | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 4,632 | 2,428 | 4,632 | 2,428 |
| **Total** | **71,687** | **61,013** | **16,862** | **20,401** | **1,061,807** | **903,593** | **1,607** | **2,505** | **122,758** | **131,761** | **1,274,721** | **1,119,273** |

Disclosure on fair value

(in thousands of Euros)

| FINANCIAL ASSETS | Carrying amount | Fair Value |
|---|---|---|
| Held to maturity investments | 71,687 | 76,576 |
| Loans and receivables | 16,862 | 16,862 |
| Financial assets available for sale | 1,061,807 | 1,061,807 |
| Financial assets held for trading | 1,607 | 1,607 |
| Financial assets at fair value through profit or loss | 122,758 | 122,758 |
| Total | 1,274,721 | 1,279,610 |

The fair value of unlisted financial instruments has been determined on the basis of the market trend of similar instruments or, where not available, using suitable measurement techniques, which are based on recent transactions and analyses using the discounted cash flow method.

Changes in equity investments, fixed-interest securities and OEIC units where the risk is borne by the group or policyholders

Changes in financial assets where the risk is borne by group companies (equity investments, bonds and other fixed-interest securities and OEIC units) and in those where the risk is borne by policyholders and relating to pension fund management are detailed below.

(in thousands of Euros)

| | Held to maturity investments | Financial assets available for sale | | | | Financial assets at fair value through profit or loss | Financial assets held for trading | Total |
|---|---|---|---|---|---|---|---|---|
| | | Equity investments | OEIC units | Bonds and other fixed-interest securities | Total | Assets where the risk is borne by policyholders and related to pension funds | Bonds and other fixed-interest securities | |
| **Carrying amount at 31/12/2004** | **61,013** | **56,031** | **9,100** | **838,462** | **903,593** | **131,761** | **2,505** | **1,098,872** |
| **Acquisitions and subscriptions** | 9,487 | 12,039 | | 191,369 | 203,408 | 4,378 | 937 | 218,210 |
| **Sales and repayments** | -166 | | -328 | -42,746 | -43,074 | -23,969 | -1,844 | -69,053 |
| **Other changes:** | | | | | | | | - |
| - effective interest adjustments | 1,312 | | | 223 | 223 | | | 1,535 |
| - fair value adjustments | | 1,523 | -28 | -4,295 | -2,800 | 3,457 | 10 | 667 |
| - impairment loss | | | | | | | | - |
| - rate changes | 41 | | | 457 | 457 | -88 | -1 | 409 |
| - other changes | - | - | - | - | | 7,219 | - | 7,219 |
| **Carrying amount at 31/12/2005** | **71,687** | **69,593** | **8,744** | **983,470** | **1,061,807** | **122,758** | **1,607** | **1,257,859** |

The relationship between financial liabilities and financial assets relating to contracts where the risk is borne by policyholders and relating to pension fund management is set out below.

Vittoria Assicurazioni S.p.A. - Consolidated financial statements at 31 December 2005

**Breakdown of financial assets and liabilities relating to contracts issued by insurance companies where the investment risk is borne by policyholders and arising from pension fund management**

(in thousands of Euros)

| | Benefits relating to unit-linked and index-linked policies | | Benefits relating to pension fund management | | Total | |
|---|---|---|---|---|---|---|
| | 31/12/2005 | 31/12/2004 | 31/12/2005 | 31/12/2004 | 31/12/2005 | 31/12/2004 |
| Recognised assets | 120,796 | 129,546 | 1,962 | 2,215 | 122,758 | 131,761 |
| Intragroup assets * | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total assets** | **120,796** | **129,546** | **1,962** | **2,215** | **122,758** | **131,761** |
| Recognised financial liabilities | 120,796 | 129,546 | 1,962 | 2,215 | 122,758 | 131,761 |
| Recognised technical reserves | 0 | 0 | 0 | 0 | 0 | 0 |
| Intragroup liabilities * | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total liabilities** | **120,796** | **129,546** | **1,962** | **2,215** | **122,758** | **131,761** |

* Assets and liabilities eliminated during consolidation

## Loans and receivables

At 31 December 2005, loans and receivables totalled Euro 16,862 thousand, down Euro 3,539 thousand on 31 December 2004 (Euro 20,401 thousand).

This caption mainly includes:

- loans to group companies of Euro 3,856 thousand;
- mortgage loans granted by the parent of 4,640 thousand;
- loans on life insurance policies of Euro 5,755 thousand;
- loans granted to employees and agents of the parent of Euro 1,903 thousand;
- reinsurance deposits of Euro 618 thousand.

Loans granted to group companies mainly relate to the loan of Euro 3,687 thousand granted by the parent to Laumor B.V.

Euro 6,079 thousand is due after one year.

## Note 6

| | 31/12/2005 | 31/12/2004 | Change |
|---|---|---|---|
| Receivables relating to direct insurance | 107,151 | 109,410 | -2,259 |

This caption is made up as follows:

(in thousands of Euros)

| Receivables relating to direct insurance | 31/12/2005 | 31/12/2004 |
|---|---|---|
| Premiums due from policyholders | 35,336 | 37,844 |
| Receivables due from brokers and agents | 43,091 | 43,209 |
| Receivables due from insurance companies - current accounts | 4,481 | 5,135 |
| Amounts to be recovered from policyholders and third parties | 24,243 | 23,222 |
| Total | 107,151 | 109,410 |

These receivables are stated net of the related provisions for bad debts. Specifically, the provision relating to premiums due from policyholders takes into account historical trends of write-offs of premiums written but not collected.

## Note 7

| | 31/12/2005 | 31/12/2004 | Change |
|---|---|---|---|
| Receivables relating to reinsurance business | 10,375 | 11,731 | -1,356 |

This caption relates to receivables due from insurance and reinsurance companies. It includes current account receivables showing the reinsurance technical result.

Note 8

| | 31/12/2005 | 31/12/2004 | Change |
|---|---|---|---|
| Sundry receivables | 70,891 | 12,884 | 58,007 |

This caption relates to trade receivables and advances paid to third parties.

The increase is mainly due to the preliminary sales agreement signed by the parent and the subsidiary Vittoria Immobiliare S.p.A. for the acquisition of two real estate companies, whose assets include land destined for the construction of buildings to be used by the services sector. The total price is Euro 52.4 million thousand.
The residual amount to be paid by the two companies for such acquisition totals Euro 122,460 thousand.

Note 9

| | 31/12/2005 | 31/12/2004 | Change |
|---|---|---|---|
| Deferred acquisition costs | 12,818 | 12,937 | -119 |

This caption includes the acquisition costs paid in advance upon signing long-term insurance contracts.
At 31 December 2005, Euro 5,408 thousand relates to the life business and Euro 7,410 thousand to the non-life business.

Changes in this caption are set out below.

(in thousands of Euros)

| Deferred acquisition costs | Carrying amount |
|---|---|
| Carrying amount at 31/12/2004 | 12,818 |
| Portfolio transfers | 0 |
| Exchange rate gains or losses | 0 |
| Change in consolidation scope | 0 |
| Change for the year | 119 |
| Carrying amount at 31/12/2005 | 12,937 |

Note 10

| | 31/12/2005 | 31/12/2004 | Change |
|---|---|---|---|
| Deferred tax assets | 10,682 | 4,025 | 6,657 |

This caption includes deferred tax assets of the parent and real estate business of Euro 5,399 thousand and Euro 2,090 thousand, respectively, relating to elimination entries of Euro 3,186 thousand.

A breakdown of the caption at 31 December 2005 is as follows.

(in thousands of Euros)

| Deferred tax assets | 31/12/2005 |
|---|---|
| Exchange rate gains or losses | 784 |
| Provision for bad debts | 2,363 |
| Technical reserves (claims) | 2,124 |
| Accruals to the provision for charges | 1,947 |
| Adjustments to life insurance liabilities | 3,186 |
| Elimination of intragroup profits | 145 |
| Other | 133 |
| Total deferred tax assets | 10,682 |

Note 11

| | 31/12/2005 | 31/12/2004 | Change |
|---|---|---|---|
| Current tax assets | 19,910 | 30,058 | -10,148 |

The caption includes tax receivables of the parent of Euro 9,075 thousand (including deferred tax assets on the life business mathematical reserves) and VAT receivables of the real estate companies arising from the acquisition of building areas and property of Euro 7,571 thousand.

Note 12

| | 31/12/2005 | 31/12/2004 | Change |
|---|---|---|---|
| Other assets | 2,209 | 2,702 | -493 |

This caption includes deferred commission expense on investment contracts of Euro 585 thousand and prepayments of Euro 1,304 thousand mainly relating to general costs.

Note 13

| | 31/12/2005 | 31/12/2004 | Change |
|---|---|---|---|
| Cash and cash equivalents | 75,016 | 55,552 | 19,464 |

This caption includes bank account balances of Euro 74,962 thousand and cash-in-hand of Euro 54 thousand.

Note 14

| | 31/12/2005 | 31/12/2004 | Change |
|---|---|---|---|
| Equity attributable to the shareholders of the parent | 203,635 | 168,105 | 35,530 |
| Equity attributable to minority interests | 9,898 | 6,885 | 3,013 |

Details on changes in consolidated equity are set out in the section entitled "Statement of changes in equity".
The caption may be broken down as follows:

(in thousands of Euros)

| BREAKDOWN OF EQUITY | 31/12/2005 | 31/12/2004 |
|---|---|---|
| Share capital | 30,000 | 30,000 |
| Other equity instruments | 1,398 | 1,398 |
| Equity-related reserves | 20,142 | 20,142 |
| Income-related and other reserves | 91,715 | 73,681 |
| Translation reserve | 6 | 5 |
| Fair value reserve | 21,585 | 20,836 |
| Other gains or losses recognised directly in equity | (1,190) | (77) |
| Profit for the year | 39,979 | 22,120 |
| Total equity attributable to the shareholders of the parent | 203,635 | 168,105 |
| Share capital and reserves attributable to minority interests | 5,518 | 3,727 |
| Profit for the year | 4,380 | 3,158 |
| Total equity attributable to minority interests | 9,898 | 6,885 |
| Total consolidated equity | 213,533 | 174,990 |

The share capital comprises 30,000,000 fully subscribed and paid-up shares with a nominal value of Euro 1.00 each.
In their meeting of 26 April 2001, the shareholders approved the issue of 3,750,000 shares for the purpose of the conversion of the "Vittoria Assicurazioni S.p.A. Fixed/Floater 2001/2016 subordinated bond issue convertible into ordinary shares" (ISIN code IT0003184758).
The group does not hold either directly or indirectly any shares of its parents.

The share capital increase costs deducted from equity totalled Euro 46 thousand e and relate to the above-mentioned subordinated bond issue.

Dividends distributed by the parent, recognised under "Other reclassifications" in the statement of "Changes in equity", totalled Euro 3,900,000 and Euro 4,200,000 in 2004 and 2005, respectively.

Greater details on the breakdown of equity at 31 December 2005 are set out below:

- "Other equity instruments" include the equity portion on the measurement of the conversion option on the convertible bonds issued in 2001 by the parent (Euro 1,398 thousand);
- "Equity-related reserves" include the parent's share premium reserve of Euro 20,142 thousand;
- "Income-related and other reserves", totalling Euro 91,715 thousand, mainly include the parent's legal reserve of Euro 5,965 thousand, retained earnings of Euro 76,476 thousand (Euro 19,356 thousand of which relating to investees), the reserve for gains or losses on IFRS first-time adoption of Euro 2,904 thousand, and the property revaluation reserve of Euro 3,442 thousand;
- "Fair value reserve" includes the net unrealised gains on the fair value measurement of assets available for sale (Euro 40,484 thousand, net of the portion attributable to policyholders (shadow accounting) of Euro 18,899 thousand).
- "Other gains or losses recognised directly in equity" mainly relate to direct changes in equity recognised by Yarpa International Holding B.V.

Changes in the "Fair value reserve" may be analysed as follows:

(in thousands of Euros)

A) Net unrealised gains

| | Gross amount | Tax impact | Net amount |
|---|---|---|---|
| Unrealised gains at 31/12/2004 | 57,979 | 16,174 | 41,805 |
| Decrease due to sales | -4,037 | -1,333 | -2,704 |
| Increase due to fair value changes at 31/12/2005 | 1,241 | -142 | 1,383 |
| Total change for the year | -2,796 | -1,475 | -1,321 |
| Unrealised gains at 31/12/2005 | 55,183 | 14,699 | 40,484 |

B) Shadow accounting reserve

| | Gross amount | Tax impact | Net amount |
|---|---|---|---|
| Shadow accounting reserve at 31/12/2004 | 33,957 | 12,988 | 20,969 |
| Change in shadow accounting reserve | -3,352 | -1,282 | -2,070 |
| Shadow accounting reserve at 31/12/2005 | 30,605 | 11,706 | 18,899 |

Combined effect A) + B) : "Fair value reserve"

| | Gross amount | Tax impact | Net amount |
|---|---|---|---|
| Gains or losses on financial assets AFS at 31/12/2004 | 24,022 | 3,186 | 20,836 |
| Decrease due to sales | -4,037 | -1,333 | -634 |
| Increase due to fair value changes at 31/12/2005 | 1,241 | -142 | 0 |
| Change in shadow accounting reserve | 3,352 | 1,282 | 1,383 |
| Total change for the year | 556 | -193 | 749 |
| Gains or losses on financial assets AFS at 31/12/2005 | 24,578 | 2,993 | 21,585 |

Gains recognised directly in equity of Euro 749 thousand have arisen on the Euro 2,070 thousand decrease in the shadow accounting reserve and the Euro 1,321 thousand decrease in the reserve for unrealised capital gains on financial assets available for sale.
Total gains recognised in profit or loss and equity amounted to Euro 40,728 thousand.

## Note 15

| | 31/12/2005 | 31/12/2004 | Change |
|---|---|---|---|
| Provisions | 5,344 | 1,587 | 3,757 |

The caption mainly includes the accrual of Euro 546 thousand made by the parent to cover the risk of a pending litigation before the Supreme Court and the accrual of Euro 4,058 thousand for contract costs to be incurred in relation to formally sold real estate units.
Changes in this caption are set out below:

(in thousands of Euros)

| Provisions | 31/12/2004 | Accruals of the year | Utilisations of the year | Reversals | 31/12/2005 |
|---|---|---|---|---|---|
| Provision for litigation | 650 | | -104 | | 546 |
| Provision for costs to be incurred | 197 | 3,861 | | | 4,058 |
| Other provisions | 740 | | | | 740 |
| Total | 1,587 | 3,861 | - 104 | - | 5,344 |

Note 16

| | 31/12/2005 | 31/12/2004 | Change |
|---|---|---|---|
| Technical reserves | 1,258,577 | 1,160,591 | 97,986 |

Technical reserves may be broken down as follows.

Vittoria Assicurazioni S.p.A. - Consolidated financial statements at 31 December 2005

**Breakdown of technical reserves**

(in thousands of Euros)

| | Direct business | | Indirect business | | Total carrying amount | |
|---|---|---|---|---|---|---|
| | 31/12/2005 | 31/12/2004 | 31/12/2005 | 31/12/2004 | 31/12/2005 | 31/12/2004 |
| **Non-life reserves** | **585,481** | **549,186** | **2,208** | **3,001** | **587,689** | **552,187** |
| Premium reserve | 164,084 | 156,014 | 342 | 822 | 164,426 | 156,836 |
| Claims reserve | 419,078 | 391,336 | 1,866 | 2,179 | 420,944 | 393,515 |
| Other reserves | 2,319 | 1,836 | 0 | 0 | 2,319 | 1,836 |
| of which following the Liability Adequacy Test | 0 | 0 | 0 | 0 | 0 | 0 |
| **Life reserves** | **670,311** | **607,788** | **577** | **616** | **670,888** | **608,404** |
| Reserve for payable amounts | 24,069 | 16,931 | 14 | 10 | 24,083 | 16,941 |
| Mathematical reserves | 598,193 | 545,508 | 551 | 593 | 598,744 | 546,101 |
| Technical reserves where investment risk is borne by policyholders and reserves arising from pension fund management | 0 | 0 | 0 | 0 | 0 | 0 |
| Other reserves | 48,049 | 45,349 | 12 | 13 | 48,061 | 45,362 |
| of which following the Liability Adequacy Test | 0 | 0 | 0 | 0 | 0 | 0 |
| of which deferred liabilities to policyholders | 44,489 | 42,305 | 0 | 0 | 44,489 | 42,305 |
| **Total technical reserves** | **1,255,792** | **1,156,974** | **2,785** | **3,617** | **1,258,577** | **1,160,591** |

The premium reserve includes the unearned premium reserve of Euro 155,076 thousand, calculated on a pro rata temporis basis, and the reserve for unexpired risks of Euro 9,350 thousand.

The claims reserve comprises the reserve for reported claims of Euro 393,483 thousand and the reserve for claims incurred but not reported of Euro 27,461 thousand.

The other reserves of the non-life business relate to the ageing reserve of the Health line of business.

The other reserves of the life business mainly relate to the reserve for deferred liabilities to policyholders (Euro 44,489 thousand, Euro 30,605 thousand of which due to the fair value measurement of financial assets available for sale and Euro 13,883 thousand to the accrual for the profits of the subsidiaries allocated to the separately-managed businesses) and to the reserve for management expenses (Euro 3,356 thousand).

The key variable factor historical trends (where applicable) and projections taken into account in the measurement of insurance liabilities are as follows:

| | |
|---|---|
| Claims reserve | average costs; settlement rate; cancellations without pay-out; reopened claims; Incurred but not reported |
| Unexpired risk premium reserve | projected loss ratio |
| Mathematical reserves | Technical bases used (actuarial assumptions); minimum guaranteed returns; annuity or surrender probability |
| Shadow accounting reserve | average retrocession rate and proportion of unrealised gains on securities allocated to separately-managed business |
| LAT reserve | market interest rate; return on separately-managed business |

In the measurement and verification of the claims reserves at ultimate cost, the parent used the Fisher-Lange actuarial method, which considers the latest financial statement historical figures to define its parameters: average cost, no pay-out balance/reopened claims and settlement rate. The parent held that the Fisher Lange method gave estimates that better fit its business than those obtained using the Chain Ladder and Bornhuetter-Ferguson alternative methods. Reserves have not been discounted to present value but adjusted using suitable assumptions about the claims cost growth rates. The sensitivity analysis has been obtained by adjusting the basic situation using different assumptions about claims cost trends, interpolations of observed data and different weighting criteria for the various years. The reserve has been recognised taking into account the average value of the results of such calculations.

The analysis showed that the estimates were correct and therefore that the reserve was adequate in relation to generations still open.

The claims reserves calculated as above are subject to verification by the actuary engaged for motor third party liability pursuant to the Ministerial decree of 28 January 2004 and the provisions of the supervisory authorities.
The key actuarial assumptions about the life business technical reserves are set out below:

| Risk category | Year of issue | Technical basis | |
|---|---|---|---|
| | | financial | demographic |
| Temporary | 1968 - 1977 | 4% | SIM 51 |
| | 1978 - 1989 | 4% | SIM 61 |
| | 1990 - 1997 | 4% | SIM 81 |
| | 1998 - 2001 | 3% - 4% | SIM 91 |
| | from 2001 | 3% | SIM 91 at 70% |
| Adjustable | 1969 - 1979 | 3% * | SIM 51 |
| Indexed | 1980 - 1988 | 3% * | SIM 51 |
| Revaluable | 1988 - 1989 | 3% * | SIM 71 |
| | 1990 - 1996 | 4% * | SIM 81 |
| | 1997 - 1999 | 3% * | SIM 91 |
| | from 2000 | 2% * | SIM 81-91 |
| LTC | 2001 - 2004 | 2.5% | -1 |
| | from 2004 | 2.5% | -1 |
| Dread disease | from 2003 | 2.5% | -1 |
| AIL revaluable | 1986 - 1998 | 4% * | SIM 51 |
| | 1999 - 2004 | 3% * | SIM 81 |

* Due to the effect of the contractually guaranteed revaluation, technical rates have increased to:

indexed policies: 5.40% adjustable policies: 4.80% AIL revaluable policies: 4.25%

revaluable policies: Vittoria Valore Crescente 3.86% Vittoria Rendimento Mensile 3.77%

(1) SIM 91 has been reduced on a percentage basis to take into account the reinsurance market generally accepted mortality and LTC rates

Changes in the claims and mathematical reserves may be analysed as follows:

(in thousands of Euros)

| Claims reserve | Carrying amount |
|---|---|
| Carrying amount at 31/12/2004 | 393,515 |
| Portfolio transfers | |
| Exchange rate gains or losses | -439 |
| Change in consolidation scope | |
| Change for the year | 27,868 |
| Carrying amount at 31/12/2005 | 420,944 |

(in thousands of Euros)

| Mathematical reserves | Carrying amount |
|---|---|
| Carrying amount at 31/12/2004 | 546,101 |
| Portfolio transfers | 9 |
| Exchange rate gains or losses | |
| Change in consolidation scope | |
| Change for the year | 52,634 |
| Carrying amount at 31/12/2005 | 598,744 |

Liability Adequacy Test (LAT)

The adequacy of the technical reserves in the financial statements has been confirmed by the LAT.

Note 17

| | 31/12/2005 | 31/12/2004 | Change |
|---|---|---|---|
| Financial liabilities at fair value through profit or loss | 122,758 | 131,761 | -9,003 |
| Other financial liabilities | 183,528 | 174,293 | 9,235 |

Financial liabilities at fair value through profit or loss relate to investment contracts where the investment risk is borne by the policyholders and to pension fund management.

The caption “Other financial liabilities”, Euro 126,319 thousand of which is due within one year with Euro 57,209 thousand after one year, mainly relates to reinsurance deposits of Euro 106,301 thousand, bank loans to the group’s real estate companies of Euro 55,730 thousand (Euro 15,291 thousand of which secured by collateral) and the financial liability portion of Euro 17,760 thousand of the subordinated bonds issued by the parent.

Financial liabilities may be broken down as follows.

Vittoria Assicurazioni S.p.A. - Consolidated financial statements at 31 December 2005

**Breakdown of financial liabilities**

(in thousands of Euros)

| | 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 | | | | | |
| | 31/12/05 | 31/12/04 | 31/12/05 | 31/12/04 | 31/12/05 | 31/12/04 | 31/12/05 | 31/12/04 |
| Equity instruments | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Subordinated liabilities | 0 | 0 | 0 | 0 | 17,760 | 17,562 | 17,760 | 17,562 |
| Liabilities from financial contracts issued by insurance companies | 0 | 0 | 122,758 | 131,761 | 0 | 0 | 122,758 | 131,761 |
| From contracts where the investment risk is borne by policyholders | 0 | 0 | 120,796 | 129,546 | | 0 | 120,796 | 129,546 |
| From pension fund management | 0 | 0 | 1,962 | 2,215 | | 0 | 1,962 | 2,215 |
| From other contracts | 0 | 0 | 0 | 0 | | 0 | 0 | 0 |
| Deposits received from reinsurers | 0 | 0 | 0 | 0 | 106,301 | 103,210 | 106,301 | 103,210 |
| Financial liability portion of insurance contracts | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Debt securities issued | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Payables to bank customers | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Interbank payables | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other loans obtained | 0 | 0 | 0 | 0 | 59,467 | 53,521 | 59,467 | 53,521 |
| Non-hedging derivatives | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Hedging derivatives | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other financial liabilities | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total** | 0 | 0 | 122,758 | 131,761 | 183,528 | 174,293 | 306,286 | 306,054 |

Subordinated liabilities relate to the “Vittoria Assicurazioni S.p.A. Fixed/Floater 2001/2016 subordinated bond issue convertible into ordinary shares” (ISIN code IT0003184758), issued in accordance with the resolution of the parent’s shareholder taken in the extraordinary meeting of 26 April 2001. The bonds are fully subscribed.

The main characteristics of the convertible subordinated bond issue are as follows:

- total nominal amount of Euro 18,000,000;
- composed of 3,750,000 bonds with nominal value of Euro 4.80 each;
- nominal interest rate:
  - fixed 5.5% up to 31 December 2010 - annual coupons
  - variable six-monthly Euribor plus a spread of 2.5%, six-monthly coupons from 1 January 2011;
- conversion option can be exercised from 20 May 2006;
- maturity: 1 January 2016;
- conversion periods:
  - from 2006 to 2010 (included): from 20 May to 30 October of each year;
  - from 2011 up to maturity: from 20 May to 10 June of each year;
- convertible into Vittoria Assicurazioni ordinary shares (1 share for each bond);
- early repayment: call option from 1 January 2001;
- subordination clause: in the case of dissolution, liquidation, insolvency or compulsory liquidation of the company, the bonds will be repaid, in terms of residual principal and interest, only after all other company creditors (unsecured, secured, unsubordinated or with a subordination level lower than those of the bonds) have been satisfied.

Furthermore, the parent reserves the right to early repayment of all outstanding bonds at any time from 1 January 2011, with prior notice of at least one month to bondholders.

As described in the section on accounting policies, the equity portion (conversion option) has been measured separately from the debt component, to which the effective interest rate of 7.17% has been applied.

### Financial liabilities at fair value through profit or loss

Changes in the financial liabilities relating to investment contracts may be analysed as follows:

(in thousands of Euros)

| Financial liabilities | Benefits relating to unit-linked and index-linked policies | Benefits relating to pension fund management | Total |
|---|---|---|---|
| Carrying amount at 31/12/2004 | 129,546 | 2,215 | 131,761 |
| Investments of net fund assets | 3,978 | 399 | 4,377 |
| Profits attributable to policyholders | 9,129 | 213 | 9,342 |
| Amounts paid | -21,857 | -865 | -22,722 |
| Carrying amount at 31/12/2005 | 120,796 | 1,962 | 122,758 |

### Disclosure on fair value

(in thousands of Euros)

| FINANCIAL LIABILITIES | Carrying amount | Fair Value |
|---|---|---|
| Financial liabilities held for trading | - | - |
| Financial liabilities at fair value through profit or loss | 122,758 | 122,758 |
| Other financial liabilities | 183,527 | 186,249 |
| Total | 306,285 | 309,007 |

The overall fair value of “Other financial liabilities” relates to the subordinated bond issue (Euro 20,482 thousand) and reinsurance deposits and loans granted to the real estate companies (Euro 165,767 thousand). The fair value measurement of the subordinated bond issue is based on the market value of similar instruments.

## Note 18

| | 31/12/2005 | 31/12/2004 | Change |
|---|---|---|---|
| Payables arising from the direct insurance business | 7,879 | 7,973 | -94 |

This caption is made up as follows:

(in thousands of Euros)

| Payables arising from direct insurance business | 31/12/2005 | 31/12/2004 |
|---|---|---|
| Payables to insurance brokers and agents | 1,960 | 1,876 |
| Payables to insurance companies - current accounts | 4,881 | 4,662 |
| Guarantee deposits paid by policyholders | 4 | 61 |
| Payables to guarantee funds in favour of policyholders | 1,034 | 1,374 |
| Total | 7,879 | 7,973 |

## Note 19

| | 31/12/2005 | 31/12/2004 | Change |
|---|---|---|---|
| Payables arising from the reinsurance business | 7,154 | 7,785 | -631 |

This caption relates to payables to insurance and reinsurance companies. It includes current account receivables showing the reinsurance technical result.

## Note 20

| | 31/12/2005 | 31/12/2004 | Change |
|---|---|---|---|
| Other sums payable | 42,613 | 33,015 | 9,598 |

The caption includes:

(in thousands of Euros)

| Other sums payable | 31/12/2005 | 31/12/2004 |
|---|---|---|
| Payments on account received by real estate companies for preliminary sales agreements | 2,912 | 2,436 |
| Trade payables | 16,028 | 9,019 |
| Payables to employees (amounts settled in January 2006 and accruals for untaken holidays) | 1,486 | 1,706 |
| Employee benefits - provisions for termination benefits | 7,437 | 6,584 |
| Policyholders' tax due | 8,748 | 8,967 |
| Sundry tax liabilities (withholdings) | 1,347 | 1,576 |
| Social security charges payable | 1,730 | 1,564 |
| Sundry payables | 2,925 | 1,163 |
| Total | 42,613 | 33,015 |

Other liabilities relating to employee benefits, especially medical services and seniority bonuses, are recognised as “Other liabilities” (note 23).

Termination benefits are considered to be due after one year.

To give a clearer view, the following table shows the total amount and changes for the year in the liabilities for post employment benefits (termination benefits and medical services) as well as other long-term benefits (seniority bonuses).

(in thousands of Euros)

| Changes in defined benefit plans | Post employment benefits | | Other long-term benefits | TOTAL |
|---|---|---|---|---|
| Charge | Medical services | Termination benefits | Seniority bonuses | |
| Carrying amount at 31/12/2004 | 934 | 6,585 | 531 | 8,050 |
| Accruals | 190 | 1,969 | 210 | 2,369 |
| Utilisations | -36 | -1,117 | 0 | -1,153 |
| Other changes (exchange rate gains or losses, acquisitions) | 0 | 0 | 0 | 0 |
| Carrying amount at 31/12/2005 | 1,088 | 7,437 | 741 | 9,266 |

A breakdown of the costs recognised in profit or loss with respect to the liabilities set out in the previous table is as follows:

(in thousands of Euros)

| Charge | Medical services | Termination benefits | Seniority bonuses | TOTAL |
|---|---|---|---|---|
| Current service cost | 138 | 1,680 | 52 | 1,870 |
| Interest | 16 | 230 | 25 | 271 |
| Net actuarial gains | 36 | 59 | 133 | 228 |
| Total | 190 | 1,969 | 210 | 2,369 |

The key actuarial and financial assumptions relate to:

- Inflation rate
- Discount rate
- Exit from the group due to:
    - mortality
    - invalidity
    - resignation and firing
    - retirement
- Premium paid per family for medical services to managers during retirement

Note 21

| | 31/12/2005 | 31/12/2004 | Change |
|---|---|---|---|
| Deferred tax liabilities | 10,474 | 13,173 | 2,699 |

This caption comprises:

- deferred tax liabilities of the parent totalling Euro 9,389 thousand;
- deferred tax liabilities arising from the elimination of intragroup profit during consolidation totalling Euro 1,085 thousand.

A breakdown of the caption at 31 December 2005 is as follows:

(in thousands of Euros)

| Deferred tax liabilities | 31/12/2005 |
|---|---|
| Deferral of gains on the sale of financial instruments | 2,596 |
| Exchange rate gains or losses | 632 |
| Financial assets available for sale | 2,992 |
| Derecognition of the catastrophe reserves | 1,678 |
| Owner-occupied property | 1,782 |
| Revenue from construction work in progress (percentage of completion method) | 1,084 |
| Nettable deferred tax assets | -290 |
| Total deferred tax liabilities | 10,474 |

Note 22

| | 31/12/2005 | 31/12/2004 | Change |
|---|---|---|---|
| Current tax liabilities | 19,832 | 5,300 | 14,532 |

The caption relates to income tax for the year.
The increase is the result of the improvement in the group's performance.
The liabilities are accounted for taking into account the options of the tax consolidation system adopted by the parent.

Note 23

| | 31/12/2005 | 31/12/2004 | Change |
|---|---|---|---|
| Other liabilities | 16,374 | 16,739 | -365 |

This caption mainly includes commissions to be paid on premiums under collection at year end and agents' incentives (Euro 7,939 thousand), deferred commission income on investment contracts (Euro 925 thousand), invoices and notes to be received from suppliers (Euro 4,801 thousand) and liabilities relating to defined benefit plans and other employee long-term benefits, such as medical services and seniority bonuses (Euro 1,830 thousand).

## Consolidated income statement

Note 24

| | 31/12/2005 | 31/12/2004 | Change |
|---|---|---|---|
| Gross premiums | 539,385 | 483,537 | 55,848 |
| Ceded premiums | 86,430 | 92,554 | 6,124 |
| Amounts paid and change in technical reserves | 422,812 | 392,554 | 30,258 |
| Reinsurers' share | 69,383 | 75,991 | -6,608 |

Gross premiums relate to:

- non-life business for Euro 426,067 thousand, Euro 433,406 thousand of which relating to premiums written (Euro 432,416 thousand relating to direct insurance and Euro 990 thousand to inwards reinsurance) and Euro 7,339 thousand to a change in the premium reserve;
- life business for Euro 113,318 thousand, Euro 113,282 thousand of which relating to direct insurance and Euro 36 thousand to inwards reinsurance.

As allowed by IFRS 4, revenue on investment contracts (capitalisation policies containing discretionary participation features) totalling Euro 49,807 thousand (Euro 37,894 thousand at 31 December 2004) has been recognised as insurance premiums.

Ceded premiums relates to:

- non-life business for Euro 83,399 thousand, Euro 82,758 thousand of which relating to outwards reinsurance and Euro 641 thousand to retrocession.
- life business for Euro 3,115 thousand relating to outwards reinsurance.

Amounts paid and changes in technical reserves relate to:

- non-life business for Euro 296,598 thousand, Euro 296,258 thousand of which relating to direct insurance and Euro 340 thousand to inwards reinsurance;
- life business for Euro 126,214 thousand, Euro 120,598 thousand of which relating to direct insurance and Euro 80 thousand to inwards reinsurance.

The reinsurers' share relates to:

- non-life business for Euro 66,041 thousand, Euro 65,749 thousand of which relating to outwards reinsurance and Euro 132 thousand to retrocession.
- life business for Euro 3,342 thousand relating to outwards reinsurance.

The run off of the non-life business claims reserve and related amounts to be recovered at the beginning of the year showed a profit of Euro 603 thousand and Euro 5,231 in the direct insurance and retained insurance, respectively.

Reference should be made to the table set out in the section on "Segment reporting" for a breakdown of premiums by geographical area.

Net premiums and net charges relating to claims broken down by primary segment, gross of intersegment eliminations, may be analysed as follows.

Breakdown of insurance technical captions

(in thousands of Euros)

| | | 2005 | | | 2004 | | |
|---|---|---|---|---|---|---|---|
| | | Gross amount | Reinsurers' share | Net amount | Gross amount | Reinsurers' share | Net amount |
| **Non-life business** | | | | | | | |
| **NET PREMIUMS** | | **426,067** | **83,315** | **342,752** | **392,419** | **89,655** | **302,764** |
| a | Recognised premiums | 433,406 | 83,399 | 350,007 | 407,063 | 92,067 | 314,996 |
| b | Change in premium reserve | 7,339 | 84 | 7,255 | 14,644 | 2,412 | 12,232 |
| **NET CHARGES RELATING TO CLAIMS** | | **296,598** | **66,041** | **230,557** | **291,486** | **73,094** | **218,392** |
| a | Amounts paid | 276,543 | 55,727 | 220,816 | 245,359 | 59,983 | 185,376 |
| b | Change in claims reserve | 26,990 | 10,620 | 16,370 | 55,689 | 13,544 | 42,145 |
| c | Change in recoveries | 7,418 | 306 | 7,112 | 10,023 | 433 | 9,590 |
| d | Change in other technical reserves | 483 | 0 | 483 | 461 | 0 | 461 |
| **Life business** | | | | | | | |
| **NET PREMIUMS** | | **113,318** | **3,115** | **110,203** | **91,118** | **2,899** | **88,219** |
| **NET CHARGES RELATING TO CLAIMS** | | **120,678** | **3,342** | **117,336** | **94,469** | **2,897** | **91,572** |
| a | Amounts paid | 60,366 | 688 | 59,678 | 58,819 | 621 | 58,198 |
| b | Change in reserve for payable amounts | 7,142 | 0 | 7,142 | 648 | 0 | 648 |
| c | Change in mathematical reserves | 52,653 | 2,654 | 49,999 | 34,953 | 2,276 | 32,677 |
| d | Change in technical reserves where investment risk is borne by policyholders and reserves arising from pension fund management | 0 | 0 | 0 | | | 0 |
| e | Change in other technical reserves | 517 | 0 | 517 | 49 | 0 | 49 |

### Net charges relating to claims – Non-life business

Caption "a) Amounts paid" includes final or partial compensation for claims, direct expenses and settlement costs.

Caption "b) Change in claims reserve" includes estimated compensation, direct expenses and settlement costs to be paid in future years for claims reported during the current year and any adjustments relating to claims reported in previous years and not yet settled at year end.

Caption "c) Change in recoveries" includes claims recovered during the year and the change in amounts to be recovered from policyholders and third parties for excess clauses, subrogations, recharges and surrenders of claims.

Caption "d) Change in other technical reserves" relates to the ageing reserve of the health line of business.

### Net charges relating to claims – Life business

Caption "a) Amounts paid" relates to claims, accrued sums, surrenders and annuities.

Caption "b) Change in reserve for payable amounts" relates to adjustments to the amounts necessary to pay accrued sums and annuities, surrenders and claims.

Caption "c) Change in mathematical reserves" relates to the technical reserves referred to in the section on accounting standards.

Caption "e) Change in other technical reserves" relates to the profit participation and reimbursement reserve, reserve for management expenses and complementary insurance premium reserve.

### Note 25

| | 31/12/2005 | 31/12/2004 | Change |
|---|---|---|---|
| Commission income | 1,943 | 2,015 | -72 |

The caption includes commission income earned on investment contracts classified as financial liabilities (index-linked, unit-linked and pension funds).

## Gains and losses on financial instruments and investments

(in thousands of Euros)

| | | Interest | Other income | Other charges | Realised gains | Realised losses | Total realised gains and losses | Unrealised gains: Unrealised gains | Unrealised gains: Reversal of impairment losses | Unrealised losses: Unrealised losses | Unrealised losses: Impairment losses | Total unrealised gains and losses | Total gains and losses 2005 | Total gains and losses 2004 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Investments** | | **38,538** | **9,536** | **2,785** | **7,327** | **381** | **52,235** | **6,057** | **0** | **577** | **0** | **5,480** | **57,715** | **67,085** |
| a | Investment property | | | | | | 0 | | | | | 0 | 0 | |
| b | Investments in subsidiaries and associates and interests in joint ventures | | 6,532 | 298 | 0 | 0 | 6,234 | | | | | 0 | 6,234 | 3,587 |
| c | Held to maturity investments | 3,154 | 0 | | 0 | | 3,154 | | | | | 0 | 3,154 | 3,035 |
| d | Loans and receivables | 671 | 0 | | 0 | | 671 | 28 | | | | 28 | 699 | 555 |
| e | Financial assets available for sale | 32,539 | 1,605 | | 4,097 | 0 | 38,241 | | | | | 0 | 38,241 | 51,200 |
| f | Financial assets held for trading | 14 | 0 | 0 | 20 | 0 | 34 | 20 | 0 | 9 | 0 | 11 | 45 | -12 |
| g | Financial assets at fair value through profit or loss | 2,160 | 1,399 | 2,487 | 3,210 | 381 | 3,901 | 6,009 | 0 | 568 | 0 | 5,441 | 9,342 | 8,720 |
| **Other receivables** | | **532** | | | **0** | | **532** | | | | | **0** | **532** | **544** |
| **Cash and cash equivalents** | | **1,967** | | | **0** | | **1,967** | | | | | **0** | **1,967** | **1,523** |
| **Financial liabilities** | | **5,117** | **0** | **0** | **0** | **0** | **5,117** | **0** | **0** | **9,342** | **0** | **9,342** | **14,459** | **13,863** |
| a | Financial liabilities held for trading | | | | | | 0 | | | | | 0 | 0 | |
| b | Financial liabilities at fair value through profit or loss | 0 | 0 | 0 | 0 | 0 | 0 | | | 9,342 | | 9,342 | 9,342 | 8,720 |
| c | Other financial liabilities | 5,117 | | | | | 5,117 | | | | | 0 | 5,117 | 5,143 |
| **Payables** | | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **Total** | | **35,920** | **9,536** | **2,785** | **7,327** | **381** | **49,617** | **6,057** | **0** | **9,919** | **0** | **-3,862** | **45,755** | **55,289** |

The table breaks down gains and losses on financial instruments and equity investments by originating balance sheet caption.
With reference to the captions shown in note 26:

- gains and losses on other financial instruments at fair value through profit or loss relate to captions f), g) of investments and a), b) of financial liabilities;
- gains and losses on investments in subsidiaries and associates and interests in joint ventures relate to caption b) of investments;
- gains and losses on other financial instruments and investment property relate to captions a), c), d), e) of investments, c) of financial liabilities, other receivables and cash and cash equivalents.

Note 26

| | 31/12/2005 | 31/12/2004 | Change |
|---|---|---|---|
| Gains and losses on financial instruments at fair value through profit or loss | 45 | -12 | 57 |
| Gains on investments in subsidiaries, associates and interests in joint ventures | 6,532 | 3,587 | 2,945 |
| Losses on investments in subsidiaries, associates and interests in joint ventures | 298 | 0 | 298 |
| Gains on other financial instruments and investment property | 44,593 | 56,857 | -12,624 |
| Losses on other financial instruments and investment property | 5,117 | 5,143 | -26 |

The net gain of Euro 6,234 thousand on investments in subsidiaries, associates and interests in joint ventures relates to the group's share of the profit or loss of group companies measured using the equity method. Reference should be made to note 4 for greater details.

Gains on investments in financial assets at fair value through profit or loss relate to the net gain of Euro 9,342 thousand on investment contracts (index-linked, unit-linked and pension funds) offset by losses of the same amount due to changes in the related financial liabilities at fair value through profit or loss.

Note 27

| | 31/12/2005 | 31/12/2004 | Change |
|---|---|---|---|
| Other income | 60,314 | 29,374 | 30,940 |

The caption includes:
- trading profits of Euro 45,365 thousand;
- revenue from construction work in progress of Euro 2,382 thousand;
- revenue from services of Euro 6,336 thousand, mainly comprising:
  - real estate brokerage services (Euro 4,854 thousand);
  - real estate management (Euro 186 thousand);
  - administration, real estate appraisals and other income (Euro 707 thousand);
  - insurance commission income with third parties (Euro 380 thousand);
- rent income of Euro 3,001 thousand;
- technical income on insurance contracts of Euro 1,687 thousand, mainly comprising:
  - write-off of commissions for premiums cancelled (Euro 432 thousand);
  - other technical captions (Euro 798 thousand), mainly related to recoveries of settlement costs related to claims subject to knock for knock agreements and ANIA incentives for scrapping damaged vehicles;
  - utilisation of the provision for bad debts (Euro 456 thousand);
- gains on the sale of property, plant and equipment of Euro 56 thousand;
- exchange rate gains of Euro 473 thousand;
- prior year items of Euro 823 thousand;
- other income of Euro 189 thousand

Note 28

| | 31/12/2005 | 31/12/2004 | Change |
|---|---|---|---|
| Commission expense | 722 | 724 | -2 |

The caption includes commission expense, i.e., acquisition and maintenance costs incurred on investment contracts classified as financial liabilities (index-linked, unit-linked and pension funds).

Note 29

| | 31/12/2005 | 31/12/2004 | Change |
|---|---|---|---|
| Commissions and other acquisition costs | 88,006 | 74,890 | 13,116 |
| Investment management costs | 729 | 813 | -84 |
| Other administrative costs | 36,784 | 25,806 | 11,231 |

Operating costs, broken down by non-life and life business, are detailed in the following table.

## Breakdown of insurance operating costs

(in thousands of Euros)

| | | Non-life business | | Life business | |
|---|---|---|---|---|---|
| | | 2005 | 2004 | 2005 | 2004 |
| **Gross commissions and other acquisition costs** | | **95,736** | **86,743** | **9,266** | **8,041** |
| a | Acquisition commissions | 68,424 | 61,040 | 2,667 | 1,925 |
| b | Other acquisition costs | 22,039 | 20,730 | 3,749 | 2,125 |
| c | Change in deferred acquisition costs | -906 | -1,240 | 1,026 | 1,920 |
| d | Premium collection commissions | 6,179 | 6,213 | 1,824 | 2,071 |
| **Profit participation and other commissions received from reinsurers** | | **13,270** | **19,456** | **387** | **438** |
| **Investment management costs** | | **372** | **394** | **356** | **419** |
| **Other administrative costs** | | **15,998** | **14,722** | **4,263** | **4,414** |
| **Total** | | **98,836** | **82,403** | **13,498** | **12,436** |

Personnel expenses, other general costs and amortisation/depreciation charges allocated to operating costs totalled Euro 39,056 thousand (2004: Euro 34,983 thousand) as better described in the section on “Overheads” of the directors’ report.

Note 30

| | 31/12/2005 | 31/12/2004 | Change |
|---|---|---|---|
| Other costs | 12,061 | 14,064 | -2,003 |

The caption is made up as follows:
- technical costs on insurance contracts of Euro 4,911 thousand, mainly comprising:
  - technical write-offs and losses on unrecoverable premiums and related accruals to the provision for bad debts (Euro 3,854 thousand);
  - charges for services supporting insurance covers and costs for premiums under litigation (Euro 1,057 thousand);
- accruals to the provision for bad debts of Euro 1,800 thousand;
- prior year items of Euro 190 thousand;
- amortisation/depreciation charges of Euro 3,875 thousand;
- impairment loss on goodwill of Euro 1,114 thousand;
- other costs of Euro 171 thousand.

Note 31

| | 31/12/2005 | 31/12/2004 | Change |
|---|---|---|---|
| Income taxes | 24,877 | 19,523 | 5,354 |

The caption includes current taxes of Euro 32,454 thousand and deferred tax income of Euro 7,577 thousand. Euro 19,859 thousand of the total amount relates to IRES and Euro 5,018 thousand to IRAP.
Income taxes are taken to profit or loss except for those that are directly debited or credited to equity, when the tax effect is also recognised directly in equity.

The reconciliation of the theoretical and actual IRES tax charge is set out below.

**Reconciliation between the tax charge recognised in the financial statements and theoretical tax charge**

| | Taxable base | Tax | | |
|---|---|---|---|---|
| | IRES | actual | theoretical | tax rate |
| **IRES - tax rate 33%** | | | | |
| Profit before taxation | 69,235 | | 22,848 | 33.00% |
| - revaluations of associates under the equity methods | 6,229 | | 2,056 | -2.97% |
| + Impairment losses on goodwill | 1,106 | | 365 | 0.53% |
| - Insurance business differences, mainly relating to dividends | 734 | | 242 | -0.35% |
| + Real estate business differences, mainly relating to local property tax (ICI) | 911 | | 301 | 0.43% |
| - Tax impact of adjustments to life insurance liabilities | 4,119 | | 1,359 | -1.96% |
| - Other captions | 5 | | 2 | 0.00% |
| Total change | -9,060 | | -2,989 | -4.32% |
| Taxable base | 60,175 | | 19,859 | 28.68% |

# Other information

## Employees

Employees of Vittoria Assicurazioni and fully consolidated companies numbered 462 at year end compared to 426 at the end of the previous year.
The average number of employees split by position is as follows:

| | 31/12/2005 | 31/12/2004 |
|---|---|---|
| Managers | 21 | 18 |
| Officers | 96 | 87 |
| Administrative staff | 332 | 318 |
| Total | 449 | 423 |

## Tax position

The group companies availed themselves of the provisions (paragraph 44, article 2) of Law no. 350 of 24 December 2003 (2004 Finance Act), published in the Official Journal of 27 December 2003, and settled all years up to 2002 for direct and indirect tax purposes, except for the situation outlined below for 1992.

### Insurance business

The parent was served an assessment report for 1992 arising from a documental inspection. The tax authorities contested the deductibility of the accruals to the life business mathematical reserves. The appeal filed by Vittoria Assicurazioni was discussed before the Milan Local Tax Court which admitted it. The Milan tax authorities appealed against this decision before the Milan Regional Tax Court, which reversed the decision taken by the Milan Local Tax Court. As a result of such decision, the parent received a tax assessment notice of Euro 648,385, which was recognised as an expense in the 2004 income statement.
The decision of the Supreme Court is still pending. Considering previous law cases, the company is confident of winning the case.

Real estate businessThere is no pending tax litigation involving the group companies.

Board of directors
(signed on the original)

Milan, 23 March 2006

# Report of the Independent Auditors

BDO
BDO SALA SCELSI FARINA
Società di Revisione per Azioni
Via Andrea Appiani 12 20121 Milano

# Report of the auditors in accordance with article 156 of legislative decree n. 58 of 24 February 1998 and article 102 of legislative decree n. 209 of 7 September 2005

(This report has been translated from the original Italian text which was issued in accordance with the Italian legislation)

To the shareholders of
Vittoria Assicurazioni S.p.A.

1. We have audited the consolidated financial statements, including balance sheet, profit and loss, movements of equity, cash flow statement and Directors' Report, of Vittoria Assicurazioni and its associated companies (Vittoria Assicurazioni Group) as at and for the year ended December 31st, 2005. These financial statements are the responsibility of the parent company's management. 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 management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

   Our opinion, expressed herein, with respect to the figures relating to some associated companies, representing approximately 12% of consolidated assets, is based, inter alia, on the audit performed by other auditors.

   The consolidated financial statements present for comparative purposes the prior year figures prepared in compliance with the same accounting principles. In addition, the Directors' Report describe the effects of the transition to the International Financial Reporting Standards adopted by the European Community and include the reconciliation schedules foreseen by the International Accounting Principle IFRS 1, previously approved by the Board of Directors and published as appendix to the half-year report for the six months ended June 30th, 2005, audited by us, for which reference is made to the report issued by us on September 16th, 2005.

3. In our opinion, the consolidated financial statements of Vittoria Assicurazioni S.p.A. as at and for the year ended December 31st, 2005 comply with the International Financial Reporting Standards adopted by European Community governing their preparation; therefore they are clearly stated and give a true and fair view of the financial position, the results, the movements of equity and the cash flows of the Vittoria Assicurazioni Group for the year then ended.

Milan, April 7th , 2006

BDO Sala Scelsi Farina
Società di Revisione per Azioni

Paolo Scelsi
(Director)

# Appendix

# Transition to the International Financial Reporting Standards (IFRS)

As required by IFRS 1 First-time adoption, this appendix includes the reconciliations required by paragraphs 39 and 40 and the related notes to the captions included in the schedules.

The following documents were published in the annex “Transition to the International Financial Reporting Standards (IFRS)” included in the 2005 consolidated half year report.

# Reconciliation of equity reported under Italian GAAP and under IFRS

| in thousands of Euros | Note | 01/01/2004 | 31/12/2004 | Change IFRS 2004 |
|---|---|---|---|---|
| Equity reported under Italian GAAP | | 127,139 | 151,511 | |
| including minority interests | | 4,547 | 6,900 | |
| including group | | 122,592 | 144,611 | |
| Intangible assets | A | (818) | (590) | 228 |
| Employee benefits (termination benefits, seniority bonuses and medical services) | B | (1,962) | (2,120) | (158) |
| Investments in associates | C | 1,029 | (1,593) | (2,622) |
| Owner-occupied property | D | 5,573 | 5,224 | (349) |
| Buildings under construction measured using the percentage of completion method | E | 5,050 | 0 | (5,050) |
| Financial assets available for sale (trading discount) | F | 0 | 200 | 200 |
| Financial assets held to maturity (trading discount) | | | | 0 |
| Loans and receivables | G | (426) | (691) | (265) |
| Investment contracts: deferred commission income and expense | H | (556) | (422) | 134 |
| Subordinated convertible bonds | I | 1,616 | 1,428 | (188) |
| Premium reserve (including reinsuers' share) | J | 3,532 | 3,906 | 374 |
| Life business mathematical reserves - Shadow Accounting to profit or loss | K | (945) | (314) | 631 |
| Provisions for risks and charges | L | 764 | 0 | (764) |
| Other items | - | 0 | 3 | 3 |
| Deferred taxes | M | (4,454) | (2,349) | 2,105 |
| Minority interests' part of reconciling items | N | (1,878) | 15 | 1,893 |
| Difference on investments acquired in December 2004 | O | 0 | 31 | 31 |
| Change in 2004 due to effect of applying IFRS to profit or loss | | 6,525 | 2,728 | (3,797) |
| Financial assets available for sale | P | 42,249 | 57,980 | 15,731 |
| Life business mathematical reserves - Shadow Accounting to equity | Q | (21,192) | (33,958) | (12,766) |
| Investments in associates - changes affecting equity | R | 0 | (72) | (72) |
| Tax effect | S | (4,651) | (3,185) | 1,466 |
| Recalculation of goodwill arising on 2004 acquisitions (Vittoria Immobiliare and Interbilancia) | T | 0 | 33 | 33 |
| Recalculation of equity attributable to minority interests from 2004 acquisitions | U | 0 | (33) | (33) |
| Change 2004 due to effect of applying IFRS to equity | | 16,406 | 20,765 | 4,359 |
| Total effect of applying IFRS to equity of group | | 22,931 | 23,493 | |
| Equity reported under IFRS | | 151,948 | 174,991 | |
| including minority interests | | 6,425 | 6,887 | |
| including group | | 145,523 | 168,104 | |

## Reconciliation of the profit for the year 2004 reported under Italian GAAP and under IFRS

| in thousands of Euros | Note | 2004 |
|---|---|---|
| Consolidated profit reported under Italian GAAP | | 30,281 |
| including minority interests | | 4,364 |
| including group | | 25,917 |
| Derecognition of amortisation of intangible assets | A,B,C | 236 |
| Operating costs for assets that cannot be capitalised | A,B,C | (16) |
| Provisions for employee benefits | A,B,C | (155) |
| Net gains from measurement at equity | A,B,C | (2,617) |
| Depreciation of owner-occupied property | D | (290) |
| Adjustment of gains on owner-occupied property | D | (59) |
| Derecognition of extraordinary income generated by change in accounting policy | E | (5,050) |
| Trading discounts on assets available for sale | F | 200 |
| Gains/losses on loans and receivables | G | (265) |
| Investment contracts: deferred commission income and expense | H | 134 |
| Measurement of subordinated convertible bonds at amortised cost | I | (188) |
| Change in premium reserve (including reinsurers' share) | J | 374 |
| Change in life business mathematical reserves - Shadow Accounting | K | 631 |
| Derecognition of utilisation of provision for risks | L | (764) |
| Other items | - | 3 |
| Tax effect | M | 2,105 |
| Minority interests' part of reconciling items | N,O | 1,206 |
| Derecognition of profit or loss on equity investments acquired in December 2004 | N,O | 718 |
| Total effect of application of IFRS on consolidated profit | | (3,797) |
| Consolidated profit reported under IFRS | | 25,278 |
| including minority interests | | 3,158 |
| including group | | 22,120 |

## Analysis of reconciled items that affect profit

### A) Intangible assets

| CHANGE DUE TO APPLICATION OF IFRS | 01/01/2004 | Change IFRS 2004 | 31/12/2004 |
|---|---|---|---|
| Intangible assets | -818 | 228 | -590 |

| | |
|---|---|
| Change due to application of IFRS at 01/01/2004 | -818 |

The change at 1 January 2004 is due to the derecognition of costs that do not meet the requirements for recognition as intangible assets under IFRS. They were mainly incurred for the placing of the subordinated convertible bond issue (Euro 401 thousand, offset against subordinated liabilities), advertising and promotion campaigns (Euro 196 thousand) and set up of entities and share capital increases (Euro 157 thousand).

Change IFRS 2004

| | |
|---|---|
| Derecognition of assets that can no longer be capitalised - 2004 (operating costs under IFRS) | -16 |

Costs derecognised in 2004 mainly relate to share capital increases.

| | |
|---|---|
| Derecognition of part of amortisation - 2004 | 236 |
| Net gains from measurement at equity | 7 |

Amortisation charges derecognised in 2004 for Interbilancia were recognised as its share of the results of investments measured using the equity method as described in part A - accounting policies and consolidation area of the consolidated financial statements as at and for the year ended 31 December 2004.

| | |
|---|---|
| Change due to application of IFRS at 31/12/2004 | -590 |

## B) Employee benefits

| CHANGE DUE TO APPLICATION OF IFRS | 01/01/2004 | Change IFRS 2004 | 31/12/2004 |
|---|---|---|---|
| Employee benefits | -1,962 | -158 | -2,120 |

| | |
|---|---|
| Change due to application of IFRS at 01/01/2004 | -1,962 |

The change at 1 January 2004 includes Euro 500 million for the actuarial valuation of termination benefits (discount rate of 4.50%) and Euro 1,462 thousand for the provision for seniority bonuses and healthcare services (discount rates of 4.75% and 5.05% respectively).
The projected inflation rate is 2.50%.
Reference should be made to the part on accounting policies in the chapter "Employee benefits", paragraphs on "Methodology" and "Measurement assumptions".

Change IFRS 2004

| | |
|---|---|
| Provision for termination benefits | -151 |
| Provision for seniority bonuses and medical services | -4 |
| Net gains from measurement at equity (for termination benefits) | -3 |

The increase in the liability in 2004 is due to Euro 154 million for the actuarial valuation of termination benefits (discount rate of 3.80%) and Euro 4 thousand for the provision for seniority bonuses and healthcare services (discount rates of 4.10% and 4.40% respectively).
The projected inflation rate is 2.00%.
Provisions for termination benefits for Interbilancia were recognised as its share of the results of investments measured using the equity method as described in part A - accounting policies and consolidation area of the consolidated financial statements as at and for the year ended 31 December 2004.

| | |
|---|---|
| Change due to application of IFRS at 31/12/2004 | -2,120 |

## C) Investments in associates

| CHANGE DUE TO APPLICATION OF IFRS | 01/01/2004 | Change IFRS 2004 | 31/12/2004 |
|---|---|---|---|
| Investments in associates | 1,029 | -2,622 | -1,593 |

| | |
|---|---|
| Change due to application of IFRS at 01/01/2004 | 1,029 |

The change at 1 January 2004 mainly relates to the different measurement of the closing inventories of Yarpa International Holding N.V. and Laumor B.V..

Change IFRS 2004

| | |
|---|---|
| Net gains from measurement at equity | -2,622 |

The effect on the 2004 profit is principally due to the different measurement of the closing inventories generating costs for the period of Euro 3,473 thousand for the aforesaid associates and derecognition of part of the amortisation of goodwill for Euro 885 thousand by Yarpa International Holding N.V..

| | |
|---|---|
| Change due to application of IFRS at 31/12/2004 | -1,593 |

## D) Owner-occupied property

| CHANGE DUE TO APPLICATION OF IFRS | 01/01/2004 | Change IFRS 2004 | 31/12/2004 |
|---|---|---|---|
| Owner-occupied property | 5,573 | -349 | 5,224 |

Change due to application of IFRS at 01/01/2004 5,573

The change at 1 January 2004 relates to the measurement of the parent's buildings.
As allowed by IFRS 1, the buildings have been measured at fair value rather than at cost with the related creation of an equity reserve for their revaluation.

Change IFRS 2004

Depreciation of owner-occupied property -290

The depreciation charge reflects the buildings' useful lives.

Gains on owner-occupied property -59

The gains were redetermined based on the revaluation (as described for the change at 1 January 2004) and the depreciation charge for the buildings sold of Euro 65 thousand and Euro 6 thousand respectively.
The revaluation reserve for the sold buildings was transferred to retained earnings.

Change due to application of IFRS at 31/12/2004 5,224

## E) Buildings under construction

| CHANGE DUE TO APPLICATION OF IFRS | 01/01/2004 | Change IFRS 2004 | 31/12/2004 |
|---|---|---|---|
| Buildings under construction | 5,050 | -5,050 | 0 |

Change due to application of IFRS at 01/01/2004 5,050

The change at 1 January 2004 is due to the measurement of the closing inventories of Vittoria Immobiliare S.p.A. and V.R.G. Domus S.r.l. using the percentage of completion method.

Change IFRS 2004

Extraordinary gains -5,050

The group applied the percantage of completion method in its 2004 consolidated financial statements drawn up under Italian GAAP rather than the completed contract method. The part of the income matured at 31 December 2003 was recognised as extraordinary.

During the reconciliation procedure, the effect on the 2004 profit took the form of smaller extraordinary income to the extent of the income matured up to 31 December 2003.

Change due to application of IFRS at 31/12/2004 0

## F) Financial assets available for sale

| CHANGE DUE TO APPLICATION OF IFRS | 01/01/2004 | Change IFRS 2004 | 31/12/2004 |
|---|---|---|---|
| Financial assets available for sale | 0 | 200 | 200 |

| | |
|---|---|
| Change due to application of IFRS at 01/01/2004 | 0 |
| Change IFRS 2004 | |
| Gains on investments | 200 |

The change relates to the recalculation of the annual part of amortisation of the trading discount using the effective interest rate method.

| | |
|---|---|
| Change due to application of IFRS at 31/12/2004 | 200 |

## G) Loans and receivables

| CHANGE DUE TO APPLICATION OF IFRS | 01/01/2004 | Change IFRS 2004 | 31/12/2004 |
|---|---|---|---|
| Loans and receivables | -426 | -265 | -691 |

| | |
|---|---|
| Change due to application of IFRS at 01/01/2004 | -426 |

The change at 1 January 2004 is due to the initial recognition (at fair value) and subsequent measurement (at amortised cost) of loans granted at special rates (to the agencies to buy hardware) for Euro 67 thousand and to the effect of discounting the receivable due from the tax authority for tax advances on the life business technical reserves of Euro 359 thousand.

Change IFRS 2004

| | |
|---|---|
| Gains/losses on loans and receivables | -265 |

The effect on the 2004 profit consists of costs of Euro 5 thousand for smaller principal disbursed as loans, greater interest of Euro 17 thousand, the revaluation of the receivable due from the tax authority for tax advances on the life business technical reserves of Euro 122 thousand and the loss of Euro 389 thousand arising from the discounting of the receivable which was recognised during 2004.

| | |
|---|---|
| Change due to application of IFRS at 31/12/2004 | -691 |

## H) Investment contracts - Unit-linked and index-linked

| CHANGE DUE TO APPLICATION OF IFRS | 01/01/2004 | Change IFRS 2004 | 31/12/2004 |
|---|---|---|---|
| Investment contracts | -556 | 134 | -422 |

| | |
|---|---|
| Change due to application of IFRS at 01/01/2004 | -556 |

The change at 1 January 2004 is due to the recognition of deferred commission expense and deferred commission income of Euro 1,084 thousand and Euro 1,640 thousand respectively.

This relates to the deferring of costs and revenue recognised in the consolidated financial statements drawn up under Italian GAAP when the policy was issued and taken to profit or loss in the same period.

Change IFRS 2004

| | |
|---|---|
| Deferred commission income and expense | 134 |

The change reflects the deferral of commission income and expense for the period and the 2004 part of commissions deferred at 31 December 2003.

| | |
|---|---|
| Change due to application of IFRS at 31/12/2004 | -422 |

## l) Subordinated liabilities

| CHANGE DUE TO APPLICATION OF IFRS | 01/01/2004 | Change IFRS 2004 | 31/12/2004 |
|---|---|---|---|
| Subordinated liabilities | 1,616 | -188 | 1,428 |

| | |
|---|---|
| Change due to application of IFRS at 01/01/2004 | 1,616 |

The change at 1 January 2004 is due to the breakdown of the convertible subordinated bond issue into two debt and equity components. Measurement of the conversion option reclassified to equity at fair value amounts to Euro 1,398 thousand. The placing costs of Euro 572 thousand were also split proportionally.

Change IFRS 2004

| | |
|---|---|
| Amortisation of discount on issue of subordinated convertible bonds | -188 |

The change relates to the remeasurement of the payable for the 2004 part.

| | |
|---|---|
| Change due to application of IFRS at 31/12/2004 | 1,428 |

## J) Premium reserve (including reinsurers' share)

| CHANGE DUE TO APPLICATION OF IFRS | 01/01/2004 | Change IFRS 2004 | 31/12/2004 |
|---|---|---|---|
| Premium reserve, net | 3,532 | 374 | 3,906 |

| | |
|---|---|
| Change due to application of IFRS at 01/01/2004 | 3,532 |

The change at 1 January 2004 is due to the derecognition of the catastrophe and equalisation reserves net of the reinsurers' share.

Change IFRS 2004

| | |
|---|---|
| Change in premium reserve, net | 374 |

The change reflects the derecognition of the premium reserve (net of the reinsurers' portion) for the period for the catastrophe and equalisation reserves

| | |
|---|---|
| Change due to application of IFRS at 31/12/2004 | 3,906 |

## K) Life business mathematical reserves

| CHANGE DUE TO APPLICATION OF IFRS | 01/01/2004 | Change IFRS 2004 | 31/12/2004 |
|---|---|---|---|
| Life business mathematical reserves | -945 | 631 | -314 |

Change due to application of IFRS at 01/01/2004 -945

The change at 1 January 2004 is due to the greater equity of Vittoria Immobiliare S.p.A. attributable to the life policyholders (Euro 945 thousand).

Change IFRS 2004

Change in mathematical reserves of life business 631

Part of the profits due to the life policyholders related to the equity of the real estate entities distributed to the separately-managed businesses.

Change due to application of IFRS at 31/12/2004 -314

## L) Provisions for risks and charges

| CHANGE DUE TO APPLICATION OF IFRS | 01/01/2004 | Change IFRS 2004 | 31/12/2004 |
|---|---|---|---|
| Provisions for risks and charges | 764 | -764 | 0 |

| | |
|---|---|
| Change due to application of IFRS at 01/01/2004 | 764 |

The change at 1 January 2004 relates to the derecognition of the provision for exchange rate fluctuations and securities.

| | |
|---|---|
| Change IFRS 2004 | |
| Utlisation of provisions for risks | -764 |

The write-off of these provisions in the 2004 consolidated financial statements drawn up under Italian GAAP allows the cancelling out of the reconciliations

| | |
|---|---|
| Change due to application of IFRS at 31/12/2004 | 0 |

## M) Deferred taxes

| CHANGE DUE TO APPLICATION OF IFRS | 01/01/2004 | Change IFRS 2004 | 31/12/2004 |
|---|---|---|---|
| Deferred taxes | -4,454 | 2,105 | -2,349 |

The changes refer to the tax effect of the captions set out above for deferred IRES and IRAP taxes when due.

## N-O) Adjustments to equity attributable to minority interests

| CHANGE DUE TO APPLICATION OF IFRS | 01/01/2004 | Change IFRS 2004 | 31/12/2004 |
|---|---|---|---|
| Adjustments to equity attributable to minority interests | -1,878 | 1,924 | 46 |

| | |
|---|---|
| Change due to application of IFRS at 01/01/2004 | -1,878 |

The change reflects the minority interests' share in the items set out in the above paragraphs related to subsidiaries.

Change IFRS 2004

| | |
|---|---|
| Adjustments to equity attributable to minority interests of reconciling items | 1,924 |

The change reflects the minority interests' share of the adjustments to the subsidiaries' profit or loss and related derecognition of the profit or loss of the investments acquired at the end of 2004.

| | |
|---|---|
| Change due to application of IFRS at 31/12/2004 | 46 |

# Analysis of reconciled items with direct effect on equity

## P) Financial assets available for sale

| CHANGE DUE TO APPLICATION OF IFRS | 01/01/2004 | Change IFRS 2004 | 31/12/2004 |
|---|---|---|---|
| Financial assets available for sale | 42,249 | 15,731 | 57,980 |

| | |
|---|---|
| Change due to application of IFRS at 01/01/2004 | 42,249 |

The change refers to the booking of unrecognised gains or losses on securities available for sale with the related credit to equity reserves.

Change IFRS 2004

| | |
|---|---|
| Change in measurement of securities available for sale | 15,731 |

It shows changes in unrecognised gains and losses during the period.

| | |
|---|---|
| Change due to application of IFRS at 31/12/2004 | 57,980 |

## Q) Life business mathematical reserves

| CHANGE DUE TO APPLICATION OF IFRS | 01/01/2004 | Change IFRS 2004 | 31/12/2004 |
|---|---|---|---|
| Life business mathematical reserves | -21,192 | -12,766 | -33,958 |

Change due to application of IFRS at 01/01/2004 -21,192

The change at 1 January 2004 relates to the distribution of the relevant unrecognised net gains on securities available for sale allocated by the separately-managed businesses to the policyholders.

Change IFRS 2004

Change in mathematical reserves of life business -12,766

It shows the change for the period in distributions to policyholders.

Change due to application of IFRS at 31/12/2004 -33,958

## R) Investments in associates

| CHANGE DUE TO APPLICATION OF IFRS | 01/01/2004 | Change IFRS 2004 | 31/12/2004 |
|---|---|---|---|
| Investments in associates | 0 | -72 | -72 |

| | |
|---|---|
| Change due to application of IFRS at 01/01/2004 | 0 |
| Change IFRS 2004 | |
| Equity reserves | -72 |

The change for the year is mainly due to the measurement of financial instruments held by Yarpa International Holding N.V..

| | |
|---|---|
| Change due to application of IFRS at 31/12/2004 | -72 |

## S) Deferred taxes

| CHANGE DUE TO APPLICATION OF IFRS | 01/01/2004 | Change IFRS 2004 | 31/12/2004 |
|---|---|---|---|
| Deferred taxes | -4,651 | 1,466 | -3,185 |

The changes reflect the direct impact on equity due to the tax effect of the captions set out above for deferred IRES and IRAP taxes when due.

## T - U) Adjustments to equity attributable to minority interests - recalculation of goodwill

The changes relate to the increase in the group's investments in Vittoria Immobiliare S.p.A. and Interbilancia S.r.I. during the period.

# Report of the Independent Auditors on the IFRS reconciliation schedules illustrating the impact of the transition to International Financial Reporting Standards (IFRS)

BDO

**BDO SALA SCELSI FARINA**
Società di Revisione per Azioni

Via Andrea Appiani 12 20121 Milano

**(Translation from the Italian original which remains the definitive version)**

**Report of the auditors on the IFRS Reconciliation Schedules explaining the effects of the transition to International Financial Reporting Standards (IFRS)**

To the Board of Directors
of Vittoria Assicurazioni S.p.A.

1. We have audited the Reconciliation Schedules comprising the consolidated shareholders' equity at 1 January 2004 and 31 December 2004 and the consolidated results for the year ended 31 December 2004 (the "IFRS Reconciliation Schedules") of Vittoria Assicurazioni Group and related notes, included in the "Transition to International Financial Reporting Standards (IFRS)" section of the half-year report as at and for the six months ended 30 June 2005. The above-mentioned IFRS reconciliation schedules derive from the consolidated financial statements of Vittoria Assicurazioni S.p.A. as at and for the year ended 31 December 2004 prepared in compliance with provisions of the Italian law governing their preparation; these consolidated financial statements were audited by us and we issued our report on 4 April 2005. The IFRS Reconciliation Schedules have been prepared within the process of transition to the International Financial Reporting Standards (IFRS) endorsed by the European Commission. These IFRS Reconciliation Schedules are the responsibility of the management of Vittoria Assicurazioni S.p.A.. Our responsibility is to express an opinion on these schedules based on our audit.

2. We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the IFRS Reconciliation Schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the IFRS Reconciliation Schedules. An audit also includes assessing the accounting principles used and significant estimates made by management. We believe that our audit provides a reasonable basis for our opinion.

   The responsibility for the audit of the figures of certain subsidiary and associated companies included in the consolidated figures disclosed in the IFRS Reconciliation Schedules, representing 10% of consolidated shareholders' equity at 31 December 2004 and 24% of consolidated results, respectively, rests with other auditors.

3. In our opinion, the IFRS Reconciliation Schedules described in paragraph 1 above, taken as a whole, have been prepared in compliance with the guidelines and principles set out in the article 81-bis of the Issuers Regulation no. 11971/1999 approved with CONSOB Resolution no. 14990 dated 14 April 2005.

4. The IFRS Reconciliation Schedules have been prepared only for the purposes of the process of the transition to IFRS, for the preparation of the first complete set of consolidated financial statements in accordance with IFRS as approved by the European Commission. They do not include the comparative figures and explanatory notes that would be required to give a complete view of the consolidated financial position and results of Vittoria Group in accordance with IFRS. Moreover, the figures included in these Reconciliation Schedules will be used for comparative purposes in the first set of complete financial statements drawn up under IFRS; these figures could be subject to changes if any of the IFRS were reviewed or modified before the above-mentioned financial statements are published.

Milan, 16 September 2005

BDO Sala Scelsi Farina
Società di Revisione per Azioni

(signed on the original)

Paolo Scelsi
(A Director)