cità **futuro** progresso reattività trasparenz
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a dinamicità volontà flessibilità energia uni

2011

Unipol Gruppo Finanziario

Consolidated Financial Statements

Unipol GRUPPO

The words on the cover of these Financial Statements are part of the Unipol Group institutional communication campaign launched in 2011 with a related website **www.hofiducianelfuturo.it** where people could post comments in order to express their faith in the future.

The most interesting messages then became part of the campaign.

Cover design
M Studio, Milan

UNIPOL
GRUPPO FINANZIARIO S.P.A.

Registered and Head Offices at Via Stalingrado 45, Bologna
Share capital €2,699,066,917.47 fully paid-up
Tax Code and Bologna Company Registration No. 00284160371 - R.E.A. No. 160304
Parent of the Unipol Insurance Group entered in the Register of Insurance Groups - No. 046

2011 Consolidated Financial Statements

Bologna, 15 March 2012

Translation from the Italian original which remains the definitive version

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TABLES APPENDED TO THE NOTES TO THE FINANCIALSTATEMENTS

Company bodies

Honorary Chairman	Enea Mazzoli

Board of Directors

Chairman	Pierluigi Stefanini	
Vice Chairman	Piero Collina	
Chief Executive Officer and General Manager	Carlo Cimbri	
Members of the Board	Francesco Berardini	Massimo Masotti
	Sergio Betti	Enrico Migliavacca
	Rocco Carannante	Pier Luigi Morara
	Pier Luigi Celli	Milo Pacchioni
	Sergio Costalli	Marco Pedroni
	Ernesto Dalle Rive	Giuseppe Politi
	Jacques Forest	Adriano Turrini (*)
	Vanes Galanti	Francesco Vella
	Roger Iseli	Marco Giuseppe Venturi
	Claudio Levorato	Luca Zaccherini
	Ivan Malavasi	Mario Zucchelli
Secretary to the Board of Directors	Roberto Giay	

(*) Board member coopted by the Board of Directors on 30/6/2011

Board of Statutory Auditors

Chairman	Roberto Chiusoli
Standing Auditors	Giorgio Picone
	Domenico Livio Trombone
Alternate Auditors	Carlo Cassamagnaghi
	Cristiano Cerchiai

Manager in charge of financial reporting	Maurizio Castellina

Independent auditors	KPMG SpA

Introduction

Macroeconomic background

During 2011 the public debt problems of the economically weakest countries in the Eurozone led to a crisis that shook the single European currency to its very foundations. Underestimation of the risk connected to the extent of our public borrowing and forecasting errors led Italy into the eye of the storm last Summer. The difference between the interest paid on our ten-year securities and those of Germany gradually widened until it was well over 500 basis points despite the measures to help Italian securities taken by the European Central Bank (ECB) on the secondary market. The outlook for the global economy also began to decline in the summer. Despite the various tax and monetary stimuli adopted in recent years, the United States economy did not manage to grow sufficiently to stabilise its public finances and put the country back on the road to full employment and is expected to have grown by a modest 1.7% in 2011.
The emerging countries also began to feel the consequences of the deterioration of the western economies, showing the first major signs of a slowdown.
Several Eurozone countries entered a new recession following that of 2009 and ISTAT's preliminary estimate of Italian gross domestic product (GDP) in the fourth quarter of 2011 revealed a decrease of 0.7% compared with the previous quarter.
These trends were reflected in the jobs market. In December 2011, the unemployment rate in the Eurozone rose to 10.4% (compared with 10% a year previously). Against this difficult background it is not surprising that consumption in general was down: Eurostat announced that retail sales in the Eurozone in November 2011 were down 2.5% compared with twelve months earlier (-1.8% in Italy) because of the proliferation of restrictive fiscal policies aimed at limiting the increase in the weight of public debt on the various economies.

On 21 December 2011, the European Central Bank stepped in with a *Longer-Term Refinancing Operation*, providing the European banks with a cash injection of €489bn over three years at a rate of 1%. This intervention covered a sizeable portion of the banks' funding requirements and, by lenders purchasing government bonds, indirectly released the tensions in the European public borrowing market. This provision is intended to ease the emergency until fiscal policies and economic growth have had time to restore the full financial credibility of the governments involved in the crises.
It should be pointed out that in the autumn, recognising the gravity of the situation, the ECB, under the guidance of Mario Draghi, swiftly reduced the principal base rate by 50 basis points. Thus the base rate of European monetary policy was back to 1%, a value more in keeping with the weak economic climate in which Europe finds itself.

The Italian economic situation showed obvious signs of unease. All elements of domestic demand – household consumption, public spending and investment – were down and did not seem able to support an appreciable upturn in the national economy. The best prospects were the prerogative of businesses that could link their work to the growth in the markets of the emerging countries.
At the end of 2011 employment had fallen by approximately 96,000 compared with twelve months earlier. 2.5 million people were looking for work, 19.2% more than in December 2010.

The various measures launched in 2011, the last of which was undertaken by the new government under President Mario Monti, brought public finances back under control: in three years the cumulative effect of these measures is expected to be well above €100bn. ISTAT's figures for the first nine months of 2011 reveal a public deficit of more than €50bn, though the primary balance is already positive to the tune of more than €3bn. At the end of 2011, the incidence of Italian public borrowing on GDP should be around 121%. After the tax squeeze the government gave priority to measures to support economic growth.

As for foreign trade, the Central Statistical Office has calculated that in the first eleven months of 2011 Italian exports rose 11.9% compared with the previous year whilst imports were up 10.6%. The result was a slight improvement in the trade deficit in November, which was -€25.8bn compared with -€27bn in the same period of 2010.

Financial markets

The worsening of the sovereign debt crisis in the countries on the edge of the Eurozone and the gradual deterioration of the global economy formed the background to a generally negative performance in international financial markets.

Greece's increasing difficulty in meeting the targets set by the European Union, the ECB and the International Monetary Fund as a condition for providing tranches under the plan they had drawn up in 2010, and the EU's decision to draw up a scheme for the private sector to help to reduce the debt burden (PSI) as a result of Greece's inability to tackle its debts, were largely responsible for the deterioration in the sovereign debt crisis in the Eurozone.

The prospect that PSI could also be applied to other countries in the Eurozone in the event of their public finances deteriorating was in fact largely responsible for the increase in the premium for risk paid to investors for underwriting the sovereign debt of these countries, which resulted in the widening of the yield differentials of these securities compared with similar securities issued by Germany.

Country	31 December 2010		30 June 2011		31 December 2011	
	10-year rate	Spread c/w Germany	10-year rate	Spread c/w Germany	10-year rate	Spread c/w Germany
Germany	2.96	-	3.03	-	1.83	
France	3.36	0.40	3.41	0.38	3.15	1.32
Italy	4.82	1.86	4.88	1.85	7.11	5.28
Belgium	3.97	1.01	4.10	1.07	4.09	2.26
Greece	12.47	9.51	16.34	13.31	34.96	33.13
Ireland	9.06	6.10	11.70	8.67	8.46	6.63
Portugal	6.60	3.64	10.90	7.87	13.36	11.53
Spain	5.45	2.49	5.45	2.42	5.09	3.26

Italy was particularly affected by this trend because of both the high incidence of public borrowing on GDP and the inability to grow at the same rate of the economies of continental Europe. The latter critical factor affected the Italian economy all the more following the slowdown in the global economic cycle in the second half of the year.

Performances in European stock markets in 2011 were very negative despite the recovery in the final quarter: the Eurostoxx50 index, representing Eurozone securities with the highest level of capitalisation, fell 17.1% during the year (+6.3% in the fourth quarter). The Italian Stock Exchange bore a lot of responsibility for this result, since it lost 24.3% in 2011 (+1.8% in the fourth quarter). The Tokyo Nikkei index and the Morgan Stanley Emerging Market index also recorded conspicuous losses of 17.3% and 14.9% respectively (-2.8% and +4.50%, respectively, in the fourth quarter).

The stock market that showed the greatest resistance to the general negative economic situation in the last financial year was that of the US: the S&P 500 index, representing US securities with the highest level of capitalisation, ended 2011 with a balance that was largely unchanged thanks to the recovery in the final quarter of the year (+11.2%), which made up for the overall negative performance in the first three quarters.

The performance of the stock markets had a negative effect on prices of corporate bonds, which resulted in the widening of the yield differentials, compared with assets with no risk, that companies had to pay on their bonds in order to place them with institutional investors. The iTraxx index, representing the average spread at which financial sector companies with a high credit rating issue bonds, in fact, rose more than 101 basis points last year, from 177.15 to 278.5 (277.8 in the fourth quarter).

Individual savings

Attempts to balance public finances led to a substantial reduction in new savings by individuals. This phenomenon was the consequence of the drop in disposable income as a result of both the rise in unemployment and higher taxes. The rise in household indebtedness during 2011 was also affected by the slowdown in the property market, low levels of consumption and tensions in the credit markets.
The profound turbulence affecting Italy also had an impact on the behaviour of savers. A climate of general bewilderment led to types of behaviour that were more than simply different propensities for risk. The higher yields offered by national government bonds attracted a lot of investors and induced others to try forms of investment that were not subject to the 'Italy risk'. Funds under administration suffered from this situation: investment funds business recorded negative net income of more than €26bn by the end of November; managed funds had a similar result; new Life insurance business recorded a fall of 27.8%, largely owing to the banks' difficulty in gaining access to the interbank markets, which induced them to concentrate on developing direct customer deposits (especially by promoting high-interest deposit accounts). Against this background it was not surprising that the emphasis on cash increased conspicuously to exceed 31% of all financial assets held by individuals.
It should be noted that the total financial wealth of individuals will have fallen again in 2011 because of the reduction in the prices of assets (shares, bonds, government bonds) listed on the financial markets.

Insurance business

The insurance business was affected by the general economic climate in which Italian businesses were operating.
In the MV Third-Party Liability class insurers' efforts to put the accounts of this type of business back in technical balance were producing initial results. By September 2011, premiums were up 5.6% on the same period of the previous year. In addition, one of the various repercussions, the negative economic situation that Italy was experiencing, was a reduction in the mileage of vehicles, which was reflected in the fall in the claims frequency to 6.6% in the first three quarters of 2011 (from 7.4% during the same period of 2010). However, during the same period there was a 2.5% rise in the average cost of claims.

The Land Vehicles class performed completely differently. The difficulties that were a feature of the motor-vehicle market (with vehicle registrations down 10.5% in 2011) affected premium income for this type of business (-2.1% by September).
Other non-MV Non-Life classes also suffered, with total growth not exceeding 0.6% during the first nine months of the year. There had been a drop in premiums in this type of business by September, with the health classes (Accident and Health) down 0.9%, the property sector steady (+1.9%) and General TPL down (-1.1%).
The economic slowdown, which started in the summer, will have had a negative effect on growth in the corporate segment of non-MV Non-Life classes because of the reduction in insurable volumes and companies' need to keep costs down. The determining factor in individual business was the drop in individuals' disposable incomes, which certainly did not help to stimulate Italians' already low propensity to take out insurance.

There was a lull in Life premium performance in 2011 after the record performance achieved in 2010 (more than €90bn in premiums). Various factors combined to reduce performance in this class: in the first half of the year it was expectations of a rise in interest rates that made Life products less attractive. Then, at the same time as the debt crisis spread to Italy, the banks, which were in difficulty as regards funding, focused on direct-deposit instruments as selling points to customers rather than unit trusts and Life policies. In the light of the importance of this channel (more than 70% of premiums being obtained through bank branches and post offices), this led to a significant drop in that type of business. According to ANIA's figures total new individual policies were down almost 28% in 2011, reflecting the drop of 27.4% in the first class of business. Work carried out by bank branches fell by almost 29%, whilst that done by financial advisers was 36% down. Traditional channels did less badly (agents -15.3%).

Banking and assets under management

The interbank market throughout Europe gradually dried up during 2011, as indicated by the increase, to unprecedented levels, in the deposits made by the commercial banks with the ECB. At the same time operating conditions in the Italian banking sector worsened at the same rate as the Italian public debt crisis. The fall in value of the Treasury securities in the portfolio of the Italian banks eventually translated into an erosion of their equity. This was especially true for the five largest national banking groups which, under the European agreements entered into in November 2011, must value their whole securities portfolio at the market value. Hence the need to have recourse to costly capital increases or to limit the increase in assets.
The ECB stepped in to help the banking system on 21 December with a Longer-Term Refinancing Operation, which enabled lenders in the Eurozone to be granted an unlimited amount of liquidity at a rate of 1% for three years. At the same time the types of collateral accepted by the ECB in exchange for providing liquidity were also extended. Applications from European banks amounted to €489bn, €136bn of which from Italian banks.

Banca d'Italia figures indicated modest growth in banking aggregates: income from Italian residents was up 3.1% at the end of 2011 compared with the previous year whilst lending was up 3.6%. The most dynamic element of the liabilities was bond income, up 12.4% over the previous twelve months. Deposits did not grow much (+2.5%) and repo operations were well down (-39%). It must be pointed out that another indication of the difficulties in which Italian banks were operating was that income from abroad fell 10.5%. Loans to individuals rose more than those to non-financial companies (+4.3% compared with +3.1%).

Gross bad and doubtful debts exceeded €107bn at the end of 2011, an increase of 37.6% compared with twelve months earlier, whilst bad and doubtful debts net of adjustments (more than €60bn) accounted for 3.2% of lending to customers (2.4% in December 2010). The incidence of net bad and doubtful debts on capital and reserves reached 15.9%, compared with 13.3% in 2010. In the final months of the year loans granted to businesses in the Centre-North of Italy and individual consumers deteriorated even further. The quality of loans was subject to significant risk of deterioration because of the fall in paid employment and the increase in the interest rates applied by the banks.
The rates required on loans were pushed up by the simultaneous increase in the cost of bank deposits and by the need to adjust the terms to take account of clients' creditworthiness. Spreads on new financing operations were growing both for non-financial companies and for loans to individuals for house purchase, whilst differentials on consumer credit were stable.

From the point of view of profitability the banks' gross operating income should remain largely unchanged compared with 2010, and operating costs should be much the same as in the previous year. Hence the operating income should also remain at 2010 levels.

Pension fund market

There was a drop in the number of members of Occupational Funds in December 2011 (-0.8%) compared with the same date in 2010. The number of members of Open-Ended Funds was slightly up (+3.8%) whilst the 'new' Personal Pension Plans (introduced by Legislative Decree 252/2005 and registered with COVIP) performed much better, with a growth of 25.8%. There was a rise of 5.7% in the total number of members of the various supplementary pension schemes.

At the end of 2011 Net Assets Allocated to Benefits were up by an average of 6.5% compared with twelve months earlier. This was the result of 12.9% growth in Occupational Funds, 10.6% in Open-Ended Funds and 32% in Personal Pension Plans, and of assets in pre-existing Pension Funds and in Personal Pension Plans in existence before Legislative Decree 252/2005 was passed remaining largely unchanged.
The overhaul of the public pension system launched by the Monti government under the aegis of the new Welfare Minister, Elsa Fornero, which was approved by Parliament at the end of 2011, and the simultaneous modest overall growth in the supplementary pension market vindicated the conviction of operators (managers, unions and employers' associations) that the system needed a good shake-up.
In 2011 the yield on pension funds was affected by the difficult situation in the financial markets caused by the problems with Eurozone government bonds and in particular Italian public debt securities. The average yield of Occupational Funds was approximately 0.1%, whilst the performance of Open-Ended Funds remained negative (-2.4%). Such performances should be evaluated in the light of the difficult context in which insurers were operating. However, they assume a totally different meaning if compared with the 3.5% at which the employees' leaving entitlement was revalued.

Principal new legislation

Law 10 of 26 February 2011, which converted Legislative Decree 225 of 29 December 2010 (the 'Milleproroghe Decree' – the annual decree extending the life of various government measures). In particular:

- the exception may be applied to the criteria for valuing short-term securities (i.e. not impairing securities recorded under working capital if the impairment loss is deemed to be short term);
- the deferred tax assets may be transformed into tax credits provided certain specific conditions apply;
- the tax regimes of Open-Ended Investment Companies and traditional Italian and Luxembourg Unit Trusts were amended in such a way as to align them with those for foreign investment trusts.

Legislative Decree 68 of 6 May 2011 (Decree on Regional and Provincial Federalism): Article 17 contains new procedures to enable the Provinces to deal with MV Third-Party Liability insurance tax. As from 2012, this tax will be payable to the Provinces. The base rate of the tax is 12.5% but the Provinces may charge up to 3.5 percentage points more or less. Many Provinces voted to do so as from 2011.

Legislative Decree 98 of 6 July 2011 (Urgent provisions for financial stabilisation), amended and converted by Law 111 of 15 July 2011. Particular mention should be made of the following:

- the increase in the rate of IRAP of 0.75 percentage points for banks and finance companies (including holding companies) and 2 percentage points for insurance companies, respectively. The higher rate applies from the 2011 tax period;
- there is no time limit on how long tax losses generated in 2011 may be carried forward and they may account for up to 80% of taxable income;
- by paying 16% substitute tax it is possible to align the carrying amounts of majority shareholdings recognised in the consolidated financial statements for the portion attributable to goodwill, brand names and other intangible assets.

Legislative Decree 138 of 13 August 2011 (covering Further urgent measures for financial stabilisation and growth), amended and converted by Law 148 of 14 September 2011. Particular mention should be made of the following:

- the standard rate of VAT rose from 20% to 21% for operations carried out as from 17 September 2011;
- new provisions relating to the rate and taxation of equity income and other types of income were introduced as from 1 January 2012. The most important measure was the change in the rates of withholdings at source for most types of income: the 12.5% and 27% rates were changed to 20%. However, the 20% rate applies to only a proportion of the interest, premiums and other income from bonds, including government bonds and bonds issued by White-List States and equivalent securities, in order to keep the previous rate of 12.50% unchanged. Yields on the forms of supplementary pension referred to in Legislative Decree 252/05 were excluded from this reform.

Legislative Decree 201 of 6 December 2011 (covering Urgent provisions for the expansion, fairness and consolidation of public finances), amended and converted by Law 214 of 22 December 2011. Particular mention should be made of the following:

- a deduction from income subject to IRES (corporation tax) of the 'notional yield' of 'new own capital' known as ACE (Aiuto alla Crescita Economica – Support for economic growth) was introduced with effect from the tax period ending 31 December 2011, in order to encourage businesses to use their own capital;
- with effect from the tax period ending 31 December 2012 the amount of IRAP based on employee and similar costs subject to IRAP will be deductible for the purposes of IRES, whilst the lump sum

deduction of 10% of IRAP referred to in Article 6 of Legislative Decree 185/08 will apply only if the taxable base includes interest payable and similar charges;

- the tax realignment/recognition of the increased carrying amounts of majority shareholdings introduced by Legislative Decree 98/2011 was also extended to operations carried out during the tax period ending 31 December 2011;
- with effect from 1 January 2012 there was an increase in stamp duty on statements sent to customers by banks, post office current account statements and bank and post office savings account statements. In addition the stamp duty due on communications to customers relating to products and financial instruments that do not require a deposit to be made, excluding pension funds and health funds (no longer due at a flat rate), was changed as follows: for each copy relating to the total market value or, failing that, relating to the nominal or repayment value, 0.1 per cent per year for 2012 and 0.15 per cent with effect from 2013.

Legislative Decree 216 of 29 December 2011, covering Extension of terms laid down in the 'Milleproroghe Decree', amended and converted by Law 14 of 24 February 2012. This decree revokes Article 15 paras 14 et seq. of Legislative Decree 185 of 2008 with effect from 1 January 2012 and contains important provisions for the insurance sector. As a result of these changes a specific guideline was introduced, which provides for the following:

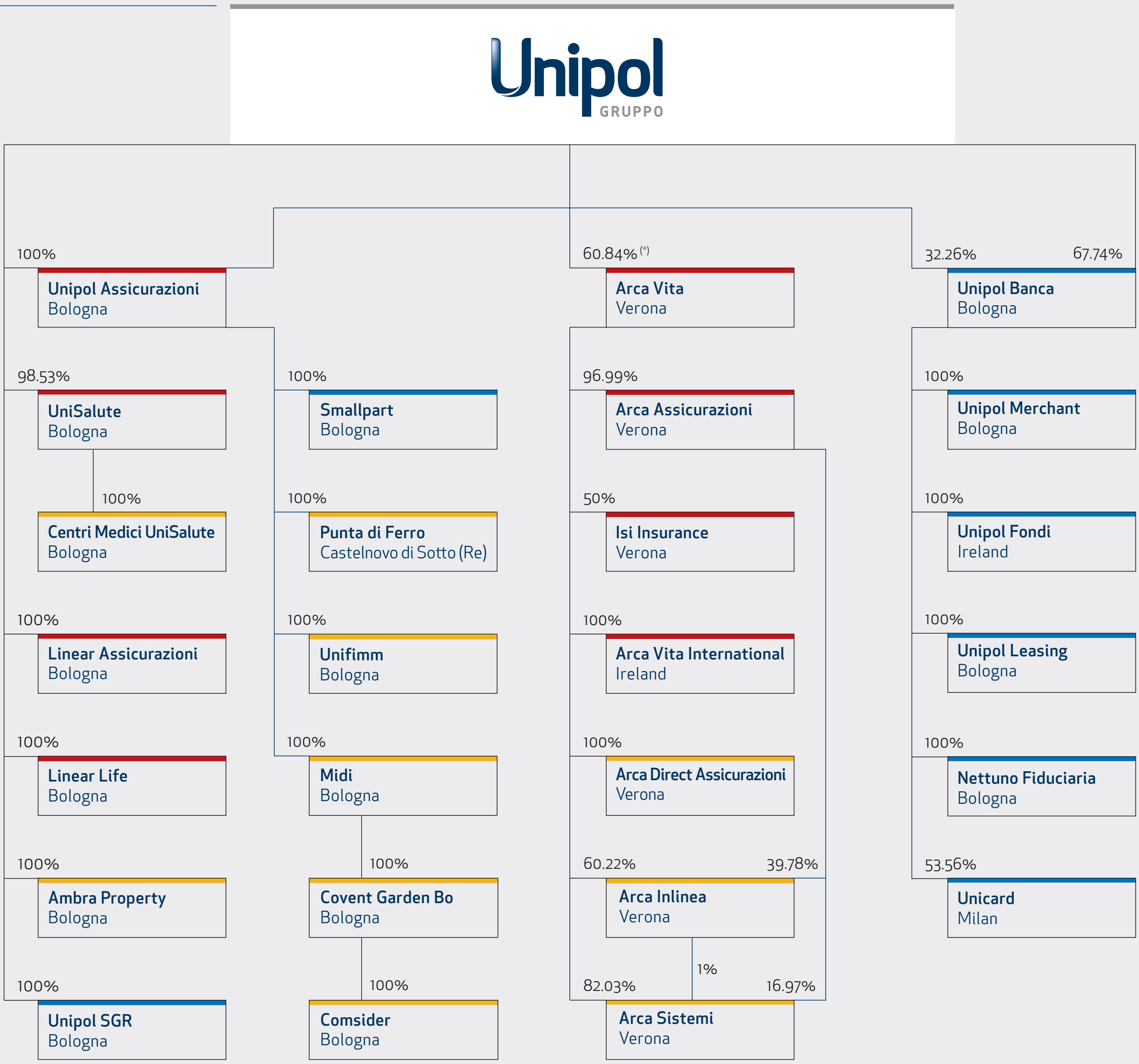
- as from 2012 and until the provisions implementing Directive 2009/138/EC come into effect, insurance companies may value debt securities issued or guaranteed by States in the European Union not intended to remain part of their equity in the long term on the basis of the subscription value shown in the most recent approved financial statements or, if available, in the most recent approved interim report rather than at the value that can be deduced from market trend, with the exception of permanent impairment losses;
- businesses that make use of this facility must allocate the difference between the values recorded by applying those provisions and the market values at the end of the year, net of the appropriate tax charge, to non-available retained earnings (or tie up available retained earnings or future earnings);
- in order to ensure that a sufficient level of solvency is maintained, as from 2012 and until the provisions implementing Directive 2009/138/EC come into effect businesses may take account of the value of debt securities issued or guaranteed by EU States intended to remain part of their equity in the long term recognised in the individual financial statements of Italian insurance companies. The new provisions will form part of an ISVAP ruling.

Legislative Decree 1 of 24 January 2012, the 'Deregulation Decree' contains various provisions affecting the insurance sector covering claims for damages arising out of road traffic accidents, combating MV TPL insurance fraud and marketing insurance products.

Management Report

Consolidation scope

31 December 2011
Line-by-line method



Holding

Insurance companies

Property and others

Financial services and banks

(*) Including treasury shares in the portfolio held by Arca Vita Spa, the percentage is 61.58%

UGF Private Equity SGR in liquidation, a 100% subsidiary of Unipol Banca, was cancelled from the Register of Companies on 3/2/2012

GROUP HIGHLIGHTS

Amounts in €m	31/12/2011	31/12/2010
Non-Life direct insurance premiums	4,333	4,243
% variation	*2.1*	*-0.4*
Life direct insurance premiums	4,588	4,734
% variation	*-3.1*	*-9.7*
of which Life investment products	*142*	*78*
Total direct insurance premiums	8,921	8,976
% variation	*-0.6*	*-5.5*
Banking business - direct customer deposits	9,583	9,298
% variation	*3.1*	*-2.5*
Annual Premium Equivalent (APE) Life business - Group share	248	358
% variation (1)	*-30.8*	*-4.4*
Loss ratio - Non-Life - direct business	73.2%	80.0%
Expense ratio - Non-Life - direct business	22.3%	22.1%
Combined ratio - Non-Life - direct business	95.5%	102.1%
Net gains on financial instruments (excl. assets/liabilities at fair value)	834	1,138
% variation	*-26.7*	*676.2*
Consolidated profit/(loss) for the year (2)	-94	71
Comprehensive income (expense)	-564	-212
Investment and cash and cash equivalents	34,167	34,654
% variation	*-1.4*	*-14.5*
Technical provisions	22,039	22,246
% variation	*-0.9*	*-21.4*
Financial liabilities	12,829	12,653
% variation	*1.4*	*3.7*
Equity attributable to the owners of the Parent	3,078	3,648
% variation	*-15.6*	*1.8*
No. staff	7,638	7,529

(1) On a like-for-like basis and without taking into account Bnl Vita's contribution, there was an +8.3% increase in APE at 31/12/11

(2) The consolidated profit/(loss) for the year was negatively affected to the tune of €320m in impairment losses on goodwill

The variations in the data compared with 31 December 2010 are influenced:

- positively by the consolidation of Arca Vita (Arca Group), which took place at the end of the first half of 2010, and
- negatively by the sale of Bnl Vita, which took place at the end of the third quarter of 2011.

Alternative performance indicators

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

Annual Premium Equivalent - APE (*)

Amounts in €m	Dec-11	Sep-11	Jun-11	Dec-10
Recurring annual premiums (pro quota)	52	30	24	43
Single premiums (pro quota)	1,955	1,453	1,828	1,855
Total new business - Life (pro quota)	2,007	1,483	1,852	1,898
pro quota APE	248	175	207	229
% var.	*8.3%*	*-51.1%*	*19.9%*	*-4.4%*

(*) The APE for 31/12/2011 and 31/12/2010 do not take account of Bnl Vita's contribution

Loss ratio (direct business and gross of reinsurance) - Non-Life sector

Amounts in €m	Dec-11	Sep-11	Jun-11	Dec-10
Direct premiums (gross of reinsurance)	4,361	3,246	2,181	4,257
Direct claims (gross of reinsurance)	3,193	2,454	1,673	3,407
Loss ratio	73.2%	75.6%	76.7%	80%

Expense ratio (direct business and gross of reinsurance) - Non-Life sector

Amounts in €m	Dec-11	Sep-11	Jun-11	Dec-10
Direct premiums (gross of reinsurance)	4,333	3,071	2,197	4,243
Direct operating expenses (gross of reinsurance)	965	691	489	937
Expense ratio	22.3%	22.5%	22.3%	22.1%

Combined ratio (direct business and gross of reinsurance) - Non-Life sector

	Dec-11	Sep-11	Jun-11	Dec-10
Loss ratio	73.2%	75.6%	76.7%	80.0%
Expense ratio	22.3%	22.5%	22.3%	22.1%
Combined ratio	95.5%	98.1%	99.0%	102.1%

The new Life business expressed in APE is a measurement of the volume of business relating to new policies and corresponds to the sum of periodic premiums of new production practices and one tenth of single premiums. This type of indicator is used to assess the Life business jointly with the in-force value and the new Life business value of the Group.

The loss ratio is the principal indicator of the profitability of an insurance company's operations in the Non-Life sector. It is the ratio between the cost of direct claims for the period and direct premiums for the period.

The expense ratio is a percentage indicator for the ratio between operating expenses (excluding commissions from indirect insurance business) and direct written premiums.

The combined ratio is an indicator that measures the balance of Non-Life technical account and is made up of the sum of the loss ratio and the expense ratio.

Management report

Group business performance during the year

2011 was characterised by good performance in insurance business, with Non-Life business already exceeding the technical marginality targets for 2012 laid down in the Business Plan. Despite the markets continuing to be not particularly favourable to economic growth, results were positive in Life business too, with a satisfactory result in terms of premiums, and in banking, where the focus was on the core areas of retail and SMEs.

To be specific, as a result of underwriting policies remaining very selective and the rationalisation of the network of agencies the Non-Life business achieved premiums of €4,333m in 2011 (+2.1% compared with 31/12/2010), €2,623m in MV classes and €1,710m in non-MV classes. Without the contribution of the Arca Group, which was consolidated on 1 July 2010, premiums would have been €4,181m (+1.1% compared with 31/12/2010). Arca Assicurazioni had already stopped using the sales network of multi-firm agencies altogether to concentrate on its mission within the Group of increasing its more strategic and productive income from banking channels. In MV business, which was up 2.7% on 2010, Linear, which specialises in selling MV insurance direct (telephone/internet), did particularly well, with premiums of €201m, +17.8% over the previous year. In non-MV business, where premiums were up 1.2%, UniSalute's contribution to premiums of €211m was noteworthy, +19.4% compared with 2010. This company specialises in Health and continued to develop its special business model successfully.
As for the loss ratio, the improvement in business margins that started in 2010 continued in 2011 as a result of the measures contained the 2010-2012 Business Plan being put into effect. To be specific, the significant technical improvement in 2011 was also helped by a fall in claims frequency in the MV TPL class and by the improvement in the loss ratio in non-MV classes, where the ongoing work to rationalise the portfolio was accompanied by a favourable trend in losses caused by bad weather and natural disasters. Against this background, at the end of 2011 the Group recorded a loss ratio for direct business of 73.2%, an improvement of 6.8 points compared with 80% in 2010.
The expense ratio for direct business was 22.3% compared with 22.1% at 31 December 2010, slightly up owing to a greater incidence of variable commissions linked to the improvement in technical business, whilst the incidence of operating costs on premiums was the same as the previous year thanks to measures to keep them down, which offset inflation, the increase in VAT and the rise in staffing costs.
Therefore at the end of 2011 the Group recorded a combined ratio for direct business of 95.5%, more than six points lower than the 102.1% recorded in December 2010. This was an excellent result and even better than the 97.5% target laid down in the Business Plan for 2012 and made it possible to obtain an operating profit for normal business operations of €386m compared with the target of €325m laid down for 2012 in the Business Plan.

In Life business, the required permits having been obtained, the transfer of 51% of Bnl Vita's share capital to Cardif Assicurazioni S.p.A. (BNP Paribas Group) for €325m, paid in cash, was completed on 29 September 2011. Bnl Vita was consolidated for financial purposes until the third quarter of 2011, under IAS 27, contributing €2,112m to the Unipol Group's consolidated income in 2011 but making an insignificant contribution to the consolidated loss for the year.

Under the Unipol Group's new structure, i.e. excluding Bnl Vita's contribution, Life business achieved direct premiums of €2,476m, up 9.6% on 2010, benefiting from the contribution of Arca Vita and Arca Vita International, which were not consolidated in the first six months of 2010. The two companies' direct premiums totalled €646m, in line with expectations based on the contractual agreements entered into when the controlling investment in Arca Vita was acquired. Unipol Assicurazioni's Life premiums amounted to €1,829m, slightly down on the €1,907m achieved in 2010 (-4.1%) but decidedly better than the Eurozone as a whole, where, in a generally unfavourable climate, there was a huge fall in total Life premiums (-19% in the first nine months of 2011). As a result of the above, under the new Group structure, which excludes Bnl Vita, new business in terms of pro quota APE was €248m at 31 December 2011 (€67m of it contributed by the companies in the Arca Group) compared with €229m in 2010.

In banking business, the continuing unfavourable macroeconomic situation meant that the maximum care had to be taken when managing cash holdings and granting and managing loans. Guidelines were mainly aimed at balancing equity, refocusing on retail and small businesses, which represent Unipol Banca's core business, and applying pricing policies that guarantee profitability. All this led to a 3.1% increase in direct customer deposits compared with 2010 and a 3% drop in total lending to customers as a result of the decrease in the corporate segment, whilst the core business was up once again.
In view of the structural change in the national and international economic situation and consequently of the Bank's prospects for generating value, the impairment test on the €419m of goodwill recognised in Unipol Banca's separate financial statements as a result of past acquisitions of bank branches revealed the need for an impairment loss of €300m, which had a negative effect on the income statement, net of tax, of approximately €201m. The impairment loss did not affect the regulatory capital, though the deduction of goodwill did. However, the tax effect was positive. Partly thanks to a share capital increase of €100m carried out in December 2011, more than 8% of the Bank's share capital was consolidated Tier I at the end of 2011.
It should also be noted that the entire €119m of the goodwill arising from consolidation of the investment in Unipol Banca held by Unipol Assicurazioni (Non-Life and Life business) and Unipol was fully impaired.

Starting in the second half of the year management of financial assets was affected by the worsening of the sovereign debt crisis in several Eurozone countries and in particular by the fact that Italy became caught up in it. The repercussions were reflected in a rise in rates of return on debt securities and a steep drop in rates on international share markets. This led to inevitable impairment losses on the assets in the Unipol Group portfolio, affecting the equity reserve for financial assets classified as available for sale and those recognised through profit or loss in the case of securities recognised at fair value. Despite the effects of the crisis in the financial markets, under the new Group structure asset management achieved a gross profit of approximately 3.2% during the period in question.

Other information

The Group rebranded itself on 1 July 2011, the aim being to focus on the traditional name 'Unipol'. The decision was supported by the fact that this brand is known throughout Italy and is valued and trusted by the market, thus making it a strategic asset for the Group. The abbreviation UGF, which had formed part of the name of several companies in the Group, was replaced with 'Unipol'. All the brand names of the companies in the Group were also changed and are now identified by the same immediately recognisable design, which promotes a coordinated and distinctive corporate identity.
At the same time Unipol Assicurazioni abandoned the organisational model that split it into the Unipol Division and the Aurora Division.

On 5 October 2011, ISVAP entered the **'Gruppo Assicurativo Unipol'** in the Register of Insurance Groups (referred to in Article 85 of Legislative Decree 209/2005 and ISVAP Ruling 15/2008). Unipol Gruppo Finanziario thus took on the role of Insurance Parent.

In accordance with the provisions of Article 23, paras 12 to 15, of Legislative Decree 98/2011 (converted by Law 111/2011), on 30 November 2011, Unipol Gruppo Finanziario and the subsidiaries Unipol Assicurazioni and Unipol Banca realigned the premium on their controlling investments to the goodwill recognised in the consolidated financial statements at 31 December 2010 and paid €247m in substitute tax based on realigned taxable goodwill of €1,545m. In return a €432m saving on future taxation was expected and was recognised as deferred tax assets.

The first polyclinic belonging to Centri Medici UniSalute (a wholly-owned subsidiary of UniSalute) was opened in Bologna on 26 November 2011 and will be followed over the next few years by other medical centres in major cities including Rome and Milan.
The centre provides a sample collection service for laboratory testing, dentistry, physiotherapy, rehabilitation, ultrasonography and out-patients' facilities for examinations by specialists, ensuring that quality services at reasonable prices are accessible to everyone, not only UniSalute policyholders. The medical teams that work at the centre include specialists from the main hospital and university departments in Bologna, Modena and Ferrara, selected for their expertise and proven experience.

Application of ISVAP Rulings 28/2009 and 37/2011 in 2011

During 2011 the insurance companies in the Group took advantage of the facility provided for by ISVAP Ruling 28/2009 (amended and supplemented by ISVAP Ruling 2934 of 27/9/2011) on implementing the provisions for the criteria for valuing asset items not intended to remain in the company's equity in the long term introduced by Law Decree 185/2008 and reiterated in subsequent years by ministerial decrees. The decree provides that, as a temporary exception, in order to avoid aggravating the current financial crisis, financial assets that have suffered no permanent impairment loss and are classified as short term may be valued at the prices recognised in the most recent approved interim report instead of at the lower current amount on the financial markets at the end of the year.
Companies that make use of this facility must set up a non-available income-related reserve equal to the amount of the impairment losses not recognised, net of the tax effect.

The ruling establishes that the equity amounts resulting from applying these more favourable measurement criteria are valid for supervisory purposes and lays down several precautionary measures to preserve companies' equity structure.

The ruling also provides that the non-available income-related reserve recognised in the separate financial statements may be used as part of the holding company's solvency margin, within the limits provided for in Article 7.
The Group also applied the provisions of ISVAP Ruling 37/2011 (amended and supplemented by ISVAP Ruling 2934 of 27/9/2011) which, as an exception to the rules on the prudent supervision of insurance groups, allows any capital losses accumulated on bonds issued or guaranteed by EU States classified as long-term securities in the companies' separate financial statements and as Available-for-sale financial assets in the Group's IFRS consolidated financial statements to be fully impaired for the sole purposes of prudent supervision.
However, the total increase in the available margin as a result of the application of ISVAP Rulings 28 and 37 may not exceed 30% of the available margin or of the margin required, whichever is the lower.

The application of these Rulings led to a €337m increase in the elements making up the solvency margin of the partent company, Unipol Gruppo Finanziario.

Excluding the effects of impairment losses on goodwill on the banking business mentioned above the Unipol Group ended 2011 with a total consolidated profit of €226m compared with a loss of €3m in 2010 under the new structure (i.e. excluding Bnl Vita). It will also be recalled that 2011 was affected by the increase in the rates of IRAP for banks and insurance companies introduced during the year, which meant that approximately €28m more tax had to be paid. Taking account of Unipol Banca's €201m impairment loss on the goodwill of the bank branches and the consequent impairment of the entire €119m by which the goodwill recognised in the consolidated financial statements exceeded investment in the company, the consolidated result for 2011 fell from €226m to –€94m.

The consolidated solvency ratio improved, being approximately 1.4 times the statutory requirements by the end of the year. The benefit of applying ISVAP's rulings on the reintroduction of Law Decree 185/2008 ('Anticrisis Decree') was approximately 15 percentage points, which indicates that, even net of these effects, the solvency ratio would have been 1.25 times the minimum requirement despite the poor performance of the financial markets.

Salient aspects of business operations

The consolidated financial statements at 31 December 2011 closed with a loss for the year of €94m owing to €320m of impairment losses on goodwill (net of taxation).
Without these impairment losses there would have been a **consolidated net profit of €226m at 31 December 2011** (€71m in 2010) thanks in particular to the contribution made by Non-Life business, which was €213m more than in the previous year.

Figures calculated on a like-for-like basis
The variations in the main figures calculated on a like-for-like basis compared with the corresponding figures for the previous year take account of the following adjustments:
– the values at 31 December 2011 exclude the Arca Group's figures for the first half of 2011 and Bnl Vita's figures for the period before it was sold, i.e. 1 January – 30 September 2011;
– the values at 31 December 2010 exclude Bnl Vita's figures (1/1-31/12/2010).

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

- **direct insurance premiums**, gross of ceded premiums, were €8,921m (€8,976m in 2010, -0.6%). Non-Life direct premiums amounted to €4,333m (+2.1%) and Life direct premiums €4,588m (-3.1%) €142m of which related to Life investment products (€78m in 2010). On a like-for-like basis the variation in direct premiums was -3.3% (stable in Non-Life business and -9.6% in Life business);
- **premiums earned**, net of ceded premiums, amounted to €8,679m (-1.4%), €4,251m of which was from Non-Life business (+2.2%) and €4,428m from Life business (-4.6%). On a like-for-like basis the overall variation was -2.9%;
- **bank direct customer deposits** amounted to €9,583m (+3.1%);
- **net charges relating to claims**, net of ceded premiums, amounted to €7,943m (-5.6%), €3,176m of which was from Non-Life business (-6%) and €4,768m from Life business (-5.4%), and included €100m of net charges on financial assets and liabilities at fair value (net gains of €55m in 2010). On a like-for-like basis the net charges relating to claims were -7.8%;
- the **loss ratio** in Non-Life business was 73.2%, an improvement of 6.8 points compared with 2010 (80% in 2010);
- **operating expenses**, net of commissions received from reinsurers, amounted to €1,383m (€1,364m in 2010, +1.4%); in Non-Life business they amounted to €947m (€926m in 2010) and in Life business they were €149m (€153m in 2010). On a like-for-like basis the overall variation was +0.4%;
- €300m of the €419m of **impairment losses on Intangible assets with an indefinite useful life** was attributable to goodwill paid by Unipol Banca on acquiring bank branches and €119m to goodwill arising from consolidation of the investment in Unipol Banca;
- **net gains on investments and financial income** from financial assets and liabilities (excluding net gains on financial assets and liabilities at fair value) amounted to €834m (€1,138m in 2010, -26.7%). On a like-for-like basis the variation was -26%;

- The **gross result** was a **loss of €267m** (gross profit of €170m in 2010). Taxation of €173m for the period was positive and benefited from the positive net effect of €184m of deferred tax assets recognised following the tax adjustment on goodwill, whilst €28m more tax (current and deferred liabilities) had to be paid owing to the increase in the rates of IRAP during 2011. Net of the €14m profit attributable to non-controlling interests **the Group's result** at 31 December 2011 was a loss of **€108m** (€32m profit in 2010);
- the consolidated profit for the fourth quarter of 2011 alone was negative to the tune of €166m (the fourth quarter of 2010 having closed with a profit of €26m);
- the comprehensive result was a loss of €564m (-€212m in 2010), because of the decrease in the reserve for gains or losses on available-for-sale financial assets, which was affected by the depreciation of Italian government bonds;
- **investments and cash and cash equivalents** amounted to €34,167m (€34,654m in 2010, -1.4%);
- **technical provisions** and **financial liabilities** amounted to €34,868m. The corresponding amount at 31 December 2010 was €34,899m (-0.1%).

Below is a summary of the consolidated income statement for 31 December 2011, broken down by business segment: insurance (Non-Life and Life), banking, and holding and services compared with the figures at 31 December 2010.

CONDENSED CONSOLIDATED INCOME STATEMENT BROKEN DOWN BY BUSINESS SEGMENT

	NON-LIFE BUSINESS			LIFE BUSINESS			INSURANCE SECTOR			BANKING SECTOR			Holding and Services SECTOR			Intersegment eliminations		CONSOLIDATED TOTAL		
Amounts in €m	Dec-11	Dec-10	*% var.*	Dec-11	Dec-10	*% var.*	Dec-11	Dec-10	*% var.*	Dec-11	Dec-10	*% var.*	Dec-11	Dec-10	*% var.*	Dec-11	Dec-10	Dec-11	Dec-10	*% var.*
Net premiums	4,251	4,158	*2.2*	4,428	4,640	*-4.6*	8,679	8,798	*-1.4*									8,679	8,798	*-1.4*
Net commissions	0	0		10	8	*23.7*	11	8	*27.4*	121	119	*1.7*	2	0		-32	-31	103	97	*6.2*
Financial income/expense (excl. assets/liabilities at fair value)	210	171	*22.8*	652	816	*-20.1*	862	987	*-12.7*	156	166	*-6.6*	-107	132		-76	-148	834	1,138	*-26.7*
Net interest income/(expense)	*200*	*149*		*748*	*660*		*948*	*810*		*202*	*209*		*-17*	*-21*				*1,133*	*997*	
Other income/expense	*38*	*36*		*49*	*33*		*87*	*69*		*0*	*1*		*-9*	*137*		*-24*	*-148*	*55*	*60*	
Realised gains and losses	*12*	*32*		*68*	*188*		*80*	*221*		*8*	*13*		*-81*	*17*				*7*	*250*	
Unrealised gains and losses	*-40*	*-47*		*-214*	*-65*		*-253*	*-112*		*-56*	*-57*		*0*	*0*		*-52*	*0*	*-362*	*-169*	
Net charges relating to claims	-3,176	-3,379	*-6.0*	-4,768	-5,038	*-5.4*	-7,943	-8,418	*-5.6*									-7,943	-8,418	*-5.6*
Operating expenses	-947	-926	*2.3*	-149	-153	*-3.1*	-1,096	-1,079	*1.6*	-265	-266	*-0.4*	-86	-83	*4.2*	64	64	-1,383	-1,364	*1.4*
Commissions and other acquisition costs	*-796*	*-786*	*1.4*	*-79*	*-90*	*-11.9*	*-876*	*-876*	*0.0*							*11*	*10*	*-865*	*-866*	*-0.1*
Other expenses	*-151*	*-140*	*7.9*	*-69*	*-63*	*9.4*	*-220*	*-203*	*8.4*	*-265*	*-266*	*-0.4*	*-86*	*-83*	*4.2*	*53*	*54*	*-518*	*-498*	*4.2*
Other income/expense	-77	-44	*74.3*	-55	-45	*21.9*	-132	-89	*47.9*	-292	1		-35	35		-97	-28	-557	-81	*583.6*
Pre-tax profit/(loss)	260	-21		120	228	*-47.6*	380	208	*83.2*	-280	21		-226	85		-141	-143	-267	170	
Income tax																		173	-99	
Consolidated profit (loss) for the year																		-94	71	
Profit (loss) attributable to the owners of the Parent																		*-108*	*32*	
Profit (loss) attributable to non-controlling interests																		*14*	*39*	

Insurance business

Premiums and investment products

Total premiums (direct and indirect premiums and investment products) at 31 December 2011 amounted to €8,948m, a decrease of 0.6% compared with 31 December 2010 (-3.3% on a like-for-like basis). Life business recorded a decrease of 3.1% (-9.7% on a like-for-like basis), while Non-Life business rose 2.1% (+0.1% on a like-for-like basis).
Bnl Vita, which has been sold, contributed €2,112m in premiums, realised in the first nine months of the year (at 31/12/2010 Bnl Vita premiums amounted to €2,475m).

Direct premiums amounted to €8,921m (-0.6% compared with 31/12/2010, -3.3% on a like-for-like basis), €8,779m of which was premiums (€8,898m at 31/12/2010) and €142m investment products (€78m at 31/12/2010).

Indirect premiums amounted to €27m (-1% compared with 31/12/2010), €26m of which was Non-Life premiums (€24m at 31/12/2010) and €2m Life premiums (€3m at 31/12/2010).

Consolidated premiums

Amounts in €m	31/12/2011	*% comp.*	31/12/2010	*% comp.*	*% var.*
Non-Life direct premiums	4,333		4,243		2.1
Non-Life indirect premiums	26		24		5.2
Total Non-Life premiums	4,359	**48.7**	4,267	**47.4**	**2.1**
Life direct premiums	4,446		4,655		-4.5
Life indirect premiums	2		3		-49.1
Total Life premiums	4,448	**49.7**	4,658	**51.7**	**-4.5**
Total Life investment products	142	1.6	78	0.9	80.7
Total Life business premiums	4,590	**51.3**	4,737	**52.6**	**-3.1**
Total premiums	8,948	**100.0**	9,004	**100.0**	**-0.6**

In compliance with the requirements of IFRS4 (presence of a significant insurance risk) all the Non-Life premiums of the companies in the Group were classified as insurance premiums.

As regards Life business, investment products at 31 December 2011 worth €142m, related to Class III (unit- and index-linked policies), Class V (capitalisation insurance) and Class VI (pension funds).

Almost all premiums were for insurance contracts subscribed in Italy whilst €96m of investment products were for agreements subscribed abroad by the subsidiary Arca Vita International.

Premiums for the final quarter alone were worth €1,909m (€2,589m in the final quarter of 2010; €2,071m excluding Bnl Vita premiums in the final quarter of 2010).

Life business

Life business premiums, direct and indirect, totalled €4,590m, a decrease of 3.1% compared with 31 December 2010 (-9.7% on a like-for-like basis).

Direct premiums amounted to €4,588m, a decrease of 3.1% (-9.6% on a like-for-like basis) and are broken down as follows:

Life business direct premiums					
Amounts in €m	31/12/2011	*% comp.*	31/12/2010	*% comp.*	*% var.*
Premiums					
I - Whole and term life insurance	3,244	*73.0*	3,454	*74.2*	*-6.1*
III - Unit-linked/index-linked policies	471	*10.6*	379	*8.1*	*24.5*
V - Capitalisation insurance	330	*7.4*	423	*9.1*	*-21.9*
VI - Pension funds	401	*9.0*	399	*8.6*	*0.3*
Total Life business premiums	4,446	***100.0***	4,655	***100.0***	*-4.5*
Investment products					
III - Unit-linked/index-linked policies	126	*88.9*	65	*83.2*	*92.9*
V - Capitalisation insurance	3	*2.1*	0	*0.0*	
VI - Pension funds	13	*9.0*	13	*16.8*	*-2.9*
Total Life investment products	142	***100.0***	78	***100.0***	***80.7***
Total premiums					
I - Whole and term life insurance	3,244	*70.7*	3,454	*73.0*	*-6.1*
III - Unit-linked/index-linked policies	597	*13.0*	444	*9.4*	*34.6*
V - Capitalisation insurance	333	*7.3*	423	*8.9*	*-21.2*
VI - Pension funds	413	*9.0*	413	*8.7*	*0.2*
Total Life business direct premiums	4,588	***100.0***	4,734	***100.0***	***-3.1***

Life business direct premiums amounted to €4,446m at 31 December 2011, whilst investment products amounted to €142m, €119m of which related to the Arca Group. At 31 December 2010 Life premiums had been €4,655m and investment products €78m.

New business in terms of APE, net of non-controlling interests, amounted to €248m at 31 December 2011 (+8.3% on a like-for-like basis if Bnl Vita's contribution is not taken into account).
The contribution to the Group by Unipol Assicurazioni was €206m (-0.3%), with the amount for the Arca Group being €41m and a lesser contribution by Linear Life (€0.1m).

In view of the severe financial crisis that affected Icelandic banks, including Glitnir Banki HF, issuer of the securities underlying the 'Performance 6%', 'Uninvest Concerto 25' and 'Uninvest Concerto 25 issue II' index-linked policies, during the first quarter of 2011 the subsidiary Unipol Assicurazioni decided to protect the interests of its customers who had taken out these policies should Glitnir not be able to fulfil its obligations in whole or in part once the liquidation process was complete. To be specific, Unipol Assicurazioni guaranteed that policyholders would recoup their original investment, by transforming the original policy, though only with the explicit consent of the contracting party, by modifying the terms of the contract so that it could be surrendered as from 15 March 2018 (before which recoupment of the investment was guaranteed only if the policyholder died). The first tranche of policies matured in June and

97.8% of the policyholders agreed to the transformation. The second tranche of policies matured in November and 98% of the policyholders agreed to the transformation.

Through its subsidiary Unipol Assicurazioni, Unipol Gruppo Finanziario continued to be at the top of the national ranking in occupational pension funds by both number of mandates managed and level of funds. Unipol Assicurazioni managed a total of 24 occupational pension fund mandates at 31 December 2011 (13 of them for accounts 'with guaranteed capital and/or minimum return'). Resources under management totalled €2,690m (€1,557m with guaranteed capital). Funds managed at 31 December 2010 had amounted to €2,371m, €1,333m of it with guaranteed capital.
At the end of 2011 Unipol Assicurazioni was awarded the mandate to manage the funds of the Istituto dell'Assegno Vitalizio della Valle d'Aosta as from February 2012.

In open-ended pension funds business the Unipol Futuro, Unipol Previdenza, Unipol Insieme and Aurora Previdenza funds had a total of €271m and 22,178 members by 31 December 2011 (€251m and 22,429 members at 31/12/2010). The approximately 800 members of the BNL Pensione Sicura open-ended pension fund left on 30 September 2011 as a result of the sale of Bnl Vita, the premiums concerned amounting to approximately €5m.

The traditional composite company **Unipol Assicurazioni** achieved Life direct premiums of €1,829m, a decrease of 4.1% and breakdown by class is shown in the following table:

Unipol Assicurazioni - Life business direct premiums

	Amounts in €m	31/12/2011	31/12/2010	*% var.*	*% comp.*
I	Whole and term life insurance	974	1,135	*-14.2*	*53.3*
III	Unit-linked/index-linked policies	132	5		*7.2*
	- of which investment products	*7*	*5*		
V	Capitalisation insurance	310	356	*-12.8*	*17.0*
	- of which investment products	*3*	*0*		
VI	Pension funds	412	411	*0.3*	*22.6*
	- of which investment products	*13*	*13*		
Total Life business		1,829	1,907	***-4.1***	***100.0***
- of which investment products		***23***	***18***	***26.5***	

Income from Life policies obtained through branches of Unipol Banca was €211m by 31 December 2011 (€210m at 31/12/2010), €51m of it for 'ASSICONTO', the product placed by the network of agencies.

The **Arca Group** Life companies (Arca Vita and Arca Vita International) had direct premiums of €646m at 31 December 2011, 27.3% less than at 31 December 2010. Premiums amounted to €527m (€677m at 31/12/2010) whilst investment products totalled €119m (€210m at 31/12/2010). The drop in premiums in 2011 was partly due to the general trend the Life market, which fell compared with 2010, but it will be recalled that the Arca Group companies had achieved an exceptional level of Life premiums in 2010 (+86%).

On 1 January 2011, as part of the strategic repositioning project undertaken in order to take advantage of synergies with Linear, **Linear Life** (formerly Navale Vita), which already sold Non-Life policies online, became the company in the Group specialising in selling Life policies directly online but had not achieved a significant level of premiums by the end of the year. €1m of premiums had been achieved by 31 December 2011.

Non-Life business

Total premiums (direct and indirect) in the Non-Life portfolio amounted to €4,359m at 31 December 2010 (+2.1% and+ 0.1% on a like-for-like basis).

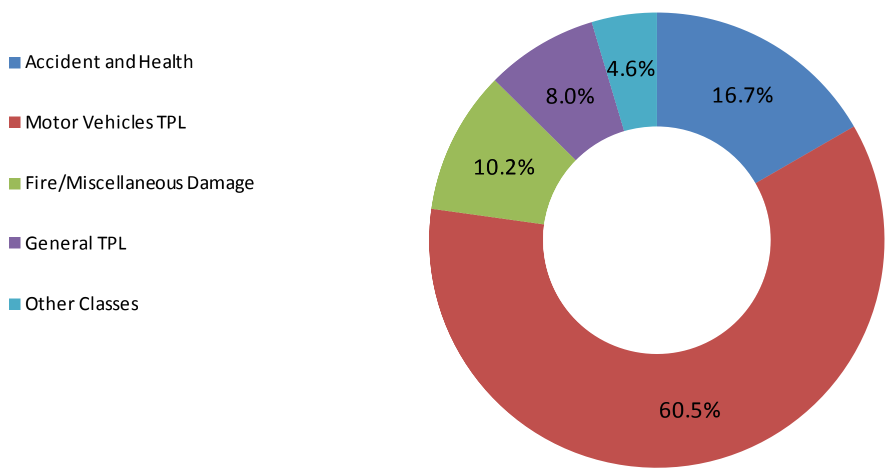
Direct business premiums alone amounted to €4,333m (+2.1%). Indirect business premiums amounted to €26m (€24m in 2010). The breakdown of direct business relating to the main classes compared with 31 December 2010 is set out in the following table:

Non-Life business direct premiums

Amounts in €m	31/12/2011	*% comp.*	31/12/2010	*% comp.*	*% var.*
Motor vehicles - TPL and sea, lake and river (classes 10 and 12)	2,274		2,210		*2.9*
Motor vehicles - Property damage (class 3)	349		343		*1.7*
Total premiums - Motor vehicles	2,623	*60.5*	2,553	*60.2*	*2.7*
Accident and Health (classes 1 and 2)	722		694		*4.1*
Fire and Miscellaneous damage (classes 8 and 9)	441		438		*0.7*
General third-party liability (class 13)	346		350		*-1.2*
Other classes	200		207		*-3.3*
Total premiums - Non-Motor vehicles	1,710	*39.5*	1,689	*39.8*	*1.2*
Total Non-Life premiums	4,333	*100.0*	4,243	*100.0*	*2.1*

On a like-for-like basis there was an increase in the MV classes of 0.6% and a decrease of 0.9% in non-MV classes.

% breakdown of Non-Life direct business premiums



Direct premiums for the composite company **Unipol Assicurazioni**, which as from 1 January 2011 included Navale Assicurazioni's insurance business, amounted to €3,769m (a pro forma drop of -0.5% if Navale Assicurazioni's 2010 premiums are taken into account). Premiums were affected by the company's selective policies, in particular relating to major portfolio divestments involving the Navale division as part of the reorganisation of the sales network begun during 2010. Excluding the Navale division, premiums increased by 0.9%.

Unipol Assicurazioni - Non-Life direct premiums

Amounts in €m	31/12/2011	*% comp.*	31/12/2010 proforma	*% comp.*	*% var.*
Motor vehicles - TPL and sea, lake and river (classes 10 and 12)	2,031		2,010		*1.0*
Motor vehicles - Property damage (class 3)	317		315		*0.6*
Total premiums - Motor vehicles	2,348	*62.3*	2,325	*61.4*	*1.0*
Accident and Health (classes 1 and 2)	477		496		*-3.8*
Fire and Miscellaneous damage (classes 8 and 9)	425		429		*-1.0*
General third-party liability (class 13)	339		346		*-2.2*
Other classes	181		192		*-6.0*
Total premiums - Non-Motor vehicles	1,421	*37.7*	1,464	*38.6*	*-2.9*
Total Non-Life premiums	3,769	*100.0*	3,789	*100.0*	*-0.5*

The Non-Life companies in the Arca Group (Arca Assicurazioni and ISI Insurance) had direct premiums of €152m at 31 December 2011(-32.7%). Business was affected by the reorganisation of the sales channels, in particular the divestment of Arca Assicurazioni's agencies, and by the consequent rebalancing of the MV TPL portfolio.
Agency business was down 67.2% during the year whilst banking business was up 12.3%.

The specialist companies (Linear and UniSalute) recognised direct premiums of €412m (+18.6%).
Linear achieved direct premiums of €201m, up 17.8% compared with 31 December 2010, owing to both the increase in the number of contracts and the rise in the average premium.
UniSalute achieved direct premiums of €211m, an increase of 19.4% compared with 31 December 2010. Amongst the new agreements in the portfolio in 2011 were those with Piaggio, Banca Intesa, Cassa Forense, Cassa Psicologi, Fondo delle Telecomunicazioni, Lamborghini and Goodyear.

Reinsurance

Inwards reinsurance

Total Non-Life and Life inwards reinsurance premiums amounted to €27m at 31 December 2011 (€28m in 2010) and was made up of €26m of premiums from Non-Life business (€24m in 2010) and €2m from Life business (€3m in 2010).

Inwards reinsurance

Amounts in €m	31/12/2011	*% comp.*	31/12/2010	*% comp.*	*% var.*
Non-Life premiums	26	*94.2*	24	*88.7*	*5.2*
Life premiums	2	*5.8*	3	*11.3*	*-49.1*
Total inwards reinsurance	27	***100.0***	28	***100.0***	*-1.0*

Outwards reinsurance

Group premiums ceded totalled €159m, compared with €146m ceded in the previous year, €139m of which came from Non-Life premiums ceded and €20m from Life premiums ceded.

Premiums ceded

Amounts in €m	31/12/2011	% comp.	31/12/2010	% comp.	% var.
Non-Life premiums	139	87.7	128	87.7	8.6
retention index - Non-Life business (%)	*96.8%*		*97.0%*		
Life premiums	20	12.3	18	12.3	8.5
retention index - Life business (%)	*99.6%*		*99.6%*		
Total premiums ceded	159	***100.0***	146	***100.0***	***8.6***
overall retention index (%)	*98.2%*		*98.4%*		

The retention index is the ratio between premiums retained (total direct and indirect premiums, net of premiums ceded) and total direct and indirect premiums. Investment products are excluded from the calculation.

The result of Non-Life cessions was positive for reinsurers, mainly owing to the particularly favourable trend in the cost of claims relating to previous years. The result of direct cessions in Life business was also positive for reinsurers.

In the case of risks underwritten in Non-Life business the strategy of having recourse to reinsurance in order to protect Group companies continued, with a system of automatic cover based on proportional types of cession continuing to be used in the case of technical risks in the Bond, Credit and Miscellaneous Damage businesses.
In accordance with market practice and procedures exposures in portfolios retained MV and General Third-Party Liability, Land vehicles – Own damage or loss, Accident, Goods in Transit and Miscellaneous Damages caused by Hail were mitigated by non-proportional types of cover.
In the case of risks retained in the Fire class, including those of a catastrophic nature, net exposure was reduced by acquiring specific non-proportional types of cover.

As for risks in Life business, Group undertakings were protected by adopting automatic proportional types of cover.

In order to reduce the counterparty risk to a minimum, the reinsurance of Group companies was placed with leading professional reinsurers rated very sound by the world's leading rating agencies.

Performance of the insurance business

The Group's insurance business ended with a **total pre-tax profit of €380m** (€208m in 2010), to which Life business contributed €120m (€228m in 2010) and Non-Life business €260m (-€21m in 2010).

In Life business €24.4m related to Bnl Vita's contribution, parallel to which were adjustments of €23.6m in the Holding and Services sector. Bnl Vita's contribution to the consolidated result at 31 December 2011 was €0.8m.

The Non-Life result showed the effectiveness of the policies of restructuring the portfolio, which are reflected in a reduction in the number of claims reported in almost all classes and a consequent improvement in technical performance.
The **loss ratio** for Non-Life direct business (i.e. the incidence of charges relating to claims for direct business on the corresponding premiums) fell from 80% in 2010 to 73.2% at 31 December 2011, owing to the steps taken to rebalance the portfolio and the improvement in the loss ratio because of the drop in claims for weather damage and major claims.

In the MV TPL class, to which the Direct Indemnity Agreement ('CARD') applies, 362,891 'fault' claims', i.e. total non-CARD claims (claims that did not come under the CARD Agreement) and debtor CARD claims (claims managed by other companies for which the policyholders of the Group companies were wholly or partly responsible), were reported for the companies in the Group in 2011, excluding those in the Arca Group, a drop of 18.9% compared with the same period of the previous year.
The 296,996 debtor CARD claims reported accounted for 82% of the total (debtor CARD + non-CARD). 299,475 handler CARD claims (claims dealt with by the companies in the Group for which their policyholders were not liable either in whole or in part) were reported, down 18.3%.
The settlement rate for these was 78.2%, an increase of 2.8 points compared with 2010, and the average amount paid out rose by 2.2%.

There was a total of 2,342,585 direct claims in the other classes, including those of the Arca Group on a like-for-like basis (for the second half of 2011 alone), an increase of 10.1%, mainly accounted for by the Health class (+19.1%), which was affected by the continuous expansion of UniSalute's policy portfolio. If Health is excluded the number of claims reported was 606,994, a drop of 9.5% compared with 2010.

Total **operating expenses** incurred at 31 December 2011 (acquisition and renewal commissions and other acquisition, asset management and administrative expenses), net of commissions received from reinsurers, totalled €1,096m (+1.6%, a change on a like-for-like basis substantially in line with the previous year).
The **expense ratio** for Non-Life direct business, that is the ratio of operating expenses including commissions received from reinsurers and investment management expenses to direct premiums, was slightly down (22.3%, compared with 22.1% in 2010).

The **combined ratio**, based on direct business, was 95.5% at 31 December 2011, in line with the objectives of the 2010-2012 Business Plan (102.1% in 2010). The indicator is derived from the sum of the loss ratio (73.2%) and expense ratio (22.3%).

Banking business

Banking business was made up of the Unipol Banca Banking Group and the not particularly significant contribution of Unipol SGR, which managed the assets of Unipol Funds, a composite fund registered in Ireland, on behalf of Unipol Fondi Limited (Dublin), which is wholly owned by Unipol Banca.

The banking Parent Unipol Banca became the sole owner of the subsidiary Unipol Merchant on 28 February 2011 when it bought 13.82% from 19 shareholders outside the Unipol Group for €16m to add to the 86.18% it already owned.
It should be mentioned that on 3 August 2011, under the project for the strategic repositioning of Unipol Merchant's business, Unipol Banca's Board of Directors approved a project to reorganise lending business that included merging all Unipol Merchant's lending business into Unipol Banca. This project, which was authorised by the relevant supervisory authorities, was finalised by merging part of Unipol Merchant's business with Unipol Banca in accordance with Article 2506 et seq. of the Italian Civil Code with effect from 1 January 2012.

On 9 November 2011, Unipol Banca's Shareholders' Meeting approved a share capital increase of €100m following the decision of the Board of Directors of 28 June 2011 and the approval of the Supervisory Authority. The share capital increase was subscribed and fully paid-up pro quota by Unipol (67.74%) and Unipol Assicurazioni (32.26%) on 15 December 2011.

On 28 September 2011 the Shareholders' Meeting of UGF Private Equity Sgr (fully owned by Unipol Banca) voted to dissolve the company and put it into voluntary liquidation, having ascertained that the complicated macroeconomic situation and therefore the general aversion to making medium- to long-term investments in equity instruments made it impossible to operate satisfactorily. The company was removed from the Register of Companies in Bologna on 3 February 2012.

Direct customer deposits amounted to €9.6bn at 31 December 2011 (€9.3bn in 2010, +3.1%). Growth was attributable exclusively to ordinary customers since deposits held by the companies in the Unipol Group fell 17.6% during the year. This result was mainly due to the work carried out by the banking Parent Unipol Banca, which introduced various measures to try to obtain a large share of the market by the aggressive selling of both short- and medium- to long-term products to its own customers and on the external market.

Indirect customer deposits totalled €18.7bn at 31 December 2011 (€23.6bn in 2010), €16.9bn of this amount being funds under custody (€21.8bn in 2010) and €1.8bn assets under management (slightly down compared with 2010). Most of the decrease in assets under management was attributable to the performance of share prices and was mainly in the corporate segment (-17%) and the companies in the Unipol Group (-23.6%). Despite the performance of the markets the retail segment recorded a 7.5% increase in funds.
Managed savings were also badly affected by the crisis and the uncertainty in the financial markets that led customers to gravitate towards products with guaranteed capital and minimum return such as Life products and banking bonds.

Lending to customers was €306m down (-3%) to €10bn, whilst receivables from banks amounted to €355m compared with €194m at the end of 2010 (+83.1%). The decrease in lending to customers was due to Unipol Banca reducing several exposures to large counterparties, especially during the second half of the year, in line with the company's new credit policy and the need to focus lending on small and medium customers. Lending policies continued to be strict, in line with the new credit policy, which governed risk by restricting concentration per counterparty and type of product in order to ensure that growth was balanced. Unipol Banca lent to individuals, mainly for house purchase, and to SMEs to finance expansion or to cover normal operating costs.

The item Receivables in the statement of financial position at 31 December 2011 included exposures that were deemed to be major because of both the level of concentration of the risk and the sector of financial activity, which in almost all cases was real estate. There were 18 economic groups with a total exposure of €797m (€682m in 2010), €587m of it largely classified as substandard and €210m as bad and doubtful debts.

As regards these credit exposures, on 3 August 2011, under the operations to strengthen the equity of the subsidiary Unipol Banca, the Parent Unipol signed agreements with Unipol Banca and the subsidiary Unipol Merchant, with effect from 30 June 2011, relating to a certain type of lending, mainly mortgage loans. 52 items were involved (Unipol Banca 49 and Unipol Merchant 3) amounting to €547 (carrying amount at 30/6/2011), €528m relating to Unipol Banca and €18m to Unipol Merchant.

Under these agreements the Parent company, Unipol, undertook to pay Unipol Banca and Unipol Merchant the principal and interest on these loans if they had not received them after taking all possible actions provided for by law to recover the debt, including applying to the courts, up to a maximum, including capital and interest, equal to their carrying amount at 30 June 2011.

The agreements will remain in force for a maximum of ten years after the last date on which the loans are repayable.

In return Unipol Banca and Unipol Merchant will pay Unipol an annual sum of 1% of its commitment at the time (€2m in 2011).

As the transaction concentrates on items with a lien on property it benefits from the expertise in the field of real estate of the specific Group department, which ensures that the loan portfolio and in particular the underlying liens on property are managed effectively.

Particular mention should be made of the fact that during December two transactions for the sale of mortgaged property complexes to Unipol Banca were concluded, with a consequent €56m reduction in exposures, €29m of it relating to a mortgage on an industrial complex transferred to a real estate fund that took on the debt with effect from 1 January 2012 and €27m to land loans already classified as bad and doubtful debts and backed by a mortgage on the Villa Cicogna complex, part of which is of historical value, in San Lazzaro di Savena (BO), recorded by Ambra Property (a company wholly owned by Unipol). In this case the holding company's commitment consisted of more than merely a duty to make a reimbursement but took the form of helping to assess the amount of the property assets used as security for the loan. Unipol is carrying out other negotiations and measurement on other property complexes and it is expected that similar transactions for large amounts will be completed during 2012.

The €419m of goodwill recognised in Unipol Banca's financial statements following the acquisition of bank branches was impairment-tested, determining the value in use compared with the carrying amount.

Partly as a result of the crisis that has affected the banking system for the last five years the financial performance of the last few years has not made it possible to meet the targets laid down in the multiyear plans drawn up to support the impairment tests carried out in recent years.

Therefore a new multiyear plan has been drawn up that takes account of previous years' performance and the forecasts for the near future (which are still difficult, especially for the lending sector) and therefore sets more cautious profit targets.

Nevertheless these new figures predict a substantial improvement in the Bank's economic performance over the next five years despite the assumptions underlying these figures being more cautious than those used in previous years.
Goodwill was also affected by the rise in interest rates on the national debt, which led to a rise in the financial parameters used for calculating the discount rate provided for in the model used for the impairment test.
The combination of these factors led to a result that did not allow the goodwill on the acquisitions of bank branches that took place during the period 2001-2004, recognised as an asset in the statement of financial position, to remain unchanged. Goodwill was therefore partly impaired commensurate with the cash flows expected to be generated by the CGU concerned. An impairment loss of €300m was therefore recognised, reducing the total goodwill recorded in the financial statements from the original €419.2m at the end of 2010 to the current €119.2m at 31 December 2011.
The impairment test model and the assessment of the actual value of the Bank were submitted for checking by an independent expert, Prof. Enrico Laghi, Professor of Business Administration at La Sapienza University in Rome.
The impairment loss did not affect the regulatory capital, though the deduction of the goodwill did. However, the tax effect was positive.
Further details of the impairment test are given in chapter 5.8 of the Notes to the Financial Statements.

Therefore the **pre-tax result** in the banking sector was a loss of €280m because of the above-mentioned impairment loss, net of which the pre-tax result would have been a profit of €20m (€21m in 2010), most of it attributable to the banking Parent Unipol Banca.

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

Banking Business

Amounts in €m	31/12/2011	31/12/2010	*% var.*
Net interest income	204	207	*-1.5*
Net commission income	121	119	*1.7*
Other net financial income	6	15	*-58.2*
Gross operating income	332	341	***-2.8***
Net impairment losses on financial assets	-55	-55	*-0.4*
Net financial income	276	286	***-3.3***
Operating expenses	257	265	*-2.8*
Cost/income	***77.6%***	***77.6%***	*-0.1*
Other income (charges)	-299	0	
Pre-tax profit (loss)	-280	21	

Gross operating income reached €332m, a fall of 2.8% mainly owing to the drop in net interest income (-1.5%) because of the growing tensions in the lending market, including the interbank lending market, which led to a substantial increase in the cost, only part of which was reflected in rates received since contractual terms could not be altered. Other net investment income also fell (-58.2%), whilst net commission income was up (+1.7%).

Operating expenses amounted to €257m and were down compared with 2010 (-2.8%). The cost/income ratio was 77.6% (substantially unchanged compared with 2010).

Analysis of the loan and securities portfolio at 31 December 2011 led to amounts of €55m being accrued (unchanged compared with 2010), €4m of them for impairment losses on equity instruments classified as Available-for-sale financial assets following impairment testing (€3m in 2010).

Holding and Services business

Holding and Services business consisted of the Parent Unipol and the subsidiary Ambra Property (hotels).

Unipol Gruppo Finanziario activities

Navale Assicurazioni contribution/merger

The contribution of Navale Assicurazioni's insurance business to Unipol Assicurazioni and the merger of Navale Assicurazioni into the Parent company Unipol took effect for legal, accounting and tax purposes on 1 January 2011. On the same date Unipol increased its capital by €0.2m for the purpose of the merger. As Navale Assicurazioni's investment in Navale Vita was not included in the contribution, its controlling investment in Navale Vita (Linear Life SpA since1/1/2011) was transferred when it was merged into Unipol.

€44m was paid to the subsidiary Unipol Assicurazioni on 30 June 2011 to compensate for the difference in the net contribution value.

As the merger and contribution were transactions between Group companies, consolidated profits and equity were not affected.

Sale of investment in Bnl Vita

On 7 April 2011, BNP Paribas exercised its option right to acquire the 25,500,000 shares held by Unipol in Bnl Vita, corresponding to 51% of the share capital, and designated the subsidiary Cardif Assicurazioni as purchaser.

On 29 September 2011, once BNP Paribas and Cardif Assicurazioni had obtained the permits required by law, the investment was sold for a total, as laid down in the contract, of €325m.

This price enabled Unipol to recognise a gain of €55m in the separate financial statements net of tax (€1m). However, it had almost no overall effect on the consolidated income statement (€0.8m).

Unipol Banca/Unipol Merchant debt reimbursement agreement

On 3 August 2011, Unipol entered into two agreements to reimburse the subsidiaries Unipol Banca and Unipol Merchant for certain receivables, mainly mortgage loans. For details please see the previous section on Banking Business.

Following a thorough investigation into whether the receivables were recoverable and the liens on property were appropriate Unipol set aside €53m in 2011 to underwrite these risks.

Realignment of goodwill under Legislative Decree 98/2011 (Article 23, paras 12 to 15)

On 30 November 2011, Unipol realigned the goodwill recognised in the 2010 Consolidated Financial Statements on investments in subsidiaries, taking advantage of the opportunity to do so introduced by Legislative Decree 98/2011. The amount realigned was €1,447m.

The operation cost, €232m, compared with an expected tax saving in future years of €398m, had a positive net effect of €166m on the income statement for 2011.

Payments for capital increases and/or future capital increases of subsidiaries

Unipol paid €295m to the following subsidiaries during the year:

– Unipol Assicurazioni €150m
– Unipol Banca €67.7m
– Arca Vita €38.5m
– UniSalute €5m
– Linear Assicurazioni €5m
– Linear Life €1.5m
– Ambra Property €27.5m.

Ambra Property activities

Ambra Property paid €27m in December 2011 for the Villa Cicogna complex in San Lazzaro di Savena (Bologna), which is to be used for receptive use. The complex consists of a 160-room hotel, a conference centre, a 17th century villa used for meetings/banquets/receptions and 15 farm buildings which are to be restructured and used for receptive use.

Work on expanding and modernising the UnaWay – Bologna Fiera hotel began during 2011.

The pre-tax result for Holding and Services business was a loss of €226m for 2011 (compared with a profit of €85m in 2010). The net result, which benefited from €223m of positive taxation, €166m of it deferred tax assets resulting from the realignment of goodwill, was a loss of €3m (compared with a profit of €86m in 2010, mainly owing to the receipt of €140m in dividends from subsidiaries).

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

- income of €13m for the provision of services to Group companies (€17m in 2010);
- €27m of other receipts and income (€25m in 2010), €15m of it for staff seconded to Group companies (€13m in 2010) and €2m commission income under the Unipol Banca/Unipol Merchant debt reimbursement agreement;
- €160m of staffing costs, other operating costs and other costs for holding company business (€89m in 2010). €68m of the increase was due to accruals to provisions for risks, €53m of it relating to the Unipol Banca/Unipol Merchant debt reimbursement agreements;
- net charges of €11m from investments (a positive amount of €140m in 2010 for dividends received from Group companies). Dividends received from Group companies amounted to €12m in 2011. They included €23.6m of charges on investments to offset the profit for the year of €24.4m of Bnl Vita, which was sold on 29 September 2011, recognised as Life business;
- net charges of €41m from financial assets (a positive amount of €46m in 2010);
- €54m of interest payable and other charges on financial liabilities (the same as in 2010).

Investments and cash and cash equivalents in Holding and Services business (including €48m of owner-occupied property belonging to Ambra Property) amounted to €5,391m at 31 December 2011 (€5,943m in 2010), €4,650m of it investments in subsidiaries. The €230m decrease since 2010 was due to:

– a decrease of €269m as a result of the sale of Bnl Vita;
– a decrease of €240m as a result of the impairment loss on the investment in Unipol Banca;
– an increase of €268m as a result of payments to subsidiaries for a capital increase/future capital increase;
– an increase of €11m as a result of the merger with the former Navale Assicurazioni.

Financial liabilities amounted to €1,258m (€1,232m in 2010), €959m of it for two senior bond loans issued by Unipol during 2009, the principal features of which were as follows:

– €180m – senior bond loan, nominal value €175m, unlisted, issued in July 2009, three-year term, fixed interest of 5.25%;
– €781m – senior bond loan, nominal value €750m, listed on the Luxembourg Stock Exchange, issued in December 2009 at a price of €99.314, seven-year term, fixed interest rate of 5%.

This item also included €298m of other financial liabilities (€270m in 2010), of which €270m of loans from the subsidiary Unipol Assicurazioni, repayable at sight and remunerated at the three-month Euribor rate plus 100 basis points, and €28m of amounts owed by Ambra Property to Unipol Banca.

Intersegment eliminations

Intersegment eliminations related to the derecognition of income and costs between Group companies belonging to different segments. €119m of the negative pre-tax balance of €141m related to the impairment loss on the goodwill arising from consolidation of the investment in Unipol Banca and €17m to dividends within the Group.

Investment management

Investments and cash and cash equivalents

Transactions carried out in 2011

Investment transactions carried out by the Group during the year followed the guidelines laid down in the Investment Policy and those issued by the Group Finance Committees and the Investment Committees of the individual companies, particular attention being paid to the general principles of prudence and the medium- and long-term quality of the assets.
The aim of investment transactions carried out during 2011 was to keep the portfolio on a firm financial footing and maintain issuer diversity in order to keep it in line with the liability profile and ensure that the securities selected were sufficiently liquid.
Investments were concentrated in the bond sector, with the main focus being on the government component. Medium- to long-term investment was mainly in Italian government bonds.

In Life business the high yields on Italian government bonds made it possible to cover the guaranteed minimum rates and keep exposures in line with the due dates of commitments to customers.
The non-government component of the portfolios was concentrated on securities of leading financial issuers, most of them denominated in euro. Exposure to a Covered bond reached approximately 2% of the assets during the first half of the year and remained more or less the same until the end of the year.
All the items still in existence on the securities of companies under bankruptcy were closed during the year: in particular almost all the exposures to Lehman Brothers and the Icelandic bank Glitnir were closed.
Total exposure to the share market fell slightly during 2011. The focus was on investing in securities expected to be characterised by low volatility and have the potential for a high dividend. Almost all the shares in the portfolio were European securities belonging to the Eurostoxx50 index.
The currency risk on all non-euro investments was hedged almost as a matter of course.
The Non-Life duration in the Group consolidated insurance portfolio was 2.62, in Life it was 3.12 and in the Holding Company 1.40. The overall duration was 2.91.
There were no significant variations in the quantity and quality of the bond portfolios.
The fixed rate and floating rate components of the bond portfolio remained stable at 68% and 32% respectively.
The government component accounted for approximately 56% of the bond portfolio whilst the corporate component accounted for the remaining 44%, split into 42% financial and 2% industrial credit.
The bond portfolio continued to be rated highly on 31 December 2011. 12% of securities were between AAA and AA- whilst 67% was rated A and 21% below A.

These figures are at 31 December 2011. On 13 January 2012 the rating agency Standard & Poor's revised the sovereign rating of nine European countries, including Italy whose rating fell two levels (from A to BBB+).

In order to manage assets prudently the Group maintained a good level of liquidity in its insurance portfolio of approximately €940m at 31 December 2011, most of it deposited with the Group's bank.

The level of Group investments and cash and cash equivalents totalled €34,167m at 31 December 2011, a decrease of €488m since 2010. The breakdown according to type of business was as follows:

Investments and cash and cash equivalents according to type of business					
Amounts in €m	31/12/2011	*% comp.*	31/12/2010	*% comp.*	*% var.*
Insurance	24,257	*71.0*	24,647	*71.1*	*-1.6*
Banking	11,264	*33.0*	11,228	*32.4*	*0.3*
Holding and Services	5,391	*15.8*	5,943	*17.1*	*-9.3*
Intersegment eliminations	-6,744	*-19.7*	-7,164	*-20.7*	*-5.9*
Total investments and cash and cash equivalents	34,167	***100.0***	34,654	***100.0***	***-1.4***

The subdivision by category of investment is as follows:

Investments and cash and cash equivalents					
Amounts in €m	31/12/2011	*% comp.*	31/12/2010	*% comp.*	*% var.*
Property (*)	1,060	***3.1***	804	***2.3***	***31.8***
Investments in subsidiaries, associates and interests in joint ventures	42	***0.1***	46	***0.1***	***-9.0***
Investments held to maturity	1,689	***4.9***	1,823	***5.3***	***-7.4***
Loans and receivables	15,250	***44.6***	14,755	***42.6***	***3.4***
Debt securities	4,754	*13.9*	4,064	*11.7*	*17.0*
Loans and receivables from bank customers	9,924	*29.0*	10,311	*29.8*	*-3.8*
Interbank loans and receivables	325	*1.0*	134	*0.4*	*142.8*
Deposits held at ceding companies	18	*0.1*	19	*0.1*	*-7.3*
Other loans and receivables	229	*0.7*	226	*0.7*	*1.1*
Available-for-sale financial assets	11,985	***35.1***	13,024	***37.6***	***-8.0***
Financial assets at fair value through profit or loss	3,900	***11.4***	3,971	***11.5***	***-1.8***
held for trading	451	*1.3*	590	*1.7*	*-23.6*
at fair value through profit or loss	3,450	*10.1*	3,381	*9.8*	*2.0*
Cash and cash equivalents	240	***0.7***	232	***0.7***	***3.4***
Total investments and cash and cash equivalents	34,167	***100.0***	34,654	***100.0***	***-1.4***

(*) including owner-occupied property

Property

The Group's property assets, including owner-occupied property, amounted to €1,060m (€804m at 31/12/2010). Work continued during the 2011 financial year on streamlining property assets, most being property occupied by the Group. The main operations carried out by the Group companies are mentioned below.

On 1 December 2011 Midi acquired 100% of Comsider Srl (via the holding company Covent Garden Bo Srl), which owned a property complex in Via Stalingrado in Bologna near the Group's new Porta Europa offices. Subject to the required permits being obtained, the site will be upgraded by the construction of a new building. The cost of the investment was €4.6m.

Work continued on constructing a 125-metre tower, which is to be let, next to Bologna's inner ring road. It was expected to be completed in the first half of 2012 and it is hoped that it will be awarded the prestigious international 'gold' certification for environmental sustainability by LEED (Leadership in Energy and Environmental Design).

Unipol GRUPPO

Under this project work began on a 150-room hotel and an area of approximately 6,000 square metres for small shops and services, which were expected to be completed during 2012.
Expenditure on this project was €50m in 2011.

In December 2011, Arca Vita acquired land and buildings for a new registered office and administrative offices for Arca Vita and its subsidiaries. This property, a new construction erected in accordance with the best building techniques and with particular attention being paid to energy savings, covers a total surface area of approximately 6,000 square metres. The investment cost was €29m. The underground car parks will be built during 2012, therefore the registered offices of the Arca Group companies will be transferred during 2012. Subsequently, the two properties that Arca Vita currently owns will be put up for sale.

In December 2011, Ambra Property acquired a real estate complex, which is to be used for receptive use, in San Lazzaro di Savena (Bologna). The complex consists of a 160-room hotel, a conference centre, a 17th century villa used for meetings/banquets/receptions and 15 farm buildings which are to be converted for receptive use. This restructuring work is not expected to be carried out until the second half of 2013. The investment cost was €27m.

On 13 December 2011, Unipol Assicurazioni acquired Punta di Ferro Srl, owner of a new shopping arcade in Forlì consisting of 97 commercial premises, all already let at an annual rent expected to be approximately €6.7m in 2012 and providing an annual rent of €7.5m once it is fully operational (in 2013). The investment cost was €124m.
Also in December, Unipol Assicurazioni paid a total of €7m for several properties in Parma, Ravenna and Fidenza.

Available-for-sale financial assets

Available-for-sale financial assets amounted to €11,985m (€13,024m in 2010) and were made up as follows:

Available-for-sale financial assets					
Amounts in €m	31/12/2011	*% comp.*	31/12/2010	*% comp.*	*% var.*
Equity instruments	1,167	*9.7*	1,264	*9.7*	*-7.6*
Debt securities	10,541	*88.0*	11,490	*88.2*	*-8.3*
OEIC units	276	*2.3*	269	*2.1*	*2.6*
Total financial assets	11,985	***100.0***	13,024	***100.0***	***-8.0***

The decrease compared with 2010 was largely due to the fall in value of securities owing to the crisis in the financial markets and especially the sovereign debts of the countries on the edge of the Eurozone, most of it during the second half of the year.

Net gains on investments

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

Net gains on investments					
Amounts in €m	31/12/2011	*% comp.*	31/12/2010	*% comp.*	*% var.*
Investment property	8	*0.7*	8	*0.6*	
Gains/losses on investments in subsidiaries and associates and interests in joint ventures	-11	*-1.0*	0	*0.0*	
Net gains on investments held to maturity	76	*6.8*	91	*6.7*	
Net gains on loans and receivables	507	*45.6*	474	*34.9*	
Net gains on available-for-sale financial assets	678	*61.0*	891	*65.5*	
Net losses on financial assets held for trading	-145	*-13.0*	-105	*-7.7*	
Balance of cash and cash equivalents	0	*0.0*	1	*0.0*	
Total net gains on financial assets, cash and cash equivalents	1,112	***100.0***	1,360	***100.0***	***-18.2***
Net gains (losses) on financial assets held for trading	0		-2		
Net losses on other financial liabilities	-278		-220		
Total net losses on financial liabilities	-278		-222		***25.5***
Total net gains (excluding instruments at fair value)	834		1,138		***-26.7***
Net losses on financial assets at fair value	-122		235		
Net gains on financial liabilities at fair value	22		-180		
Total net losses on financial instruments at fair value	-100		55		***-282.0***
Total net gains on investments and net financial income	734		1,193		***-38.5***

Net gains (excluding those on financial instruments at fair value) amounted to €834m (€1,138m in 2010).

No new cases of equity-security impairment came to light on 31 December 2011 following the updating of the threshold of significance laid down in the Group's impairment policy for equity instruments classified as Available-for-sale financial assets (mentioned in chapter 2 of the Notes to the financial statements – Accounting policies).
€80m of impairment losses on equity instruments were already recognised at the end of previous years and half years, €9m relating to the Bnl Vita figures included in the Group's consolidated financial statements.
On the basis of the 20% threshold of significance previously applied, €136.1m of further impairment losses should be recognised.
Impairment losses on equity securities had amounted to €81m at 31 December 2010.
Impairment losses on Greek government bonds, maturing in 2020, amounted to €84m, of which €60m relating to Bnl Vita's figures.

Net gains from loans and receivables included €104m of unrealised losses on receivables from banking customers (€53m in 2010).

Net losses on financial assets and liabilities at fair value through profit or loss were €100m (net gains of €55m in 2010).

Equity

Equity attributable to the owners of the Group, including the loss for the year, amounted to €3,078m at 31 December 2011 (€3,648m at 31/12/2010).

The decrease was due to:

- a decrease of €448m owing to the decrease in the provision for gains and losses on available-for-sale financial assets, from -€643m at 31 December 2010 to -€1,091m at 31 December 2011;
- a decrease of €17m owing to the decrease in the provision for Other gains or losses on cash-flow hedges, directly recognised in equity;
- a decrease of €108m owing to the Group loss for 2011.

Equity attributable to non-controlling interests amounted to €126m (€373m in 2010). The decrease compared with 2010 was due mainly to the sale of Bnl Vita, for which Unipol held a share of 51%.

At 31 December 2011 the Parent's share capital was €2,699,066,930.11 and was made up of 3,416,540,416 shares, 2,114,257,106 of which were ordinary shares and 1,302,283,310 preference shares.
634,236,765 Unipol 2010-2013 ordinary share warrants and 390,660,132 Unipol 2010-2013 preference share warrants were outstanding.

There were 300,000 treasury preference shares, with a value of €173,124 at 31 December 2011 belonging to the Arca Group companies. In 2011 there were no transactions to buy or sell treasury shares.

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

In accordance with CONSOB Communication 6064293 of 28 July 2006 the schedule reconciling the Group loss for the year and equity, including the corresponding figures for the Parent, is shown below.

Reconciliation schedule

Amounts in €m	Share capital and reserves	Profit/(loss) for the year	Equity at 31/12/2011
Parent - Italian GAAP	4,696	-358	4,338
IAS/IFRS adjustments to the Parent's financial statements	102	196	298
Differences between net carrying amount and equity and profit (loss) for the year of consolidated investments, of which:	-2,822	77	-2,745
- Gains or losses on available-for-sale financial assets	*-1,056*		*-1,056*
- Other gains or losses recognised directly in equity	*-39*		*-39*
Goodwill arising on consolidation	1,057		1,057
Difference posted to other asset items (buildings, etc.)	73	-2	71
Companies measured using the equity method	6	3	9
Elimination of infra-group dividends	22	-22	0
Other adjustments (reversals of impairment losses, gains adjustments etc	52	-2	50
Consolidated balances - portion attributable to owners of the Parent	3,186	-108	3,078
Non-controlling interests	112	14	126
Consolidated total	3,298	-94	3,204

Technical provisions and financial liabilities

At 31 December 2011 technical provisions amounted to €22,039m (€22,246m in 2010) and financial liabilities to €12,829m (€12,653m in 2010). Details are set out in the table below:

Technical provisions and financial liabilities			
Amounts in €m	31/12/2011	31/12/2010	*% var.*
Non-Life technical provisions	7,372	7,575	*-2.7*
Life technical provisions	14,667	14,671	*0.0*
Total technical provisions	22,039	22,246	***-0.9***
Financial liabilities at fair value	1,458	1,473	***-1.0***
Investment contracts - insurance companies	1,134	1,272	*-10.8*
Other	324	201	*61.3*
Other financial liabilities	11,370	11,181	***1.7***
Investment contracts - insurance companies	31	43	*-28.4*
Subordinated loans	1,546	1,580	*-2.2*
Payables to banking customers	5,772	5,444	*6.0*
Interbank payables	1,000	1,269	*-21.2*
Other	3,022	2,845	*6.2*
Total financial liabilities	12,829	12,653	***1.4***
Total	34,868	34,899	***-0.1***

Under Other financial liabilities the item Other includes €1,917m of debt securities issued by Unipol Banca, €455m of it securitised notes (€1,710m in 2010, €618m of it securitised notes), as well as two senior bond loans issued by the Parent Unipol during 2009 for nominal amounts of €750m and €175m, respectively.

Other information

Personnel

The total number of employees in the Group at 31 December 2011 was 7,638 (+109 compared with 2010). Details by business segment, showing the number of full-time equivalent employees and those on fixed-term contracts, are set out in the following table:

Personnel

	31/12/2011			31/12/2010			var.
	Number of staff	*Temporary*	FTE	Number of staff	*Temporary*	FTE	
Unipol Gruppo Finanziario and other companies	334	*2*	330	326	*0*	322	*8*
Total insurance business	4,912	*96*	4,614	4,836	*86*	4,552	*76*
Total banking business	2,392	*45*	2,307	2,367	*35*	2,328	*25*
Unipol Group	7,638	*143*	7,250	7,529	*121*	7,203	*109*

Renewal of Unipol Labour Agreement – Insurance and Holding Company business

On 10 November 2011, the Board of Directors of the holding company Unipol approved the draft of the new Unipol Labour Agreement for employees of Unipol and the insurance companies in the Group, with the sole exception of the employees of the companies in the Arca Group, whose terms of employment will be gradually harmonised.
It was approved in a referendum held at the Group's various offices on 7, 8 and 9 November 2011. 3,869 people voted (84.15% of the 4,598 entitled to vote), with 3,122 votes in favour (80.69% of those who voted).

The new Unipol Labour Agreement, which came into effect on 8 October 2011 and will expire on 31 December 2013, is undoubtedly important and innovative for the sector. Specifically, Unipol became the first large Group in the insurance sector to harmonise and standardise contractual terms, both financial and legal, for all employees whatever their company, origin or place of work, improving all the previous contractual terms applied by the various companies in the Group, one of the aims being to help to increase the sense of belonging by focusing on the Group rather than the differences between the individual companies.

The main points of the new agreement were:

- the same working hours in all offices as from 1 January 2013, with the various types of leave of absence being rationalised and standardised (no longer varying according to office or company but the same for everyone and linked to actual requirements). All the call centres in the Group continued with their current working hours, including Saturday;
- a productivity bonus scheme by position and not years of service (Unipol being the only Group in the sector to ignore years of service when calculating this benefit);
- health cover provided by the Group company UniSalute, thus offering a broad range of approved health facilities which, thanks to direct payment and economies of scale, will enable the average costs

of the services to be kept down and monitored more effectively. The traditional system whereby charges are reimbursed will continue to operate alongside the approved network, though with several differences (different limits, deductibles on some benefits etc.);
– loans to employees, which will be granted and managed by Unipol Banca and channelled towards Group companies.

Training

A total of 28,506 days' training/participant was provided for all the companies in the Group in 2011, 14,598 in insurance business and 13,908 in banking. The total figure expressed in participant hours was 211,190.

Insurance Business
During 2011 'Technical Training of Staff' consisted of 9,573 participant days in the classroom and 2,546 participant days of distance learning. 2,479 participant days of 'Managerial Training' were provided in 2011.
Amongst the topics covered were market abuse, combating money-laundering, Solvency II, the Group Organisational and Management Model, foreign languages and raising awareness of the Code of Ethics and Group values ('The only way is Ethics').

Banking
Unipol Banca's 'Technical Training of Staff' in 2011 consisted of 8,739 participant days of classroom-based technical and managerial/relational training and 5,169 participant days of distance learning provided by the 'Unipol Web-Based Academy' and the Company's Intranet.
Amongst the topics covered were managing credit risk, combating money-laundering and international terrorism, market abuse, operational risks and risk self-assessment.

Social and environmental responsibility

During 2011 the Group developed, put into practice and consolidated its commitment to sustainability, in accordance with its commitments under the 2010-2012 Sustainability Plan.
Social commitment is an integral part of the work carried out by the Group, which has always promoted good relations with the local and national communities in which it operates. The Group helps to support numerous social, cultural, environmental and sporting initiatives, in the conviction that social commitment represents a real investment and therefore a duty for the world of business.

Organisational work was undertaken to strengthen the governance of sustainability:
– the Board of Directors' Committee for Corporate Social Responsibility (CSR) became the Sustainability Committee;
– the responsibility for managing CSR was taken on by the CEO;
– an Energy Manager was appointed to strengthen the work of monitoring and reducing energy consumption;
– an Efficiency Manager was appointed to improve overall environmental performance throughout the procurement chain;
– someone in each Department was appointed responsible for sustainability;
– an internal Group ruling was issued on the sustainability-accountability system.

These many and various measures enabled the Unipol Group to consolidate its commitment to make sustainability part of normal business as the fifth driver of the Business Plan.

The instruments for managing accountability within the Group became fully operational during the year:

- the first Sustainability Budget was drawn up for 2011, for internal use only, adopted by the Board of Directors and sent to the Group's senior executives;
- the Sustainability Plan was monitored quarterly using a system made up of 160 indicators and involving more than 50 contacts in all the companies in the Group; a half-yearly departmental monitoring report was produced, discussed with senior executives and submitted to the Board of Directors;
- the Sustainability Report was an improvement on the 2010 report;
- a start was made on adopting SAP Sustainability in order to have a system of data collection that was more structured, thorough, trustworthy, verifiable and traceable.

At the same time the Sustainability Department helped the Company's other departments to develop projects aimed at meeting the plan's targets. Projects for achieving the following were developed during 2011:

- improved diversity management within the Company and the implementation of policies to promote the integration of disabled people into normal life and work;
- additional welfare services;
- more sustainable Life products;
- a reduction in the environmental impact of the industrial processes of Unipol Group's suppliers, which helps to determine Unipol's overall impact on the environment.

This last project was launched in September as an interactive business-to-business project based on the 'sustainability partners' community.

Several measures were also carried out in collaboration with the Personnel Department to promote employee participation in society at large, such as active involvement in Legambiente's 'Let's clean up the World' initiative and organising 'A day in the office with Mum and Dad'.

The Group decided to concentrate its efforts on saving energy and paper. Much of the waste produced by the companies in the Group was recycled, mainly paper, which was the most relevant material used. In addition, computer waste, toner cartridges and hazardous waste are collected separately and disposed of appropriately, in accordance with current legislation in the various parts of the country, by specialist firms. Transport management measures were introduced and travel policies aimed at reducing work-related journeys were adopted in order to reduce carbon dioxide emissions from transport used for the Group's business. Thus increasing use was made of video-conferencing, conference calls and e-learning training courses and the environmental impact was also limited by the use of public transport and car-pooling being promoted.

'The only way is Ethics' was run as a distance-learning course in order to promote the Company's corporate values and ethics to all employees and agents and to improve their knowledge of the Code of Ethics, with the additional aim of ensuring that it would be implemented in full.
In its role as Ethics Committee the Sustainability Committee also continued to examine the information received by the Head of Ethics.

Group sales network

Unipol Assicurazioni: work on rationalising the geographical spread of the agencies and returning them to previous levels of profitability continued during 2011. A total of 94 Unipol agencies were reorganised, 64 of them being merged and their portfolio transferred (to encourage the agencies involved to expand). The Navale network of agencies concluded 134 deregulation agreements that had been launched in previous years, whilst 147 additional deregulation agreements due to expire during 2012 and five due to expire in February 2013 were drawn up.
1,836 agencies were operative at 31 December 2011 compared with 2,101 in 2010 (including the Navale Assicurazioni agencies).
Unipol Assicurazioni also placed Life products through the branches of Unipol Banca and the Simgest and Crédit Suisse Italy networks of financial advisers.

Unipol Assicurazioni's New Company-Agents Agreement

Unipol Assicurazioni's New Company-Agents Agreement, which contains new rules and financial guidelines for the agency network, was signed on 3 November 2011.

The agreement consists of:

– ***a Single Group Mandate***, which standardises the rules underlying the relationship between the Company and its Agents. Agents may replace their current mandates with the New Single Group Mandate, with its appendix relating to commissions, with length of service, geographical area and exclusive right clause remaining the same but with the addition of the rules relating to Non-Life business.

– ***a New System of Remuneration***, which standardises the financial terms of the agency agreements, and is modular and innovative in that it consists of a fixed part governed by the Commission Table and a variable part governed by the Supplementary Agreement.
  MV TPL Commissions: made up of a basic rate of commission fixed and governed by the mandate and of variable remuneration determined in accordance with rules and benchmarks governed by the Supplementary Agreement. Both elements are deemed to be parts of a single remuneration system, with the variable additional remuneration being subject to periodic revision, which is intended to ensure that both the Company and the Agents make adequate profits in the long run.
  Commissions on Basic Classes: contained in a new table of commission, covering both prebilled and recurring remuneration. Rates are based on the average contained in existing tables. The commissions provided for in the Commission Table are supplemented by rappels, additional commissions which are largely based on profitability. In addition, in specific classes there is an incentive scheme for rewarding the professionalism of the agent, in particular in General TPL for the agencies that obtain the best results for core business and in MV Fire/Theft if the result of core business in that class is particularly positive.

– ***a Supplementary Agreement with Memoranda of Understanding***: the Company-Agents Supplementary Agreement induced several agencies to work together to increase growth for the benefit of both, including implementing the 'Agency Models' project. The Supplementary Agreement consists of two parts: a general part applying to all agencies and a specific part applying to Agency Models. The Agency Models project enables the Company to provide each agency with the most appropriate service and to promote initiatives to encourage them to meet the requirements for joining one of the Models and/or transferring from one model to another. There are three Models:
  – SME: agencies with a large portfolio in the corporate sector;

- Balanced: agencies with a portfolio equally distributed among MV, basic classes and Life in which the MV component is not particularly significant;
- Specialist MV: agencies with a portfolio in which the incidence of MV TPL and Land vehicles – own damage or loss is significant.

– ***a management package***: under the Agreement the Company specifically undertakes to improve the organisational and operational aspects of the Agencies, with the focus on keeping costs down and improving customer management. The intention is to improve operational efficiency by streamlining agencies' procedures in order to simplify how they are managed and improve the service to the network.

The Arca Group: the work of rationalising the network of agencies belonging to the Non-Life companies Arca Assicurazioni and ISI Insurance concluded on 31 December 2011 with the portfolios of 126 agencies being deregulated (78 in 2010). The Group had 36 agencies (128 in 2010). The number of bank branches rose from 2,159 in 2010 to 2,180 at 31 December 2011.

Linear operates in MV business by telephone (call centre) and via the internet.

UniSalute operates in Health and Assistance mainly by means of group policies with businesses that require specific areas of expertise. The company has a specialist department for this type of work, which operates direct or in collaboration with brokers and agencies. In the case of individual policies UniSalute operates through a network of 150 agencies, 149 of which also have a Unipol Assicurazioni mandate, and a small telemarketing call centre, mainly for cross-selling to customers already acquired through the internet.

Unipol Banca: six branches closed during 2011. Three licences have already been reused for three new branches and the remaining three will be used for new branches where building work is still in progress.
The network was made up of 300 bank branches at 31 December 2011 (303 in 2010), 174 of them combined with insurance agencies (182 in 2010), 28 finance shops (the same as in 2010) and 239 financial advisers (361 in 2010). Work began on rationalising the network of financial advisers during 2011 and included revoking more than a hundred mandates issued to advisers who had not reached a minimum level of assets under management. The objective was to limit the post of adviser to professionals who could demonstrate their dynamism and ability to promote financial products.

Information systems

Insurance Business

The Unipol Group's IT Department worked along two main guidelines of the 2010-2012 Business Plan:
1) support to enable Group Business Lines to implement the initiatives laid down in the Business Plan;
2) support for updating Group IT systems and using new technology.

Some of the main IT work carried out during 2011 to support the initiatives laid down in the Plan for the various business lines is described below:
- the principal Non-Life activities focused on developing new joint products for both the Unipol and the Aurora networks and on rationalising procedures for issuing policies. The new MV product KM Sicuri (Safe Miles), which uses a black box installed in vehicles and offers customers a new tariff per kilometre (pay as you go), continued to be offered to more customers.
- Work continued on developing the Group's new Life system, and plans were made to improve it and to transfer the old Unipol and Aurora individual and group policy portfolios.
- in Claims work continued on maintaining and developing the current IT system by developing new software to improve the monitoring, effectiveness and efficiency of the claims handling procedures and on making the adjustments required by changes in legislation: introduction of a civil mediation procedure, a new procedure for claims provisions, a new web-based procedure for Legal Representatives, an automated procedure for managing summonses, a stronger fraud prevention system, work on the Claims database, work on the CARD system. The New Group Claims System was also launched during the first quarter of 2011.
- in Marketing business the new Group Customer Relationship Management (CRM) system, already operating in the network of company agencies (Assicoop) since 2010, was extended to 200 more private agencies. New hardware was introduced to enable the system to be gradually extended to the remaining private agencies and improvements to the software were made.

The new IT system to enable Solvency II to be applied was also being developed.

Mention should be made of the following work carried out by the Group's special purpose companies:
- Centri Medici UniSalute acquired new IT hardware, enabling it to open its first polyclinic in Bologna in November;
- Linear improved the automatic system for issuing quotations and making payments, introduced new web-based services for intermediaries' websites and made the changes required by new legislation.

When IT services were updated account was taken not only of technological and business requirements but also of social and environmental responsibility by means of various measures to reduce the environmental impact and operating costs, including minimising the consumption of electricity for operating and cooling equipment, staff travel between offices and the need to dispose of equipment. To be specific, in collaboration with the voluntary organisation BiTeB (Banco Informatico Tecnologico e Biomedico) the Group introduced an initiative for making donations of IT equipment that was being replaced, which turned the scrapping cost (irreversible deletion of data and special waste disposal) into an opportunity to care for the environment and support various non-profit-making organisations (charities, hospitals, schools, etc.).

Banking Business

In accordance with Banca d'Italia regulations the annual business continuity tests were carried out in collaboration with the outsourcer Cedacri.

The following tests were carried out in 2011:

– Annual Business Continuity test – Non-availability of Staff: test that simulated a situation in which some of the staff in the Finance department were absent and back-up measures had to be taken in order to guarantee business continuity;
– Annual Disaster Recovery test – Non-availability of the IT system: to check that the IT systems would resume operations (Disaster Recovery), in collaboration with the outsourcer Cedacri.

The work of scanning guarantees was completed in November (approximately 80,000 documents). In this way these deeds may be easily consulted by all Head Office units and recovery of the originals is required only when a judge deems that copies are not acceptable. This measure not only provides practical benefits but reduces operational risks.

A new user interface for the 'lending procedure' has been in operation throughout the network since May 2011: the new web-based front-end work uses wizards, which are easy to become familiar with and easy to use.

Transactions with related parties

As regards the information referred to in CONSOB Resolution 17221 of 12 March 2010, which came into force on 1 December 2010, no transactions 'of major relevance' with related parties took place during the year and neither did any transactions that, according to Article 2427, para. 2 of the Italian Civil Code, had any significant effect on Unipol's financial position and results of operations.

Unipol adopted the 'Procedure for carrying out transactions with related parties', which was approved by the Board of Directors on 11 November 2010 and subsequently by the Boards of Directors of the other companies in the Unipol Group and published in the Corporate Governance section of Unipol's website (www.unipol.it).
The Procedure lays down the rules, procedures and policies for ensuring that transactions with related parties carried out by Unipol directly or through subsidiaries are transparent and that the correct procedure is followed.

The information required by IAS 24 and CONSOB Communication DEM/6064293/2006 is contained in paragraph 5.5 of the Notes to the financial statements – Transactions with related parties.

Report on corporate governance and ownership pursuant to Article 123-bis of Legislative Decree 58 of 24 February 1998

The information required by Article 123-*bis* of Legislative Decree 58 of 24 February 1998 and amended by Article 5 of Legislative Decree 173 of 3 November 2008, is contained in the annual report on corporate governance, which has been approved by the Board of Directors and published, together with the management report, in accordance with Article 89-*bis* of the Regulation adopted by CONSOB in its Resolution 11971 of 14 May 1999 and with Section IA.2.6 Guidelines on the Regulation Governing Markets Organised and Managed by the Borsa Italiana S.p.A..

The annual corporate governance report is in the Corporate Governance section on the Company's website (www.unipol.it).

Subsequent events and business outlook

Proposed merger with the Premafin/Fondiaria Sai Group

After checks and further work had been carried out after an initial letter of intent was drawn up on 13 January 2012, on 29 January 2012 Unipol Gruppo Finanziario and Premafin Finanziaria Holding di Partecipazioni S.p.A. ('Premafin') signed an agreement concerning a project to merge the two insurance groups by merging Unipol Assicurazioni S.p.A., Milano Assicurazioni S.p.A. and Premafin into Fondiaria SAI S.p.A. ('Fondiaria Sai').
The aim of the project is to rescue Premafin and Fondiaria Sai, whose solvency fell to below the statutory minimum at the end of 2011, as communicated to the market, by strengthening the equity of the two companies and at the same time, thanks to the operational synergies that would result from the merger, create a leading national insurance operator able to compete effectively with the main national and European competitors and create value for all the shareholders of the companies involved in the project.

Under the proposed merger Premafin would enable Unipol Gruppo Finanziario to pay a maximum of €400m to increase Premafin's share capital in order to provide it and its subsidiary Finadin S.p.A. with the financial resources needed to take part, for the appropriate amounts, in the €1,100m Fondiaria Sai share capital increase resolved on 29 January 2012 by the Company's Board of Directors, which was to be put to the Extraordinary Shareholders' Meeting held on 16 or 19 March 2012 (first and second call).
The Premafin share capital increase, which will involve Unipol Gruppo Finanziario acquiring control of Premafin and the resulting watering of the shares held by the current shareholders, will, together with the merger referred to above, constitute an essential element of the restructuring plan that Premafin will draw up, in accordance with and for the purposes of Article 67. 3. d) of the Bankruptcy Act, in order to restructure its debt exposure and rebalance its financial position.

Unipol Gruppo Finanziario's commitment to underwriting the Premafin share capital increase is subject to several preconditions being fulfilled by 20 July 2012, including the required permits for supervisory purposes and the authorisation of the Antitrust Authority being obtained and CONSOB confirming that Unipol Gruppo Finanziario's acquisition of control of Premafin will not put Unipol Gruppo Finanziario under an obligation to make a public offer for the shares of Premafin, Fondiaria Sai and Milano Assicurazioni. All the authorisation procedures have already begun and dialogue with the various Authorities involved continues.
Unipol Gruppo Finanziario's commitment is also subject to the condition that, by underwriting the Premafin share capital increase, the Company will own more than two thirds of Premafin share capital with voting rights.

These share capital increases will mean that the new group resulting from this merger will have the equity needed to support its development projects and the business initiatives deemed to be required to put core insurance business back into the position where it can create value.

In order to ensure that the Unipol Group has the capital needed for the proposed merger, on 9 February 2012, Unipol Gruppo Finanziario's Board of Directors voted to call an Extraordinary Shareholders' Meeting for 19 March 2012 in order to authorise the Board of Directors, under Article 2443 of the Italian Civil Code, to increase the share capital for a maximum of €1,100m, including any premium, by issuing ordinary and preference shares, to be offered as an option in proportion to the number of shares currently held by shareholders. As mentioned above this share capital increase would provide Unipol Gruppo Finanziario with the resources needed to underwrite – if the necessary conditions are fulfilled – both Premafin's share capital increase and the share capital increase to be resolved by its subsidiary Unipol Assicurazioni, in order to provide the company resulting from the merger with sufficient equity to support its expansion plans whilst keeping capital requirements in line with current legislation.

Motions will also be put to Unipol Gruppo Finanziario's Shareholders' Meeting proposing that the Company's ordinary and preference shares be grouped at a ratio of 1 new ordinary share per 100 ordinary shares owned and 1 new preference share per 100 preference shares owned and that Articles 5 and 19 of the By-Laws be amended to reflect the number of shares resulting from the grouping and the transactions on Unipol Gruppo Finanziario's capital.

On 3 February 2012, Unipol Gruppo Finanziario appointed Mediobanca to promote the underwriting syndicate for its share capital increase under the proposed merger of the Unipol and Fondiaria Sai insurance groups in line with market procedures, as Fondiaria did for its share capital increase. In this context Unipol Gruppo Finanziario and Fondiaria Sai received funds from Barclay's Capital, Crédit Suisse, Deutsche Bank, Mediobanca, Morgan Stanley, Nomura, UBS Investment Bank and UniCredit Corporate & Investment Banking to enable them to act as Joint Global Coordinators and Joint Bookrunners in the consortium underwriting these share capital increases, in line with market procedures, once the Proposed Merger has been satisfactorily analysed.

Finsoe S.p.A., which automatically has a controlling interest in Unipol Gruppo Finanziario by virtue of a 50.75% investment with voting rights at Ordinary Shareholders' Meetings, has already announced its intention to support the transaction financially by underwriting its portion in full.

Performance of ordinary business after the end of the financial year

As regards the Group's performance in insurance business in the first two months after the end of 2011, turnover in Non-Life business continued to be in line with the same period in the previous year. The loss ratio in this sector continues to be favourable despite the increase in claims for weather damage, which was mainly caused by the heavy snowfalls in several parts of Italy in February.

In Life business the effects of the economic crisis have led to a reduction in turnover to a level commensurate with the market as a whole but the Group is fighting back by introducing new marketing initiatives to support the sales network.

In banking business the work of rebalancing the financial position begun in 2011 has been intensified. Bonds for a nominal amount of €600m guaranteed by the Ministry of the Economy and Finance were issued in January 2012 and at the same time repurchased, one of the aims being to obtain securities that might be eligible for future financing transactions with the European Central Bank. It should also be noted that Unipol Merchant's lending business was transferred to Unipol Banca on 1 January 2012 in order to create a single centre for managing and monitoring lending.

As regards financial management, the financial markets made a significant recovery in early 2012, particularly in respect of Italian sovereign debt instruments, with positive effects on the Group's financial position and solvency.

The Group continues to work hard to ensure the successful outcome of the proposed merger described above and has started to draw up a multiyear business plan that will take account of the new hoped-for corporate structure and set the targets for the next few years.

Bologna, 15 March 2012

The Board of Directors
(signed on the original)

Tables of Consolidated Financial Statements:

- Statement of financial position
- Income statement and statement of comprehensive income
- Statement of changes in equity
- Statement of cash flows

Consolidated Statement of Financial Position - Assets

	Amounts in €m	31/12/2011	31/12/2010
1	INTANGIBLE ASSETS	1,641.0	2,057.8
1.1	Goodwill	1,522.5	1,942.0
1.2	Other intangible assets	118.5	115.9
2	PROPERTY, PLANT AND EQUIPMENT	804.1	660.2
2.1	Property	746.0	607.4
2.2	Other property, plant and equipment	58.2	52.8
3	TECHNICAL PROVISIONS - REINSURERS' SHARE	396.0	460.4
4	INVESTMENTS	33,181.1	33,815.3
4.1	Investment property	314.2	196.8
4.2	Investments in subsidiaries, associates and interests in joint ventures	42.3	46.5
4.3	Investments held to maturity	1,689.0	1,823.0
4.4	Loans and receivables	15,250.3	14,754.6
4.5	Available-for-sale financial assets	11,985.1	13,023.6
4.6	Financial assets at fair value through profit or loss	3,900.3	3,970.7
5	SUNDRY RECEIVABLES	1,761.5	1,894.5
5.1	Receivables relating to direct insurance business	820.6	893.5
5.2	Receivables relating to reinsurance business	57.9	60.8
5.3	Other receivables	883.0	940.2
6	OTHER ASSETS	1,554.3	12,634.4
6.1	Non-current assets held for sale or disposal groups	0.0	11,811.9
6.2	Deferred acquisition costs	18.8	21.1
6.3	Deferred tax assets	1,230.0	509.8
6.4	Current tax assets	27.3	22.4
6.5	Other assets	278.2	269.2
7	CASH AND CASH EQUIVALENTS	239.7	231.8
	TOTAL ASSETS	39,577.8	51,754.4

Consolidated Statement of Financial Position - Equity and Liabilities

	Amounts in €m	31/12/2011	31/12/2010
1	EQUITY	3,204.5	4,020.8
1.1	attributable to the owners of the Parent	3,078.3	3,648.3
1.1.1	Share capital	2,699.1	2,698.9
1.1.2	Other equity instruments	0.0	
1.1.3	Equity-related reserves	1,506.3	1,506.3
1.1.4	Income-related and other reserves	91.0	56.2
1.1.5	(Treasury shares)	-0.2	-0.2
1.1.6	Translation reserve	0.0	
1.1.7	Gains or losses on available-for-sale financial assets	-1,090.9	-643.2
1.1.8	Other gains or losses recognised directly in equity	-18.6	-1.5
1.1.9	Profit (loss) for the year attributable to the owners of the Parent	-108.4	31.8
1.2	attributable to non-controlling interests	126.2	372.5
1.2.1	Share capital and reserves attributable to non-controlling interests	140.0	356.4
1.2.2	Gains or losses recognised directly in equity	-28.3	-23.3
1.2.3	Profit (loss) for the year attributable to non-controlling interests	14.5	39.4
2	PROVISIONS	112.5	85.0
3	TECHNICAL PROVISIONS	22,039.3	22,245.9
4	FINANCIAL LIABILITIES	12,828.7	12,653.3
4.1	Financial liabilities at fair value through profit or loss	1,458.2	1,472.6
4.2	Other financial liabilities	11,370.5	11,180.8
5	PAYABLES	439.7	451.5
5.1	Payables arising from direct insurance business	67.4	60.0
5.2	Payables arising from reinsurance business	43.2	30.4
5.3	Other payables	329.0	361.2
6	OTHER LIABILITIES	953.2	12,297.8
6.1	Liabilities associated with disposal groups	0.0	11,385.9
6.2	Deferred tax liabilities	339.2	266.2
6.3	Current tax liabilities	28.6	23.9
6.4	Other liabilities	585.4	621.8
	TOTAL EQUITY AND LIABILITIES	39,577.8	51,754.4

Consolidated Income Statement

	Amounts in €m	31/12/2011	31/12/2010
1.1	Net premiums	8,679.1	8,798.1
1.1.1	*Gross premiums*	*8,836.4*	*8,939.3*
1.1.2	*Ceded premiums*	*-157.3*	*-141.2*
1.2	Commission income	130.9	125.0
1.3	Gains and losses on remeasurement of financial instruments at fair value through profit or l	-245.3	-51.4
1.4	Gains on investments in subsidiaries, associates and interests in joint ventures	12.9	1.4
1.5	Gains on other financial instruments and investment property	1,753.3	1,680.1
1.5.1	*Interest income*	*1,380.5*	*1,194.7*
1.5.2	*Other gains*	*110.6*	*97.8*
1.5.3	*Realised gains*	*184.1*	*346.3*
1.5.4	*Unrealised gains*	*78.0*	*41.3*
1.6	Other income	113.0	128.9
1	TOTAL REVENUE AND INCOME	10,443.8	10,682.1
2.1	Net charges relating to claims	7,843.3	8,472.7
2.1.1	*Amounts paid and changes in technical provisions*	*7,891.8*	*8,528.3*
2.1.2	*Reinsurers' share*	*-48.5*	*-55.7*
2.2	Commission expense	28.3	28.3
2.3	Losses on investments in subsidiaries, associates and interests in joint ventures	24.2	1.1
2.4	Losses on other financial instruments and investment property	762.5	436.0
2.4.1	*Interest expense*	*276.5*	*218.6*
2.4.2	*Other charges*	*12.1*	*10.9*
2.4.3	*Realised losses*	*203.7*	*70.8*
2.4.4	*Unrealised losses*	*270.1*	*135.7*
2.5	Operating expenses	1,383.2	1,363.6
2.5.1	*Commissions and other acquisition costs*	*864.9*	*866.0*
2.5.2	*Investment management expenses*	*16.6*	*15.6*
2.5.3	*Other administrative expenses*	*501.7*	*482.0*
2.6	Other costs	669.6	210.3
2	TOTAL COSTS AND EXPENSES	10,711.1	10,512.0
	PRE-TAX PROFIT (LOSS) FOR THE YEAR	-267.3	170.1
3	Income tax	-173.3	99.0
4	PROFIT (LOSS) OF DISCONTINUED OPERATIONS	0.0	0.0
	CONSOLIDATED PROFIT (LOSS) FOR THE YEAR	-93.9	71.2
	attributable to the owners of the Parent	*-108.4*	*31.8*
	attributable to non-controlling interests	*14.5*	*39.4*

Consolidated Statement of Comprehensive Income - Net amounts

Amounts in €m	31/12/2011	31/12/2010
CONSOLIDATED PROFIT (LOSS) FOR THE YEAR	-93.9	71.2
Variations in translation reserve	0.0	
Gains or losses on available-for-sale financial assets	-452.7	-270.5
Gains or losses on cash flow hedges	-17.1	-12.3
Gains or losses on hedges of a net investment in foreign operations	0.0	
Variation in equity of investees	0.0	
Variation in the revaluation reserve for intangible assets	0.0	
Variation in the revaluation reserve for property, plant and equipment	0.0	
Gains or losses on non-current assets held for sale or disposal groups	0.0	
Actuarial gains and losses and adjustments relating to defined benefit plans	0.0	
Other items	0.0	
TOTAL OTHER COMPREHENSIVE INCOME/(EXPENSE)	-469.8	-282.8
TOTAL CONSOLIDATED COMPREHENSIVE INCOME/(EXPENSE)	-563.7	-211.6
attributable to the owners of the Parent	*-573.2*	*-230.2*
attributable to non-controlling interests	*9.4*	*18.6*

Consolidated Statement of Changes in Equity

Amounts in €m		At 31/12/2009	Changes to closing balances	Amounts allocated	Reclassification to the Income Statement	Transfers	At 31/12/2010	Changes to closing balances	Amounts allocated	Reclassification to the Income Statement	Transfers	At 31/12/2011
Equity attributable to the owners of the Parent	Share capital	2,391.4		307.5			2,698.9		0.2			2,699.1
	Other equity instruments											0.0
	Equity-related reserves	1,419.6		86.7			1,506.3					1,506.3
	Income-related and other reserves	929.1		-772.5		-100.4	56.2		34.8			91.0
	(Treasury shares)	-0.1					-0.2					-0.2
	Profit (loss) for the year	-771.9		31.8		771.9	31.8		-108.4		-31.8	-108.4
	Other comprehensive income/(expense)	-382.7		-212.9	-56.4	7.3	-644.7		-470.2	22.5	-17.0	-1,109.5
	Total attributable to the owners of the Parent	3,585.3	0.0	-559.5	-56.4	678.9	3,648.3	0.0	-543.7	22.5	-48.8	3,078.3
Equity attributable to non-controlling interests	Share capital and reserves attributable to non-controlling interests	240.0		116.4			356.4		-216.4			140.0
	Profit (loss) for the year	3.3		39.4		-3.3	39.4		14.5		-39.4	14.5
	Other comprehensive income/(expense)	-2.5		-3.5	-17.3		-23.3		-13.9	8.7	0.2	-28.3
	Total attributable to non-controlling interests	240.9	0.0	152.3	-17.3	-3.3	372.5	0.0	-215.9	8.7	-39.2	126.2
Total		3,826.2	0.0	-407.2	-73.7	675.5	4,020.8	0.0	-759.5	31.2	-88.0	3,204.5

STATEMENT OF CASH FLOWS (indirect method)		
Amounts in €m	31/12/2011	31/12/2010
Pre-tax profit (loss) for the year	-267.3	170.1
Change in non-monetary items	799.9	2,322.4
Change in Non-Life premium provision	-30.8	-15.3
Change in claims provision and other Non-Life technical provisions	-135.5	-261.7
Change in mathematical provisions and other Life technical provisions	23.7	2,038.0
Change in deferred acquisition costs	2.3	5.1
Change in provisions	27.5	-19.0
Non-monetary gains and losses on financial instruments, investment property and investments	465.5	105.3
Other changes	447.2	470.0
Change in receivables and payables generated by operating activities	122.2	-159.1
Change in receivables and payables relating to direct insurance and reinsurance	96.1	169.8
Change in other receivables and payables	26.1	-328.9
Paid taxes	-293.5	-73.2
Net cash flows generated by/used for monetary items from investing and financing activities	-356.5	465.4
Liabilities from financial contracts issued by insurance companies	-155.3	-982.7
Payables to bank and interbank customers	-80.7	1,169.4
Loans and receivables from banks and interbank customers	91.5	-340.6
Other financial instruments at fair value through profit or loss	-212.0	619.3
TOTAL NET CASH FLOW FROM OPERATING ACTIVITIES	4.8	2,725.5
Net cash flow generated by/used for investment property	-130.0	-1.8
Net cash flow generated by/used for investments in subsidiaries, associates and interests in joint ventures	4.1	-178.1
Net cash flow generated by/used for loans and receivables	-645.3	-231.0
Net cash flow generated by/used for held-to-maturity investments	172.4	-1.0
Net cash flow generated by/used for available-for-sale financial assets	332.5	-2,401.9
Net cash flow generated by/used for property, plant and equipment and intangible assets	-182.5	-95.1
Other net cash flows generated by/used for investing activities (*)	325.2	0.4
TOTAL NET CASH FLOW GENERATED BY/USED FOR INVESTING ACTIVITIES	-123.6	-2,908.5
Net cash flow generated by/used for equity instruments attributable to the owners of the Parent		394.2
Net cash flow generated by/used for treasury shares		0.1
Dividends distributed attributable to the owners of the Parent		-100.4
Net cash flow generated by/used for share capital and reserves attributable to non-controlling interests	-16.0	-1.1
Net cash flow generated by/used for subordinated liabilities and equity instruments	-34.2	-32.4
Net cash flow generated by/used for other financial liabilities	176.9	-50.2
TOTAL NET CASH FLOW GENERATED BY/USED FOR FINANCING ACTIVITIES	126.6	210.2
Effect of exchange rate gains/losses on cash and cash equivalents	0.0	0.0
CASH AND CASH EQUIVALENTS AT 1 JANUARY (**)	231.8	221.5
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	7.9	27.2
CASH AND CASH EQUIVALENTS AT 31 DECEMBER (**)	239.7	248.7

(*) At 31/12/2011 this corresponds to the amount from the sale of the Bnl Vita investment, which took place on 29/9/2011

(**) The cash and cash equivalents of Bnl Vita shown in the cash and cash equivalents at the end of 2010 (€16.9m) were not included in the Cash and cash equivalents at the start of 2011

Notes to the Financial Statements

NOTES TO THE FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The Unipol Group, consisting of the Parent Unipol Gruppo Finanziario ("Unipol") and its subsidiaries, operates in all Non-Life and Life insurance and reinsurance business, may issue investment contracts and may set up and manage open-ended pension funds. It also operates in banking business.

The Parent Unipol is a joint-stock company, has its registered office in Bologna (Italy) and is listed on the Milan Stock Exchange.

Unipol's consolidated financial statements were drawn up in accordance with Article 154-*ter* of Legislative Decree 58/1998 (TUF) and of ISVAP ruling 7 of 13 July 2007, as amended. They conform to the IFRS issued by the IASB and endorsed by the European Union, along with the interpretations issued by IFRIC, in accordance with the provisions of EC Regulation 1606/2002 in force on the date the financial statements closed.

The consolidated financial statements are made up of:

- Statement of financial position
- Income statement and statement of comprehensive income
- Statement of changes in equity
- Statement of cash flows
- Notes to the financial statements
- Tables appended to the Notes to the financial statements

The layout conforms to the provisions of ISVAP Ruling 7 of 13 July 2007, Part III as amended, relating to the layout of the consolidated financial statements of insurance and reinsurance companies that must adopt IFRS.

The information requested in CONSOB Communications DEM/6064293 of 28 July 2006 and DEM/11070007 of 5 August 2011 is also provided.

The presentation currency is the euro and all the amounts shown in these notes are in €m, except when specifically indicated, rounded to one decimal place; therefore the sum of the individual amounts is not always identical to the total.

The consolidated financial statements at 31 December 2011 were audited by KPMG SpA, the company engaged to perform the legally-required audit for the period 2006-2011.

On 28 April 2011, after having examined the motion submitted by the Board of Statutory Auditors, the Shareholders' Meeting of the Parent Unipol voted to appoint PriceWaterHouseCoopers S.p.A. to perform the legally-required audit of the Company's separate financial statements (including checking that the company's books have been properly kept and carrying out the checks associated with the signing of the tax returns), and the Group's consolidated financial statements and the review of the Group's consolidated interim report as at and for the years ending 31 December 2012 to 31 December 2020.

Consolidation scope

The Group's consolidated financial statements at 31 December 2011 have been drawn up by combining the figures of the Parent Unipol and those for the 27 direct and indirect subsidiaries (IAS 27) and 4 special-purpose entities. Subsidiaries deemed to be too small to be of relevance are excluded from the consolidated financial statements.
There are no jointly-controlled interests.
Associates, in which the investment percentage ranges between 20% and 50%, and subsidiaries considered immaterial (17 companies), are measured using the equity method (IAS 28).

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

Changes in the consolidation scope compared with 31 December 2010

Acquisitions

On 1 December 2011, the real estate company Midi Srl acquired 100% of Covent Garden BO Srl, which in turn holds, as its single asset, the entire quota capital of Comsider Srl, the company that owns the site and the property (demolition of which was already planned) at Via Stalingrado 31, Bologna, near the Group's new offices (Porta Europa). The site will be used for the construction of a new building for production purposes of the Group.
The price paid was €2m in addition to the €2.5m shareholder loan provided by Midi.
This acquisition is not deemed to be a business combination but an acquisition of assets (IFRS 3. 2. b). The whole price paid was for the site, which is therefore recognised in the consolidated financial statements at a total value of €4.6m.

On 13 December 2011, Unipol Assicurazioni acquired 100% of Punta di Ferro Srl, registered in Castelnovo di Sotto (Reggio Emilia), owner of the arcade and holder of the relative commercial permits in the shopping centre of the same name on the outskirts of Forlì that opened in April 2011.
The price paid was €49m, in addition to the €73.7m shareholder loan granted on the same date for a future capital increase in order to strengthen the company's equity.
This acquisition is not deemed to be a business combination but an acquisition of assets (IFRS 3, 2. b). The whole of the price paid was for the building, which is therefore recognised in the consolidated financial statements at a total value of €123.9m.
The shopping arcade consists of an area of approximately 8,000 m^2 with all of its 97 commercial premises already let, providing an annual rent expected to be approximately €6.7m in 2012 and, once fully operational (from 2013), approximately €7.5m.

On 19 December 2011, by underwriting a €0.7m capital increase Smallpart became the holder of 50% of the share capital of Assicoop Grosseto Spa, an insurance brokerage company. This investment is deemed to be a significant equity interest.

Sales

On 7 April 2011, BNP Paribas exercised its option right to acquire the 25,500,000 shares held by Unipol in Bnl Vita, corresponding to 51% of the share capital, and designated the subsidiary Cardif Assicurazioni as purchaser.
On 29 September 2011, once BNP Paribas and Cardif Assicurazioni had obtained the permits required by law, the investment was sold for a total price, as laid down in the contract, of €325.2m.
This price enabled Unipol to realise a capital gain of €55m in the separate financial statements net of tax (€1m). On the other hand it had almost no overall effect on the consolidated income statement.
The Report on the sale was drawn up in accordance with Article 71 of the Regulation implementing Legislative Decree 58 of 24 February 1998, adopted by CONSOB in its ruling 11971 of 14 May 1999, as amended and integrated, and published on 14 October 2011. Further information on the effects of the sale are contained in the Report, which is available in the Investor Relations/Notices and statements section of the Unipol website. In addition, in view of the impending sale, the Bnl Vita figures had already been set out in accordance with the provisions of IFRS 5 in the consolidated financial statements at 31 December 2010.

On 22 December 2011 and 23 December 2011, Smallpart sold 30% and 41.5% of the share capital of the associate insurance brokerage companies Assicura Spa of Reggio Emilia and APA Spa of Parma, respectively, making a total capital gain in the consolidated financial statements of €5m.
Smallpart's remaining units, 4.99% of both companies, were reclassified at fair value as available-for-sale financial assets, as provided for by IAS 28.18.
On 15 December, these companies signed the deed contributing (with effect from 1/1/2012) the respective insurance business to Assicoop Emilia Nord Srl, jointly set up on 4 March 2011 by Assicura and APA, in which Smallpart has held a significant equity interest of 50% since 1 January 2012.

On 27 December 2011 Smallpart also sold 44% of the share capital of the associate insurance brokerage companies Assicoop Ravenna Spa of Ravenna and Assicoop Romagna Spa of Forlì, making a total capital gain in the consolidated financial statements of €4.7m.
Smallpart's remaining units, 4.99% of both companies, were reclassified at fair value as available-for-sale financial assets, as provided for by IAS 28. 18.
On 20 December these companies signed the deed contributing (with effect from 1/1/2012) the respective insurance business to Assicoop Romagna Futura Srl, jointly set up on 26 September 2011 by Assicoop Ravenna and Assicoop Romagna, in which Smallpart has held a significant interest of 50% since 1 January 2012.

On 30 November 2011 Unipol Banca sold 22.86% of the share capital of the associate CampusCertosa, of which it held 49.02%.

On 21 December 2011 Arca Vita sold its entire investment (28.57%) in the associate B&A Broker Spa.

Operations carried out on the capital of participating interests and the other non-recurring operations carried out during 2011 that did not affect the consolidation scope are set out below, broken down according to participating company:

– the contribution of Navale Assicurazioni's insurance business to Unipol Assicurazioni and the merger of Navale Assicurazioni into the holding company, Unipol, took effect for legal, accounting and tax purposes on 1 January 2011. As a result of the completion of the merger of Navale Assicurazioni into Unipol, since 1 January 2011 Unipol's share capital, which is fully subscribed and paid-up, has amounted to €2,699,066,930.11. It is divided into 3,416,540,416 shares, 2,114,257,106 of which are ordinary shares and 1,302,283,310 preference shares, an increase for the purpose of the merger of €171,761.01 since 31 December 2010. Unipol Assicurazioni's capital increase for the purpose of the exchange was €277.6m;
– Arca Vita's capital increase from €90,000,000 to €144,000,000 was registered on 4 January 2011, having been fully subscribed and paid up during 2010. Unipol's controlling share rose from 60% to 60.84% as a result of the company subscribing to the 201,669 shares that had not been taken up. Taking into account the 286,820 treasury shares that Arca Vita has in its portfolio Unipol's actual controlling share is 61.58%;
– on 1 January 2011 Navale Vita changed its name to Linear Life SpA (Life company selling policies directly online) and moved its registered office from Roma to Bologna. As Navale Assicurazioni's holding in Navale Vita was not included in the contribution, its controlling investment in Linear Life SpA was transferred when it was merged into Unipol;
– during February 2011 Unipol Banca acquired the non-controlling interests in Unipol Merchant, which represented 13.82% of the share capital, for an amount of €16m, making it the sole owner of Unipol Merchant's share capital;
– on 13 April 2011 UGF Assistance Srl, a fully-owned subsidiary of Unisalute, changed its name to Centri Medici Unisalute Srl;
– on 1 July 2011 the operation to merge the associate Assicoop Ferrara Spa into the associate Assicoop Modena Spa was completed. From that date the company changed its name to Assicoop Modena & Ferrara Spa, with registered office in Modena. Smallpart holds 43.75%;
– on 23 May 2011 the associate Assicoop Sicura Spa in Bologna changed its name to Assicoop Bologna Spa;
– on 28 September 2011 the Shareholders' Meeting of UGF Private Equity Sgr voted to dissolve the company and go into voluntary liquidation. On 26 January 2012 the Shareholders' Meeting approved the statement of realisation and liquidation and the company was deleted from the Register of Companies on 3 February 2012.

During the year **Unipol** made the following payments to increase the share capital of the following subsidiaries:
– €150m for Unipol Assicurazioni
– €67.7m for Unipol Banca
– €38.5m for Arca Vita
– €5m for Unisalute
– €5m for Linear Assicurazioni
– €1.5m for Linear Life
– €27.5m for Ambra Property

Unipol Assicurazioni made the following payments to increase the share capital of the following subsidiaries/related companies:
– €32.3m for Unipol Banca

– €13m for Midi
– €62.5m for Unifimm

Unisalute made a payment of €1.5m to increase the share capital of the subsidiary Centri Medici Unisalute (CMU).

Arca Vita made a payment of €25m for a capital increase in favour of Arca Assicurazioni.

Reporting date

The reporting date of the consolidated financial statements is 31 December 2011, the date the separate financial statements of the Parent Unipol closed. All the consolidated companies closed their financial statements at 31 December with the exception of the associate Pegaso Finanziaria SpA, which closed its latest financial statements at 30 June and for which interim financial statements up to the date of the consolidated financial statements have been used.
With the exception of the companies belonging to the Unipol Banca banking group, the consolidated financial statements were drawn up using restatements of the individual financial statements of the consolidated companies adjusted to comply with the IFRS, as applied by the Parent Unipol and approved by the Boards of Directors of the companies concerned. The companies in the Unipol Banca Group draw up separate financial statements by applying the IFRS.

Basis of consolidation

Companies consolidated on a line-by-line basis

This method provides for the consolidation on a line-by-line basis of the assets, liabilities, income and charges of the consolidated companies as from the date they were acquired, with the carrying amount of the investment eliminated being offset against the corresponding amount of the equity of each individual subsidiary and, in the case of investments not wholly owned, the separate recognition of the amount of the equity and the profit or loss for the year attributable to non-controlling interests.
The amount of equity attributable to non-controlling interests is recognised under equity as 'Equity attributable to non-controlling interests', whilst the relevant amount of the consolidated profit or loss is shown under 'Profit (loss) for the year attributable to non-controlling interests'.
The financial statements of the subsidiaries are consolidated on a line-by-line basis with the exception of those that are so small that the equity method is used. Four special-purpose companies are also consolidated on a line-by-line basis. These are the vehicles used by Unipol Banca for securitisations which, whilst not being subsidiaries, are consolidated as laid down in SIC 12.

Goodwill

If the cost of acquiring investments in subsidiaries and associates exceeds the fair value of the identifiable assets, liabilities and contingent liabilities, the excess amount is recognised as goodwill under intangible assets.
This goodwill represents a payment made in the expectation of future economic benefits arising from assets that cannot be identified individually and recognised separately.
In the years following the year of acquisition, goodwill is measured at cost, net of any impairment losses accumulated.
Since 2010 (new IFRS 3) the ancillary costs of acquisition operations have been recognised in profit or loss during the year in which they are incurred or the services provided.

Under the new IAS 27 (paras 30-31) variations in an investment in a subsidiary that do not lead to loss of control are recognised as equity transactions. Any difference between the proportion of equity acquired in the subsidiary and the fair value of the price paid or received is recognised directly in equity and allocated to the members of the holding company.

Companies consolidated on a proportionate basis

There were no jointly-controlled interests at 31 December 2011.

Companies measured using the equity method

When this method is used the carrying amounts of the investment is adjusted according to the relevant portion of equity, including the profit/loss for the year and all the adjustments made when consolidation is on a line-by-line basis. Any difference between the portion of equity acquired and the fair value of the price paid (goodwill) is recognised in the carrying amount of the investment.

Elimination of intercompany transactions

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

Segment reporting

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

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

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

2. ACCOUNTING POLICIES

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

New standards and other documents

IAS 24 revised – Related party disclosures

On 4 November 2009 the IASB issued a new version of IAS 24, applicable for years beginning after 1 January 2011.
This new version of IAS 24 did not essentially change the fundamental approach to reporting on related parties provided for in the previous version. The new standard simplified the definition of related party, eliminating inconsistencies, and simplified the additional information to be provided in the case of government bodies. Before IAS 24 was revised, bodies controlled or significantly influenced by the Government were required to provide information on all operations carried out with all other bodies controlled or significantly influenced by the Government. The new version of IAS 24 does not require information to be provided that it would be onerous to obtain nor that would be of little interest to those reading the report.

Amendment to IFRS 7 – Financial instruments: additional information – transferring financial assets

On 22 November 2011 the European Commission approved Regulation 1205/2011 published in European Union Official Gazette L 305 of 23 November 2011.
The Regulation validated the document amending IFRS 7 'Financial instruments: additional information – transferring financial assets' published by the IASB in October 2010, which provides further information on transferring financial assets.
The aim of the changes to IFRS 7 is to encourage greater transparency as regards risks linked to transactions in which, when financial assets are transferred, the seller is still, within certain limits, exposed to the risks associated with the financial assets sold ('residual involvement').
More information is also required when financial assets are transferred at particular times (for instance near the end of the financial year) in order to guarantee greater transparency in the case of transactions that could have been intended to enhance the financial statements (window dressing*)*.
The amendments to IFRS 7 must be applied to financial statements for the financial period beginning 1 July 2011 or subsequently.

ESMA Document 2011/397 on recording sovereign debt securities

On 25 November 2011 ESMA published document 2011/397 on recording sovereign debt securities. The document is a follow-up to that published on 28 July 2011, which emphasised the need for greater transparency from listed companies and financial institutions when recording sovereign debt securities.
The document consists of two sections:
– the first section relates to financial statements at 31 December 2011 and indicates the elements that issuers and their auditors should take into consideration regarding exposure to sovereign debt when drawing up separate financial statements;

– the second section shows the results of a study carried out by ESMA on the method of recognising Greece's sovereign securities in the interim reports (30/6/2011) of a sample of financial institutions listed on European regulated markets and ESMA's opinion on this point.

OIC (the Italian Accounting Standard Setter) – Application of IAS/IFRS to the insurance sector 2.2: 'Impairment and goodwill'

On 4 May 2011 the OIC's Board of Management gave final approval for the IAS/IFRS 'Impairment and goodwill' to be applied to the insurance sector. The document is a supplement to Implementation 2 'Impairment and goodwill' relating to insurance business and should be read in conjunction with and in addition to that document.
The aim of the document is to analyse several distinguishing features of the insurance sector relating to impairment tests on goodwill that require closer independent examination.
It applies to consolidated financial statements drawn up by insurance companies and to individual financial statements drawn up in accordance with the IFRS.
The comments and examples may or will have to be revised in order to take account of the developments in Phase II of the Insurance contracts Project and any major amendments arising as a result of variations in IFRS currently under review by the IASB of particular relevance to the insurance sector (such as IAS 39).
The document applies as from financial statements covering the date on which it was approved.

The accounting policies and the most significant criteria used in drawing up the consolidated financial statements are set out below.
The paragraph numbers are the same as those of the corresponding items in the Statement of Financial Position and Income Statement, which are laid out in accordance with ISVAP Ruling 7/2007.

Statement of financial position

Assets

1 Intangible assets - IAS 38

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

The following assets are recognised as intangible assets with a finite life and therefore amortised as from when they are available for use:
- goodwill paid for the acquisition of Life portfolios: the value of the policies acquired is determined by estimating the present value of the future cash flows of the existing policies. The Group amortises this value throughout the expected average residual life. This valuation is reviewed annually;
- costs incurred for the acquisition of software licences, amortised over three years;
- costs incurred for consultancy on major projects for developing and implementing IT systems, including personalisation of the relative software, amortised over five or ten years according to their estimated useful life;
- expenses relating to building work on third party assets, amortised over the term of the rental agreements concerned.

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

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

2 Property, plant and equipment - IAS 16 and 17

This item includes property used for corporate business, plant, other machinery and equipment.
For recognising and measuring this category of assets the Group has adopted the cost model, which systematically depreciates the asset's depreciable amount over its useful life.
Depreciation, which is carried out each year on a straight-line basis, begins when the asset is available and ready for use and ends when the asset has come to the end of its useful life (which in the case of buildings is estimated at 30 years).
In the case of wholly-owned property (land and buildings) depreciation is carried out only on the building.

Consolidated real estate companies include in the carrying amount the borrowing costs incurred for loans specifically for acquiring and renovating property, if this can be justified.

The costs of improvements and conversions are capitalised if they result in an increase in the useful life or the carrying amount of the assets.

Assets that suffer impairment losses are impaired.
The carrying amount of property acquired as a result of business combinations is reassessed on the basis of the current value on the date of acquisition.

Financial leases relating to movables (company cars, IT equipment and miscellaneous equipment) are recognised in accordance with the provisions of IAS 17 under which, in the case of financial lease agreements, the cost of the items leased is recognised as property, plant and equipment, whereas the principal and end-of-lease purchasing payments are recognised as financial payables.

3 Technical provisions – Reinsurers' share – IFRS 4

This item includes reinsurers' liabilities arising from reinsurance contracts governed by IFRS 4.

4 Investments

4.1 Investment property – IAS 40

This item includes property held either to earn rental income or for capital appreciation or for both.

Investment property is recognised by applying the cost method, as allowed by IAS 40 (an alternative to the fair value method).
If the final recoverable amount of property is estimated to be less than the carrying amount (or zero) it is depreciated annually on a straight-line basis, based on the recoverable amount and the estimated useful life (30 years).
If the recoverable amount of the property is estimated to exceed the carrying amount no depreciation is applied. In the case of the Group this applies to residential property.

In the case of wholly-owned property (land and buildings) depreciation is carried out only on the building.

The costs of improvements and conversions are capitalised if they result in an increase in the carrying amount, the useful life or the profitability of the assets.

Assets that suffer impairment losses are depreciated. The market value is determined at least once a year by means of expert appraisals conducted by outside companies.

The carrying amount of property acquired as a result of business combinations is reassessed on the basis of the current value on the date of acquisition.

4.2 Investments in subsidiaries, associates and interests in joint ventures – IAS 28 and 31

This item includes investments in associates as defined in IAS 28 and investments in subsidiaries that because of their size are considered immaterial, which are measured using the equity method or at cost.

Financial assets - IAS 32 and 39 - IFRS 7

IAS 39 provides that debt and equity instruments, receivables, payables and derivatives must be classified according to the purposes for which they are held. The following categories are provided for:

- Held-to-maturity investments
- Loans and receivables
- Available-for-sale financial assets
- Financial assets at fair value through profit or loss

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

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

4.3 Held-to-maturity investments

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

This category includes bonds that the Group intends and is in a financial position to hold to maturity, for example most of the fixed-yield bonds acquired to match special Life tariffs.

If a substantial number of securities in this category are sold early (or reclassified), all the remaining securities must be reclassified as Available-for-sale financial assets and may not be used for the next two financial years.

4.4 Loans and receivables

Receivables in this category consist of contracts for which the Group holds a right to the cash flows arising from the loan agreement. They are characterised by fixed or ascertainable payments and are not listed on an active market.
This item consists mainly of loans to customers and banks of the Banking Group.
This category also includes loans and credit facilities issued by the insurance companies, reinsurers' deposits, loan repo contracts, term deposits exceeding 15 days, receivables for agents' recoupments, unlisted debt securities largely subscribed by the Group and bonds reclassified following application of IAS 39 paragraphs 50D and 50E.

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

In accordance with the provisions of IAS 39, loans and receivables must be initially recognised at their fair value, which corresponds to the amount granted including the transaction costs and the commissions and fees chargeable directly. Following the initial recognition receivables are measured at the amortised cost, which is represented by the initial carrying amount net of repayments, plus or minus any difference between the initial amount and the amount on maturity because of depreciation calculated in accordance with the criterion of effective interest method and less any impairment loss or reduction due to irrecoverability.
Applying the effective interest method enables the financial effect of a loan transaction to be spread evenly over its expected life, which makes financial sense. In fact, the effective interest rate is the rate that discounts all the future cash flows of the loan and establishes a present value corresponding to the amount granted including all the transaction costs and income pertaining to it. When the cash flows and the contractual term of the loan are being estimated, all the contractual terms that can affect the amounts and the maturity dates (for instance, early repayments and the various options that may be exercised) are taken into account but not the losses expected on the loan. Following initial recognition, for the whole life of the loan the amortised cost is determined by continuing to apply the effective interest rate fixed at the start of the transaction (original interest rate). This original interest rate does not vary over time and is also used in the case of any contractual amendments to the interest rate or events which have made the loan non-interest bearing (for instance, due to insolvency proceedings).

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

On the reporting date for each set of financial statements or interim financial statements the loans are checked in order to identify those for which there is objective evidence of impairment owing to events that have occurred after they were initially recognised.
In particular, in the case of loans and receivables in the banking sector, which make up a large part of this category, measurement procedures differ depending on whether the loans are performing or non-performing.

Loans are considered to be non-performing if they are deemed to be bad and doubtful, substandard or restructured loans, or if they are more than 180 days overdue, in accordance with current Bank of Italy instructions. These non-performing loans are subjected to a process of analytical valuation consisting in discounting (at the original effective interest rate) the cash flows expected by way of principal and interest, taking account of any guarantees assisting the loan. The negative difference between the present value of the loan and its carrying amount (amortised cost) at the time it is measured constitutes an adjustment, and that is recognised in profit or loss.

The original value of the loans is reinstated in subsequent years only in the event that the reasons that led to the impairment in question no longer exist. Impairment losses can be reversed up to an amount not exceeding the carrying amount that it would have had if the amortised cost had been applied without prior impairment.

Receivables for which there is no individual objective evidence of impairment (in general performing loans, including receivables from counterparties resident in risky countries and loans overdue by no more than 180 days) are measured collectively according to standardised category of credit risk based on type of

customer and type of product. The value of the intrinsic loss according to standardised category is calculated by applying percentage loss indices ascertained by analysing the performance of each category over previous periods of at least three years.
The adjustments made in accordance with the collective method are recognised in the income statement. In subsequent periods any additional adjustments or reversals of impairment losses are determined using the differential method by reference to the entire loan portfolio measured as a whole.
Receivables assigned are eliminated only if the assignment involves the substantial transfer of the risks and rewards pertaining to them. If this is not the case receivables continue to be recognised even though ownership of them has been legally transferred.
The presumption is that all the risks and rewards are substantially transferred if the assignment involves transferring at least 90% of them. On the other hand, the presumption is that all the risks and rewards are substantially retained if the assignment involves transferring no more than 10% of them.
If the assignment does not involve either transferring or retaining a substantial percentage of the risks and rewards (in the event that the Group retains more than 10% but less than 90% of the risks/rewards) the receivables are eliminated provided the Group retains no control over them at all. Otherwise, the fact that some control over the receivables assigned is retained means that they are maintained in the financial statements in proportion to the level of residual involvement.

4.5 Available-for-sale financial assets

Investments classified as available-for-sale financial assets are measured at fair value. The differences compared with the carrying amount must be recognised in equity in a specific reserve for unrealised gains/losses (net of tax). In the event of sale or impairment losses established as a result of impairment testing, unrealised gains or losses accumulated in equity until that time are transferred to the income statement.

Information on how the fair value is determined is given under *Fair value hierarchy* below.

The amortised cost of the debt securities in this category calculated according to the effective rate of return is recognised in profit or loss. The comparison with the fair value is made after the proportion of the amortised cost for the year has been recognised.

This category includes debt instruments, equity instruments and UCITS units, investments deemed to be of strategic importance (less than 20% of the share capital, of commercial or company strategic importance) and Unipol Merchant's investments held for merchant banking purposes.

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

Impairment policy for financial assets adopted by the Unipol Group

IAS 39, para. 58, provides that on each reporting date companies must check whether there is any objective evidence that a financial asset or a group of financial assets is impaired.
In order to determine whether a financial asset or a group of financial assets shows signs of impairment it must be periodically tested for impairment.
Indicators of a possible impairment are, for instance, the issuer's significant financial difficulties, failure to pay the full amount of interest or principal, the possibility of the beneficiary becoming bankrupt or entering into another insolvency proceeding and the disappearance of an active market for the asset.

In addition, in accordance with para. 61 of IAS 39, a 'significant or prolonged' decline in the fair value of an equity instrument below its cost must be considered to be 'objective evidence of impairment'.
IAS 39 does not define the two terms '*significant*' and '*prolonged*' but implies, partly on the basis of an IFRIC guideline, that their meaning should be left to the directors whenever they have to draw up annual or interim financial statements under IFRS, provided that the meaning is determined in a reasonable manner and complies with paragraph 61 of IAS 39.

Starting with the 2009 financial statements the Group defined as significant a reduction in the market value of equity instruments classified as available-for-sale (AFS) financial assets of 20% compared with the initial recognition and deemed as prolonged a market value remaining below the initially recognised amount for more than 36 months. These benchmarks also remained unchanged in the subsequent measurements until and including the 2011 interim report.

At the end of the 2011 financial year, in view of the impact of the crisis in the financial markets on the performance of share prices, which recognised a gradual downturn combined with an increase in volatility, thus giving rise to doubts as to whether current prices were the best indicator of the intrinsic value of assets, the Group carried out a thorough analysis of how markets have performed over the last decade. The results of this analysis led the Group to raise the threshold of significance of impairment losses on equity instruments classified as AFS from 20% to 50%.

Therefore, from 31 December 2011 in the case of **equity instruments** the impairment test is carried out by selecting all the instruments to which at least one of the following conditions applies:

a) the market price has remained below the initially recognised amount for the last 36 months;
b) the impairment loss on the reporting date is more than 50% of the initial recognition amount.

The impairment of these instruments is deemed to be confirmed and the total variation in fair value is recognised in profit or loss, with elimination of gains or losses on the underlying available-for-sale financial assets.

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

4.6 Financial assets at fair value through profit or loss

Investments in this category are recognised at fair value and the differences (positive or negative) between fair value and carrying amount are recognised through profit or loss.
Information on how the fair value is determined is given under *Fair value hierarchy* below.

There are two further subitems:

- Financial assets held for trading, which includes debt and equity instruments, mainly listed, asset items in derivative agreements and structured financial instruments where the embedded derivative would have to be separated if they were classified in a different category;
- Financial assets to be recognised at fair value through profit or loss, mainly consisting of assets linked to financial liabilities at fair value such as investments relating to policies issued by insurance companies where the investment risk is borne by the policyholders and those arising from pension fund management.

Derivatives

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

Derivatives may be acquired for 'trading' or 'hedging' purposes. In the case of hedging transactions IAS 39 provides for cumbersome and complex rules for drawing up appropriate documentation to be used to check the effectiveness of the hedge from the time it is activated and throughout its entire term (hedge accounting).

Transactions on both fair value hedges and cash flow hedges were in existence at 31 December 2011.

All financial derivatives are classified as Financial assets held for trading.

Fair value hierarchy

When the fair value is being determined IFRS 7 requires that information is provided for each class of financial instrument on the methods and, if a method of valuation is used, on the assumptions made to determine the fair value of each individual class of financial asset or liability. If there has been a change in the method of valuation, information must be provided on this change and on the reasons that led to it.

The fair value must be classified on a hierarchical scale made up of three levels that reflect the importance of the data used in making the valuations.

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

The following information must also be provided, inter alia, for each class of financial instrument (contained in the two tables appended to these Notes, 'Details of financial assets and liabilities by level' and 'Details of changes in financial assets and liabilities at level 3'):

– the hierarchical level of fair value that includes the valuations of fair value in their entirety, the valuations of fair value being subdivided in accordance with the three levels defined above;
– all transfers of significant amounts between Level 1 and Level 2 of the hierarchical scale of fair value and the reasons for these transfers;
– in the case of valuations of fair value on Level 3 of the hierarchical scale of fair value, a reconciliation of the initial and final balances.

The Group classifies assets and liabilities according to level of fair value as follows:

➢ Level 1: financial assets or liabilities listed on regulated markets or contributions with a sufficient level of liquidity;
➢ Level 2: financial assets or liabilities not belonging to Level 1 that are not valued according to the market and for which the valuation benchmarks used can be seen on the market;
➢ Level 3: financial assets or liabilities not belonging to Level 1 that are not valued according to the market and for which the valuation benchmarks cannot be seen on the market.

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

In the case of bonds the benchmarks listed below are analysed in order to ascertain their provenance from markets or from cash instruments identifiable in no uncertain manner on the market by means of an info provider:

– Credit curves, considered to be seen if extrapolated from CDS or asset swap curves with a sufficient level of liquidity and not valued internally or by means of benchmarks.
– Rate curves.
– Rate volatility: instruments valued by means of implicit volatilities for Cap, Floor and Swaption contracts that can be seen on the market and have a sufficient level of liquidity are classified as Level 2; instruments valued by means of interest rate volatility calculated on historical bases are classified as Level 3.
– Correlations between rates: if the models used for measuring financial instruments require the use of correlation between rates, they are considered as belonging to Level 3, since this parameter is always valued internally.

Equity instruments listed on regulated markets are classified as Level 1 while the remaining instruments are classified as Level 3.

Reclassifications of financial assets

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

If a financial asset is no longer held for sale or repurchase in the short term (although the financial asset may have been acquired or held mainly for sale or repurchase in the short term), it may be transferred from fair value through profit or loss if the following requirements are met:

- the circumstances must be very unusual (para. 50B), or
- the asset to be reclassified would have come under 'loans and receivables' (if the financial asset had not had to be classified as held for trading when initially recognised) and the entity has the intention and the ability to hold the financial asset for the foreseeable future or to maturity (para. 50D).

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

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

In the case of a financial asset reclassified from 'available for sale', the previous gain or loss on the asset recognised directly in equity must be amortised in the income statement throughout the asset's remaining useful life using the effective interest method.

If the entity has reclassified a financial asset from fair value through profit or loss or from 'available for sale', the following is some of the information that must be provided (IFRS 7):

- the amount reclassified from and to each category;
- for each year until it is derecognised, the carrying amount and the fair value of all financial assets reclassified during the current and preceding year;
- whether a financial asset was reclassified in accordance with paragraph 50B, however unusual the situation, and the facts and the circumstances of the unusual situation;
- for the financial year in which the financial asset was reclassified, the fair value gain or loss on the financial asset;
- for each year following reclassification (including the year in which the financial asset was reclassified) until the financial asset is derecognised, the fair value gain or loss that would have been recognised if the financial asset had not been reclassified.

5 Sundry receivables

Sundry receivables are recognised at their nominal amount and subsequently assessed at their estimated realisable value.

The item Sundry receivables includes receivables due within twelve months, in particular Receivables relating to direct insurance business, Receivables relating to reinsurance business and Other receivables, such as trade receivables and tax receivables.

6 Other assets

6.1 Non-current assets held for sale or disposal groups – IFRS 5

This item includes Non-current assets held for sale and any discontinued operations as defined by IFRS 5.

Assets held for sale are recognised at the carrying amount or fair value, whichever is the lower, less costs to sell.
If an investment in a subsidiary consolidated using the line-by-line method is to be sold within the time limit laid down by IFRS 5, all the assets of the company to be sold are reclassified as 'Non-current assets held for sale or disposal groups' in the consolidated statement of financial position (item 6.1 of the Assets) and the liabilities are similarly reclassified under the single item 'Liabilities associated with disposal groups' (item 6.1 of the Liabilities). Both items appear in the consolidated financial statements net of intercompany transactions with the company to be sold.

If the group continues to operate in the business of the company to be sold, income statement items relating to the assets held for sale or disposal groups are recognised in accordance with the normal rules of consolidation on a line-by-line basis.

6.2 Deferred acquisition costs

This item includes acquisition costs for multiyear insurance contracts, paid in advance and amortised on a straight-line basis over the maximum life of the contracts.

6.3 Deferred tax assets – IAS 12

This item includes Deferred tax assets based on the deductible temporary differences between the carrying amounts and the amounts for tax purposes of the assets and liabilities of the individual consolidated companies and on the consolidation adjustments. If there are any tax losses, deferred tax assets are also recognised provided there is a probability that taxable income for which they can be used will be available in future.
Deferred taxes are based on the tax rates ruling at the end of the year or on the rates that are expected to be applied in future based on information available at the end of the financial year.

If assets are revalued solely for tax purposes and relate neither to a revaluation of the carrying amount for a previous year nor to one that is to be carried out in a subsequent year, the tax effects of the adjustment for tax purposes must be recognised in the income statement.

6.4 Current tax assets – IAS 12

This item includes assets relating to current taxation.

6.5 Other assets

Among other things, this item includes prepayments and accrued income and deferred commissions payable relating to investment contracts with no discretionary participation feature, since they are additional costs incurred to acquire the contract and are amortised on a straight-line basis over the whole life of the contract.

7 Cash and cash equivalents – IAS 7

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

Liabilities

1 Equity – IAS 32

1.1.3 Equity-related reserves

This item includes in particular the share premium reserve of the company that carries out the consolidation. It includes the direct costs of issuing equity instruments, net of tax, and any commission income, net of tax, received for the sale of option rights not exercised by shareholders.

1.1.4 Income-related and other reserves

In particular this item includes gains or losses arising from the first-time application of IAS/IFRS (IFRS 1), gains or losses resulting from changes in accounting standards or accounting estimates (IAS 8), equalisation and catastrophe provisions eliminated under IFRS 4, provisions arising from equity-settled share-based payment transactions (IFRS 2) and the consolidation reserves.

1.1.5 Treasury shares

This item includes the equity instruments of the undertaking that draws up the consolidated financial statements owned by the undertaking itself and the consolidated companies. The item was negative. The gains or losses resulting from their subsequent sale are recognised as changes in equity.

1.1.7 Gains or losses on available-for-sale financial assets

This item includes gains or losses on available-for-sale financial assets, net of tax and amounts pertaining to policyholders as a result of the application of shadow accounting.

1.1.8 Other gains or losses recognised directly in equity

This item includes, inter alia, gains or losses on cash flow hedges and the revaluation reserves of property, plant & equipment and intangible assets.

2 Provisions – IAS 37

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

3 Technical provisions – IFRS 4

Classification of insurance contracts

According to IFRS 4 insurance contracts are contracts that transfer significant insurance risks. Such contracts may also transfer financial risks.
An insurance risk is significant if, and only if, there is a reasonable possibility that the occurrence of the insured event will cause a significant change in the current value of the insurer's net cash flows.
Investment contracts are contracts that transfer financial risks but involve no significant insurance risks.
Some insurance and investment contracts may include discretionary participation features.

All the policies in the Non-Life portfolio at 31 December 2011 were classified as insurance contracts.

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

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

Some contracts provide for discretionary participation features (DPF) i.e. the policyholder's right to receive a benefit in addition to the guaranteed minimum. The benefit must fulfil specific contractual terms and represent a significant part of the total payments. In particular, contracts subject to revaluation and linked to segregated accounts were classified as investment products with DPF and were therefore measured and recognised as insurance contracts.

A contract classified as an insurance contract remains an insurance contract until it is terminated, whereas under certain circumstances an investment contract may be subsequently classified as an insurance contract.

However, the following types of contract were classified as investment contracts with no DPFs. For this reason, according to paragraph 3 of IFRS 4, contracts of this type do not produce premiums but are measured and recognised in accordance with IAS 39:

- index-linked, where the sum insured in the event of death corresponds to the value of the asset plus a small percentage;
- unit-linked, where the sum insured in the event of death corresponds to the NAV plus a small percentage;
- mixed, where funding is specific and the technical rate is zero;
- capital redemption, where funding is specific and the technical rate is zero;
- pension funds with guaranteed benefit when the policy matures or when certain events occur.

In the case of unit-linked products the loading and the acquisition commissions for the asset management service are recognised and amortised separately over the life of the contract. In the case of index-linked policies, which are not managed over time but only administered, these deferments are not necessary.

Non-Life business technical provisions

Provision for premiums

The direct insurance premium provision is established analytically for each policy using the pro rata temporis method, on the basis of the gross premiums accounted for less acquisition commissions and the other acquisition costs that are chargeable directly. In the case of long-term contracts the amount of amortisation for the year is deducted.
Under certain conditions the provision for premiums also includes the provision for premiums for unexpired risks, calculated in accordance with the simplified method laid down in Article 10 of ISVAP Ruling 16 of 4 March 2008, which is based on the expected loss ratio for the year, adjusted on a prospective basis.
In the case of Credit insurance the flat-rate procedure provided for by the Ministerial Decree of 23 May 1981 was applied to premiums received before 1992, whilst the pro rata temporis method has been applied to contracts issued from 1992 onwards.
In the case of Bond insurance the provision for premiums has been calculated using the pro rata temporis method combined with the criteria laid down by ISVAP Ruling 16.
The total amount allocated to this provision is sufficient to meet costs arising from the portion of risk pertaining to subsequent years.
The reinsurers' share of the provisions for premiums is calculated by applying to the premiums ceded the same criteria as those used for calculating the premiums for direct insurance business provision.

Ageing provision

The ageing provision is calculated at a flat rate of 10% on Health policies in the portfolio that have the features provided for by Article 46 of ISVAP Ruling 16 (multiyear health policies when the premium is not based on increasing age).

Claims provision

The claims provision is ascertained analytically by estimating the presumed cost of all the claims outstanding at the end of the year and on the basis of prudent technical valuations carried out with reference to objective elements, in order to ensure that the total amount set aside is enough to meet the claims to be settled and the relative direct expenses and settlement expenses.
The figures ascertained in this way are analysed and checked by Head Office. Subsequently, in order to take account of all reasonably foreseeable future charges, actuarial statistical methods are used to determine the final level of the claims provision.
The claims provision also includes the amounts set aside for claims incurred but not reported, based on past experience of IBNR for previous years.
The reinsurers' share of the claims provision reflects the sums recovered from them to meet the reserves, the amounts being laid down in the individual policies or in the contracts.

Provision arising from the adequacy test for Non-Life technical provisions

The Non-Life technical provisions have been subjected to the test provided for by IFRS 4 (Liability Adequacy Test – LAT).

Provision for premiums
In order to monitor the adequacy of the provision for unearned premiums the supplementary provision for Unexpired Risks is calculated for each individual company and class of business using the simplified method provided for in ISVAP Ruling 16, Article 11. As claims for the year are measured at final cost and not discounted, future payment flows can be deemed to have implicitly taken place (LAT on the claims provision).

Claims provisions
The adequacy of insurance liabilities for the Claims provisions was checked by adding together the following classes of business: MV TPL, General TPL, Land vehicles – own damage or loss, Accident and Health, Fire and Other Damage to Property, Credit and Bonds and Other Classes.
Assistance was excluded from the analysis since it has a particularly high rate of settlement.
The figures collected in the same way for the purpose of constructing the projection models, with features required to develop the LAT, were available as from 1999 whereas claims made in previous years (1998 and previously) were excluded from the analysis.

Life business technical provisions

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

Mathematical provisions

The mathematical provision for direct assurance is calculated analytically for each contract on the basis of pure premiums, with no deductions for policy acquisition costs, and by reference to the actuarial assumptions (technical interest rates, demographic models of death or disability) used to calculate the premiums on existing contracts.
The mathematical provision includes the portion of pure premiums in relation to the premiums accrued during the year. It also includes all the revaluations made under the terms of the policy and is never less than the surrender value.
In accordance with the provisions of Article 38 of Legislative Decree 173/1997, technical provisions, which are set up to cover liabilities deriving from insurance policies where the yield is based on investments or indices for which the policyholder bears the risk, and provisions arising from pension fund management, are calculated by reference to commitments made under these policies and to the provisions of Article 41 of Legislative Decree 209 of 7 September 2005. In the case of index-linked policies in particular the mathematical provisions are calculated on the basis of the price of the underlying securities, whilst in the case of unit-linked policies the mathematical provisions are calculated by multiplying the number of units by the price of the funds concerned on the date they are calculated.
In the case of Pension Funds, and particularly, policies that offer a guaranteed minimum return on payments when the policy matures or on retirement, death or disability, the mathematical provision may be increased by a further provision required to cover the risk of including the value of the underlying assets. This supplement is calculated by taking into account any differences between the guaranteed minimum values and the values of the underlying assets during the guarantee period estimated stochastically and by discounting the result on the date the provisions are calculated.
The mathematical provisions are calculated analytically for each individual contract taking into account the policies outstanding at the reporting date, their respective start dates and all the liabilities assumed under the policies.
As laid down in Article 36, para. 3, of Legislative Decree 209 of 7 September 2005, the provision for sums payable includes the total amount needed to cover payment of benefits that have fallen due but not so far been paid, surrendered policies and claims not yet paid.
The provision for profit participation and reversal was set up to cover the Group's commitment to allocate to certain contracts on a temporary group tariff in the event of death and/or disability sums accrued during the year as technical profits arising from the yield on individual contracts.
Other technical provisions consist almost entirely of amounts set aside for operating expenses and are calculated on the basis of the provisions of Articles 31 and 34 of ISVAP Ruling 21 of 28 March 2008.

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

Supplementary provisions based on demographics (Article 50 of ISVAP Ruling 21)
An additional provision has been set up to supplement the provision held as a hedge against liabilities to policyholders whose benefit is in the form of a life annuity or in the form of a lump sum with guaranteed coefficients of conversion into an annuity.
This supplementary provision is calculated by the companies in the Group comparing the demographics used in the tariff with the latest demographic tables such as the RG48, which shows details of both sexes separately, the IPS55 for men and the SIMPS71. Coefficients that reflect each individual company's propensity to choose the annuity offered are applied to the levels of provision obtained in this way.

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

Provision for expenses
In the case of policies with a premium payment period shorter than the term of the insurance (single premium, low annual premium, reduced) a provision is set aside for expenses calculated on the basis of the operating loadings held as a hedge against future operating expenses.
In the case of index-linked tariffs the provision for operating expenses has been set up using the difference between the value of the net premium and the initial value of the policy less the initial marketing cost incurred by the company. This amount, which remains valid throughout the life of the contract, has been set aside for the remaining period of each individual contract.

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

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

The liability adequacy test was also carried out in accordance with IFRS 4.

Provision for shadow accounting

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

4 Financial liabilities - IAS 39

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

4.1 Financial liabilities at fair value through profit or loss

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

4.2 Financial liabilities at amortised cost

This item includes interbank payables and payables to bank customers, deposits received from reinsurers, debt securities issued, other loans obtained and liabilities on Life policies with a financial content where the insurance risk is less than 10% and there is no discretionary participation feature (some types of product matched by specific funding).

5 Payables

Payables includes Payables from direct insurance business, Payables from reinsurance operations and Other payables, such as trade payables, payables for policyholders' tax due, payables for employees' leaving entitlement, payables for miscellaneous tax charges and payables to welfare and pension schemes.

Payables are recognised at their nominal amount.

Employee benefits – IAS 19

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

6 Other liabilities

6.1 Liabilities associated with disposal groups – IFRS 5

Please see above for the corresponding asset item.

6.2 Deferred tax liabilities – IAS 12

Deferred tax liabilities are recognised whenever there is a taxable temporary difference, except in the cases provided for in paragraph 15 of IAS 12.
Deferred tax liabilities must be measured using the tax rates that are expected to apply during the year in which the tax liability will be paid off, based on the ruling tax rates (and tax legislation) or those in force at the reporting date.
If tax rates change, despite being prior year items, the deferred taxes recalculated in accordance with the new rates are recognised under Taxes in the income statement or under equity reserves to which the temporary variations in question apply.

6.3 Current tax liabilities

This item includes current Tax payables.

6.4 Other liabilities

This item includes, inter alia, accrued expenses and deferred income, accruals for commissions on pending premiums and deferred commission receivable relating to investment contracts with no discretionary participation feature required in advance for the contract-administration service or for the investment-management service, amortised on a straight-line basis over the life of the contract or, in the case of whole-life contracts, over the 'expected' life of the contract.

Income Statement

1 Revenue and income

1.1 Net premiums

This item includes the premiums relating to insurance contracts and financial instruments that include discretionary participation features, net of ceded premiums.
Premiums are recognised at the time they are due. The total for the year is obtained by adding the provision for premiums.

1.2 Commission income

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

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

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

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

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

1.5 Gains on financial instruments and other investments

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

1.6 Other income

This item includes income arising from the sale of goods, the provision of services other than those of a financial nature and the use by third parties of the company's property, plant and equipment and other assets. It also includes other net technical income on insurance contracts, exchange rate differences allocated to the income statement as per IAS 21, realised gains and reversals of impairment losses on property, plant and equipment and other assets.

2 Expenses and charges

2.1 Net charges relating to claims

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

2.2 Commission expense

This item includes commission expenses for financial services received. It includes commission expense arising from banking business and commissions on Life assurance contracts classified as financial liabilities. In particular, acquisition commissions paid for the placement of unit-linked policies are amortised throughout the term of the contract to meet deferred acquisition loadings.

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

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

2.4 Losses on other financial instruments and investment property

This item includes losses on investment property and financial instruments other than investments and financial instruments classified as 'Assets at fair value through profit or loss'. It mainly includes interest expense on financial liabilities, other investment expense on investment property such as condominium expenses and maintenance expenses that do not increase the value of the investment, losses made as a result of the derecognition of financial assets or liabilities and investment property, depreciation and impairment losses.

2.5 Operating expenses

This item includes commissions and other acquisition expenses relating to insurance contracts, investment management expenses, other administrative expenses and depreciation (overheads and personnel expenses that are not allocated to losses relating to claims, insurance contract acquisition expenses or investment management expenses).

2.6 Other costs

This item mainly includes other net technical charges relating to insurance contracts, additional amounts set aside during the year, exchange rate differences to be allocated to the income statement under IAS 21, realised losses and depreciation and amortisation relating to property, plant and equipment, investment property and intangible assets, not allocated to other cost items.

3 Income tax

In accordance with Article 117 et seq. of Presidential Decree 917/86 and Ministerial Decree of 9 June 2004, Unipol and the other subsidiaries that fulfil the requirements (Unipol Assicurazioni, Linear, Linear Life, Midi and Smallpart) have opted for the Group consolidated taxation system (for the purposes of IRES) in their capacity as consolidated companies. The direct parent for taxation purposes is Finsoe SpA. The companies listed above have signed an agreement with this company regulating the financial and procedural aspects governing the option in question.

Charges/income linked to the transfer to the ultimate parent of the IRES taxable income are calculated in accordance with legislation (account being taken of the relevant exemptions and the tax credits due) and with the terms of the agreement with the ultimate parent and are recognised under taxation in the income statement. IRAP for the year is also recognised under taxation.

The item includes deferred tax income and expense, based on the temporary differences (that have arisen or been deducted during the year) between the profit (loss) for the year and the taxable income of the individual consolidated companies and on the consolidation adjustments. If there are any tax losses, deferred tax assets are recognised insofar as there is a probability that taxable income for which they can be used will be available in future.

Foreign currency transactions – IAS 21

Items expressed in foreign currencies are dealt with in accordance with the principles of multicurrency accounting.
Monetary elements in foreign currency (units of currency owned and assets or liabilities that must be received or paid in a fixed or ascertainable number of units of currency) are translated using the exchange rate applicable at the end of the year.
Non-monetary elements measured at original cost in foreign currency are translated using the exchange rate applicable on the date of the transaction.
Non-monetary elements measured at fair value in a foreign currency are translated using the exchange rates applicable on the date on which the fair value is determined.
Exchange rate differences arising from the settlement of monetary elements are recognised in the income statement. Exchange rate differences arising when non-monetary elements are measured are allocated to the profit (or loss) for the year or to other elements of comprehensive income depending on whether the profit (or loss) to which they relate is recognised in the profit (loss) for the year or in other elements of

comprehensive income, respectively.

Share-based payments – IFRS 2

The Group pays additional benefits to senior executives under a closed share-based payment plan under which Unipol ordinary shares are granted if specific targets are achieved (*performance shares*). As laid down by IFRS 2 – *Share-based payments*, these plans form part of the beneficiaries' remuneration. The charge must be recognised through profit or loss, with a balancing recognised directly in equity (Reserve arising from equity-settled share-based payment), on the basis of the fair value of the instruments allocated on the grant date, the charge being spread over the period provided for in the scheme.

Earnings per share – IAS 33

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

Use of estimates

When drawing up the financial statements Management has had to formulate valuations, estimates and assumptions that affect the way the accounting standards are applied and the amounts of the assets, liabilities, costs and revenue recognised, although reliability is not affected. However, as these are estimates the results obtained may not necessarily be the same as those shown here. These estimates and assumptions are regularly reviewed. Any variations revealed as a result of reviewing the estimates are recognised during the period in which the review is carried out and in relevant subsequent periods.

3. NOTES TO THE STATEMENT OF FINANCIAL POSITION

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

ASSETS

1. Intangible assets

Amounts in €m	31/12/2011	31/12/2010	*Variation*
Goodwill	1,522.5	1,942.0	***-419.4***
resulting from business combinations	1,403.2	1,522.6	*-119.3*
from acquistion of bank branches	118.9	418.9	*-300.0*
other	0.3	0.4	*-0.1*
Other intangible assets	118.5	115.9	***2.6***
portfolios acquired as a result of business combinations	35.9	40.9	*-5.0*
software and user licences	56.1	41.5	*14.6*
other intangible assets	26.5	33.5	*-7.0*
Total intangible assets	1,641.0	2,057.8	***-416.8***

1.1 Goodwill

This item amounted to €1,522.5m (€1,942m in 2010) and is made up of goodwill resulting from business combinations worth €1,403.2m (€1,522.6m at 31/12/2010) and other goodwill worth €119.2m (€419.4m at 31/12/2010).

Details of the **goodwill resulting from business combinations** are as follows:

Amounts in €m	31/12/2011	31/12/2010	*Variation*
Navale Assicurazioni Spa (*)		8.0	*-8.0*
Compagnia Assicuratrice Linear Spa	17.1	17.1	*0.0*
Unisalute Spa	3.9	3.9	*0.0*
Unipol Banca Spa	7.0	126.3	*-119.3*
Unipol Assicurazioni Spa	1,238.6	1,230.6	*8.0*
Arca Vita Spa	136.6	136.6	*0.0*
Total goodwill resulting from business combinations	1,403.2	1,522.6	***-119.3***

(*) Because of the contribution of the insurance business of Navale Assicurazioni to Unipol Assicurazioni, which took place on 1 January 2011, the relative consolidation difference of €8m is now attributed to Unipol Assicurazioni

The loss of €119.3m is due to the impairment loss as a result of the impairment test which was carried out on goodwill arising on consolidation of the subsidiary Unipol Banca.

Among the other goodwill items €118.9m was goodwill generated from the acquisition of bank branches whose recoverable amount as a result of the impairment test fell to €300m compared with 31 December 2010.
Goodwill with an indefinite useful life tested for impairment in accordance with the procedure specifically

approved by Unipol SpA's Board of Directors showed the impairment losses above. For information on the criteria used for the tests, you are referred to paragraph 5.8 of chapter 5 of this document, Other information.

1.2 Other intangible assets

This item worth €118.5m (€115.9m in 2010) was made up of the Life portfolios acquired (with a finite useful life), expenses for renovating leased property and cost of software, licences, consultancy and personalisation of software.

2. Property, plant and equipment

At 31 December 2011 property, plant and equipment, net of depreciation, amounted to €804.1m (€660.2m in 2010), €746m of which was owner-occupied property (€607.4m in 2010) and €58.2m was other property, plant and equipment (€52.8m in 2010).

Owner-occupied property

Amounts in €m	*Gross carrying amount*	*Accumulated depreciation and impairment losses*	***Net carrying amount***
Balance at 31/12/2010	687.6	-80.2	607.4
Increases	163.9		163.9
Decreases	-15.5		-15.5
Depreciation for the year		-13.7	-13.7
Other variations		3.9	3.9
Balance at 31/12/2011	835.9	-89.9	746.0

The increase in Property was due to several acquisitions made by Group companies, in particular Arca Vita (€29.2m) and Ambra Property (€27.4m), and to the work of the Group's two real estate companies, Midi (€15.3m) and Unifimm (€49.6m). Comsider, which owns a property overlooking the Group's registered office, was also acquired by Midi, through Covent Garden BO (€4.6m).

Other property, plant and equipment

Amounts in €m	*Office furniture and machinery*	*Movables entered in public registers*	*Plant and equipment*	Total
Balance at 31/12/2010	192.1	4.0	75.9	271.9
Increases	17.0	1.0	6.5	24.5
Decreases	-0.7	-0.4	-0.3	-1.4
Balance at 31/12/2011	208.4	4.5	82.1	295.0
Accumulated depreciation at 31/12/2010	156.4	1.5	61.2	219.1
Increases	10.9	0.4	5.6	16.9
Decreases	0.0	0.0	0.9	0.8
Accumulated depreciation at 31/12/2011	167.3	1.8	67.7	236.8
Net amount at 31/12/2010	35.7	2.5	14.7	52.8
Net amount at 31/12/2011	41.1	2.7	14.3	58.2

3. Technical provisions – Reinsurers' share

The balance on this item was €396m, a decrease of €64.4m compared with 2010. Details are set out in the relevant appendix.

4. Investments

At 31 December 2011 total investments (investment property, equity investments and financial assets) amounted to €33,181.1m (€33,815.3m in 2010).

4.1 Investment property

Amounts in €m	*Gross carrying amount*	*Accumulated depreciation and impairment losses*	***Net carrying amount***
Balance at 31/12/2010	213.9	-17.1	196.8
Increases	148.5		148.5
Decreases	-23.9		-23.9
Depreciation for the year		-1.6	-1.6
Other variations		-5.6	-5.6
Balance at 31/12/2011	338.5	-24.3	314.2

This increase was mainly due to the acquisition by Unipol Assicurazioni of the company Punta di Ferro, which owns a commercial building in Forlì (€123.9m).
The current amount of investment property, €358m, was based on independent expert appraisals.

4.2 Investments in subsidiaries, associates and interests in joint ventures

At 31 December 2011 investments in subsidiaries, associates and interests in joint ventures amounted to €42.3m (€46.5m in 2010). The change in comparison with the previous year was mainly due to the sale of units in a number of consolidated companies, which are measured using the net equity method.

Financial assets - items 4.3, 4.4, 4.5 and 4.6 (excluding financial assets at fair value through profit or loss)

Amounts in €m	31/12/2011	% comp.	Fair value at 31/12/2011	31/12/2010	% comp.	% var.
Investments held to maturity	1,689	5.7	1,540	1,823	6.0	-7.4
Listed debt securities	1,096			1,152		-4.9
Unlisted debt securities	593			671		-11.6
Loans and receivables	15,250	51.9	14,136	14,755	48.9	3.4
Listed debt securities	411			39		959.4
Unlisted debt securities	4,343			4,025		7.9
Loans and receivables from bank customers	9,924			10,311		-3.8
Interbank loans and receivables	325			134		142.8
Deposits with ceding companies	18			19		-7.3
Other loans and receivables	229			225		1.6
Other financial assets	0			1		-99.9
Available-for-sale financial assets	11,985	40.8	11,985	13,024	43.1	-8.0
Equity instruments at cost	216			210		2.7
Listed equity instruments at fair value	948			1,051		-9.8
Unlisted equity instruments at fair value	3			3		24.0
Listed debt securities	9,543			10,335		-7.7
Unlisted debt securities	999			1,155		-13.6
OEIC units	276			269		2.6
Financial assets held for trading	451	1.5	451	590	2.0	-23.6
Equity instruments at cost	1			17		-94.0
Listed debt securities	90			212		-57.7
Unlisted debt securities	223			201		10.8
OEIC units	87			94		-7.7
Derivatives	51			66		-23.5
Total financial assets	29,375	100.0	28,111	30,191	100.0	-2.7

Financial assets according to type of investment

Amounts in €m	31/12/2011	*% comp.*	31/12/2010	*% comp.*	*% var.*
Equity instruments at cost	216	*0.7*	210	*0.7*	*2.7*
Listed equity instruments at fair value	949	*3.2*	1,068	*3.5*	*-11.1*
Unlisted equity instruments at fair value	3	*0.0*	3	*0.0*	*24.0*
Listed debt securities	11,139	*37.9*	11,738	*38.9*	*-5.1*
Unlisted debt securities	6,158	*21.0*	6,052	*20.0*	*1.7*
OEIC units	363	*1.2*	363	*1.2*	*-0.1*
Other financial investments	297	*1.0*	312	*1.0*	*-4.7*
Loans and receivables from bank customers	9,924	*33.8*	10,311	*34.2*	*-3.8*
Interbank loans and receivables	325	*1.1*	134	*0.4*	*142.8*
Total financial assets	29,375	***100.0***	30,191	***100.0***	***-2.7***

Financial assets at fair value through profit or loss

Amounts in €m	31/12/2011	*% comp.*	31/12/2010	*% comp.*	*% var.*
Financial assets at fair value through profit or loss	3,450	***100.0***	3,381	***100.0***	***2.0***
Listed equity instruments at fair value	55	*1.6*	50	*1.5*	*9.8*
Listed debt securities	1,983	*57.5*	1,765	*52.2*	*12.4*
Unlisted debt securities	369	*10.7*	481	*14.2*	*-23.2*
OEIC units	896	*26.0*	949	*28.1*	*-5.6*
Derivatives	3	*0.1*	27	*0.8*	*-87.4*
Other financial assets	142	*4.1*	109	*3.2*	*30.6*

Financial assets recognised by the Group at fair value included financial assets held to cover insurance or investment contracts issued by the Group, where the investment risk is borne by policyholders, and those arising from pension fund management.

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

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

5. Sundry receivables

Amounts in €m	31/12/2011	*% comp.*	31/12/2010	*% comp.*	*% var.*
Receivables relating to direct insurance business	820.6	*46.6*	893.5	*47.2*	*-8.2*
Receivables relating to reinsurance business	57.9	*3.3*	60.8	*3.2*	*-4.7*
Other receivables	883.0	*50.1*	940.2	*49.6*	*-6.1*
Total sundry receivables	1,761.5	***100.0***	1,894.5	***100.0***	***-7.0***

Other receivables include, in particular, €276.3m of tax receivables and €457.8m due from Finsoe, the ultimate parent for tax purposes, mainly made up of receivables on tax losses accrued during previous years. These receivables will become due when tax is due under the consolidated tax scheme.

6. Other assets

Amounts in €m	31/12/2011	% comp.	31/12/2010	% comp.	% var.
Non-current assets held for sale	0.0	0.0	11,811.9	93.5	-100.0
Deferred acquisition costs	18.8	1.2	21.1	0.2	-10.9
Deferred tax assets	1,230.0	79.1	509.8	4.0	141.3
Current tax assets	27.3	1.8	22.4	0.2	21.7
Other assets	278.2	17.9	269.2	2.1	3.4
Total other assets	1,554.3	**100.0**	12,634.4	**100.0**	**-87.7**

The significant variation compared with 2010 was due to the sale of the holding in Bnl Vita, which took place on 29 September 2011, whose asset balances were reclassified under the item 'Non-current assets held for sale.'

Details of deferred tax assets are given in the section on income tax.

Other assets include deferred commission expense, prepayments and accrued income and miscellaneous items to be settled.

7. Cash and cash equivalents

Cash and cash equivalents amounted to €239.7m at the end of the year (€231.8m in 2010).

LIABILITIES

1. Equity

1.1 Equity attributable to the owners of the Parent

Amounts in €m	31/12/2011	31/12/2010	*variation*
Share capital	2,699.1	2,698.9	*0.2*
Equity-related reserves	1,506.3	1,506.3	*0.0*
Income-related and other reserves	91.0	56.2	*34.8*
(Treasury shares)	-0.2	-0.2	*0.0*
Gains/losses on available-for-sale financial assets	-1,090.9	-643.2	*-447.7*
Other gains and losses recognised directly in equity	-18.6	-1.5	*-17.1*
Profit (loss) for the year	-108.4	31.8	*-140.2*
Total equity attributable to the owners of the Parent	3,078.3	3,648.3	***-570.0***

At 31 December 2011 the fully paid-up share capital of the Parent Unipol Gruppo Finanziario amounted to €2,699.1m and was made up of 2,114,257,106 ordinary shares and 1,302,283,310 preference shares.

Movements recognised during the year compared with the previous year are set out in the attached statement of changes in equity.
There was a decrease of €447.7m in the gains and losses on available-for-sale financial assets. Most of this decrease was due to the sudden fall in the price of government bonds, in particular in the final quarter of the year.

Income-related and other reserves included the differences arising from offsetting the carrying amount of investments against the corresponding fraction of the equity of consolidated companies, after allocations to these companies' assets and to goodwill. This item also included the consolidation adjustments required by the Parent's accounting policies and those made as a result of the elimination of dividends within the Group.
It also included the €8.3m Provision arising from operations with payment based on equity-settled shares.

Other gains and losses recognised directly in equity, which amounted to €18.6m (€1.5m in 2010), consisted of losses on cash-flow hedging instruments worth €39.3m (€22.2m in 2010) and €20.7m consisted of the Reserve for revaluation of property, plant and equipment, and investment property (unchanged since 2010).

Treasury shares or quotas
At 31 December 2011 the Group companies held a total of 300,000 Unipol preference shares, originally belonging to the Arca Group, for a countervalue of €173,124.

2. Provisions

Provisions totalled €112.5m at 31 December 2011 (€85m in 2010) and mainly consisted of accruals to provisions for litigation, disputes with agencies and other charges relating to the sales network and staff-leaving incentives.

Details of probable liabilities in addition to what has already been indicated in the Management Report are as follows:

- Unipol Banca executing orders on financial transactions: in November 2007 and July 2009 several Unipol Banca customers instituted civil and criminal proceedings relating to alleged irregularities and illicit activities carried out by Unipol Banca while dealing in financial derivatives. The claimants submitted a claim for a total of €67m. The preliminary investigations concluded in April 2009 with the Public Prosecutor applying for the case to be dismissed, which the claimants opposed. Deeming the opponents to have no case, Unipol Banca also applied for the civil case to be dismissed and made a counterclaim for payment of the amounts due by the claimants to Unipol Banca. Starting in November 2009, the counterparties made further counterclaims totalling €145m. In court Unipol Banca disputed the lateness and inadmissibility of the new claims, stating that they were totally unfounded. In the last few months the judge in the civil court has arranged for official technical advice to be provided in order to ascertain, inter alia, the amounts and results of the transactions in derivatives over the years. This process has not yet been completed. However, another official advisory procedure has ascertained the authenticity of the signature appended to the agreements by one of these customers. On 1 August 2011, it was learned that the judge at the preliminary hearing at the Bologna Court ordered that the criminal proceedings instigated as a result of the private claim brought by these customers, who operated in financial derivatives, be dismissed. There was no other progress recognised during 2011.
- As regards the 'Antonveneta' procedure it should be mentioned that during the first half of 2011 the trial judge came to a decision that confirmed the Public Prosecutor's demands, in particular the administrative fine of €900,000.00 and the confiscation under Article 19 of Legislative Decree 231/2011 of €39.6m of 'gains.'

  Unipol's legal advisers are of the opinion that the decision of the Milan Court contradicts the principles of law drawn up under the best jurisprudence and confirmed by current case law, including on the full bench of the Court of Cassation.

  The arguments used by the Company's legal advisers, who have obviously already appealed, affirm with reasonable certainty that the capital gain subject to confiscation cannot properly be considered to be a 'gain' in the instance disputed by the Public Prosecutor and therefore the decision of the Milan Court may be considered to be the result of erroneous interpretation and application of the rules governing confiscation under Article 19 of Legislative Decree 231/2001.

  There are therefore well-founded reasons, in fact and in law, for appealing against the decision.
- Relations with the Tax Authorities: litigation is in progress relating to the investigation carried out in 2010 by the Lombardy Major Taxpayers Office for the 2006 tax year on the former Aurora Assicurazioni, merged into Unipol in 2007. While it was being carried out the investigation was extended to cover some cost items for 2005.

  In 2010 the Company had received a notice of assessment for the 2005 tax year against which it had appealed to the Provincial Tax Commission in Milan. During 2011 a judgement favourable to the taxpayer was passed by Section 42 of the Provincial Tax Commission in Milan.

  At the end of December 2011 the Lombardy Major Taxpayers Office issued a notice of assessment for 2006, against which the Company promptly appealed. In view of how matters were progressing, the amount already set aside for the provision for risks was reviewed with the help of tax advisers and deemed to be appropriate.

  A notice of assessment was received in December 2011 as a result of the investigation begun in February 2010 by the Emilia Romagna Major Taxpayers Office relating to the tax period 2007. A specific amount had been set aside as provision for risks and was suitably supplemented with the related interest. Steps were taken in February 2012 to bring this litigation to a conclusion by paying the sums demanded, with penalties reduced to a sixth.

The notices of assessment relating to two property sales carried out in 2005 received by the company in December 2010, disputing the level of capital gain and making allegations that were refuted and challenged by appealing within the timescale prescribed by law. Moreover when the 2010 financial statements were drawn up it was already considered that the allegations made by the Emilia Romagna Office were unfounded and therefore no amounts were set aside.
Several notices of assessment relating to VAT on coinsurance contracts entered into with other companies throughout 2006 were finally received in late 2011, and appeals were made to the relevant offices. Taking account of the fact that most of the case law was favourable and of the favourable decisions the Company had already obtained at the court of first instance, no accruals were made.

3. Technical provisions

Amounts in €m	31/12/2011	*% comp.*	31/12/2010	*% comp.*	*% var.*
Non-Life premiums	1,592.4	*21.6*	1,622.4	*21.4*	
Non-Life claims	5,765.4	*78.2*	5,937.3	*78.4*	
Other Non-Life technical provisions	14.3	*0.2*	15.4	*0.2*	
Total Non-Life provisions	7,372.1	***100.0***	7,575.1	***100.0***	***-2.7***
Life mathematical provisions	12,830.0	*87.5*	12,734.0	*86.8*	
Provision for payable amounts (Life business)	132.1	*0.9*	123.8	*0.8*	
Technical provisions where the investment risk is borne by policyholders and arising from pension fund management	2,330.8	*15.9*	2,122.3	*14.5*	
Other Life technical provisions	-625.8	*-4.3*	-309.4	*-2.1*	
Total Life provisions	14,667.1	***100.0***	14,670.8	***100.0***	***0.0***
Total technical provisions	22,039.3		22,245.9		***-0.9***

4. Financial liabilities

Financial liabilities amounted to €12,828.7m (€12,653.3m at 31/12/2010). Details are set out in the relevant appendix.

4.1 Financial liabilities at fair value through profit or loss

This item, which totalled €1,458.2m (€1,472.6m in 2010), was subdivided into €323.8m of financial liabilities arising from trading (€200.7m in 2010) and €1,134.4m of financial liabilities at fair value through profit or loss (€1,271.8m in 2010). The latter category included investment contracts issued by insurance companies where the investment risk was borne by the policyholders and the insurance risk borne by the Group did not exceed 10% (several types of Class III, Class V and Class VI contracts).

4.2 Other financial liabilities

Amounts in €m	31/12/2011	% comp.	31/12/2010	% comp.	% var.
Subordinated liabilities	1,545.8	*13.6*	1,580.1	*14.1*	*-2.2*
Liabilities from financial contracts issued by insurance companies	30.9	*0.3*	43.2	*0.4*	*-28.4*
Deposits received from reinsurers	149.8	*1.3*	179.0	*1.6*	*-16.3*
Debt instruments issued	2,871.4	*25.3*	2,665.8	*23.8*	*7.7*
Payables to banking customers	5,771.7	*50.8*	5,443.8	*48.7*	*6.0*
Interbank payables	999.8	*8.8*	1,268.8	*11.3*	*-21.2*
Other loans	0.5	*0.0*	0.0	*0.0*	
Sundry financial liabilities	0.5	*0.0*	0.0	*0.0*	*0.0*
Total other financial liabilities	11,370.5	***100.0***	11,180.8	***100.0***	***1.7***

There were €1,545.8m of subordinated liabilities issued by Group companies at 31 December 2011 (€1,580.1m at 31/12/2010), a nominal €1,000m of which had been issued by Unipol Assicurazioni (of which a nominal €38m was held by the same company) and a nominal €582m issued by Unipol Banca.

The following subordinated liabilities were issued by Unipol Assicurazioni (nominal amounts):

1) €400m of a loan granted in 2008 by Mediobanca – Banca di Credito Finanziario S.p.A, perpetual but reimbursable early, subject to the authorisation of the Supervisory Authority, after the tenth year. The loan bears interest at the 6-month Euribor rate plus a spread of 250 b.p. During 2009 a policy to hedge the interest rate risk was taken out that took effect as from May 2010. The loan is one of the elements making up the solvency margin and has a level of subordination comparable to Tier I;
2) €300m of a subordinated bond loan issued originally by Unipol in 2001, maturing over 20 years and with the option of early repayment, subject to the authorisation of the Supervisory Authority, which can be exercised by the Company every 3 months from 15 June 2011. The loan, which is listed on the Luxembourg Stock Exchange, bore interest at an annual fixed rate of 7% until 15 June 2011; subsequently the loan bears interest at the 3-month Euribor rate plus a spread of 250 b.p. The loan is one of the elements making up the solvency margin and has a level of subordination comparable to Tier II;
3) €300m of a subordinated bond loan issued originally by Unipol in 2003, maturing over 20 years and with the option of early repayment, subject to the authorisation of the Supervisory Authority, as from the tenth year. The loan, which is listed on the Luxembourg Stock Exchange, bears interest at the annual fixed rate of 5.66% until July 2013 (earliest date on which the early repayment clause may be exercised); subsequently the loan bears interest at the 3-month Euribor rate plus a spread of 250 b.p. The loan is one of the elements making up the solvency margin and has a level of subordination comparable to Tier II.

The maturity dates and the rates of remuneration of the €577.7m of unlisted subordinated bond loans issued by Unipol Banca outstanding are recognised in the following table:

Nominal amount	Year of maturity	Rate
48.2m	2015	Fixed rate 3.6%
14.2m	2017	Fixed rate 4.4%
76.9m	2017	Floating rate: euribor 3m + 0.20 b.p.
6.8m	2017	Fixed rate 4.8%
57.5m	2017	Floating rate: euribor 3m + 0.30 b.p.
2.4m	2019	Fixed rate 4.5%
49.8m	2019	Fixed rate 4.5%
300.0m	2019	Floating rate: average quarter euribor 3m + 640 b.p.

The level of subordination is comparable to Tier II.

€2,871.4m of debt securities were issued (€2,665.8m in 2010). Those relating to the Parent were:

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

This item also included €454.9m of securitised notes issued by Unipol Banca (€617.9m in 2010).

5. Payables

Amounts in €m	31/12/2011	*% comp.*	31/12/2010	*% comp.*	*% var.*
Payables arising from direct insurance business	67.4	*15.3*	60.0	*13.3*	*12.4*
Payables arising from reinsurance business	43.2	*9.8*	30.4	*6.7*	*42.4*
Other payables	329.0	*74.8*	361.2	*80.0*	*-8.9*
Policyholders' tax due	83.1	*18.9*	81.4	*18.0*	*2.0*
Sundry tax payables	32.2	*7.3*	65.6	*14.5*	*-50.9*
Trade payables	74.5	*16.9*	82.1	*18.2*	*-9.3*
Post-employment benefits	47.8	*10.9*	51.1	*11.3*	*-6.5*
Social security charges payable	17.6	*4.0*	17.8	*3.9*	*-1.0*
Sundry payables	73.8	*16.8*	63.1	*14.0*	*17.1*
Total payables	439.7	*100.0*	451.5	*100.0*	*-2.6*

6. Other liabilities

Amounts in €m	31/12/2011	*% comp.*	31/12/2010	*% comp.*	*% var.*
Current tax liabilities	28.6	*3.0*	23.9	*0.2*	*19.6*
Deferred tax liabilities	339.2	*35.6*	266.2	*2.2*	*27.4*
Liabilities associated with disposal groups	0.0	*0.0*	11,385.9	*92.6*	*-100.0*
Commissions on premiums under collections	53.8	*5.6*	59.9	*0.5*	*-10.1*
Deferred commission income	4.4	*0.5*	7.0	*0.1*	*-36.5*
Accrued expense and deferred income	2.7	*0.3*	2.3	*0.0*	*15.9*
Other liabilities	524.4	*55.0*	552.6	*4.5*	*-5.1*
Total other liabilities	953.2	***100.0***	12,297.8	***100.0***	***-92.2***

Details of deferred tax liabilities are given in the section on income tax.

At 31 December 2010 the item Liabilities associated with disposal groups contained the liabilities of Bnl Vita, which was sold during the course of the year.

Other liabilities included €157.3m of miscellaneous payables relating to banking business, €101m for rappels to be paid by agents and €46.1m for personnel expenses.

4. NOTES TO THE INCOME STATEMENT

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

It should be pointed out that the income statement includes the results for the first nine months of the year of the holding Bnl Vita, sold on 29 September 2011.

Economic data on a like-for-like basis

Variations, on a like-for-like basis, in the main economic figures compared with the corresponding figures in the previous year were expressed with the following restatements:

– the figures at 31 December 2011 exclude figures for the Arca Group in the first half of 2011 and figures for Bnl Vita which refer to the period before its sale (1/1-30/9/2011)
– the figures at 31 December 2010 exclude Bnl Vita figures (1/1-31/12/2010)

INCOME

1.1 Net premiums

Net premiums			
Amounts in €m	31/12/2011	31/12/2010	*% var.*
Non-Life business - premiums	4,388.5	4,281.0	*2.5*
Non-Life business - recognised premiums	4,358.8	4,267.3	*2.1*
Non-Life business - changes in the provision for premiums	29.7	13.7	*117.5*
Life business premiums	4,447.9	4,658.3	*-4.5*
Gross premiums (Non-Life and Life)	8,836.4	8,939.3	*-1.2*
Non-Life business - ceded premiums	-137.7	-123.2	*11.8*
Non-Life business - ceded premiums	-139.2	-128.1	*8.6*
Non-Life business - changes in the provision - reinsurers' share	1.5	5.0	*-69.9*
Life business - ceded premiums	-19.6	-18.0	*8.5*
Ceded reinsurance premiums (Non-Life and Life)	-157.3	-141.2	*11.4*
Total net premiums	8,679.1	8,798.1	*-1.4*

On a like-for-like basis the variation in net premiums was -2.9%.

1.2 Commission income

Amounts in €m	31/12/2011	*% comp.*	31/12/2010	*% comp.*	*% var.*
Commission income from banking business	106.7	*81.5*	101.0	*80.8*	*5.7*
Commission income from investment contracts	21.3	*16.3*	20.0	*16.0*	*6.6*
Other commission income	2.9	*2.2*	4.0	*3.2*	*-27.1*
Total commission income	130.9	***100.0***	125.0	***100.0***	***4.8***

On a like-for-like basis the variation in commissions was 1.3%.

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

Amounts in €m	31/12/2011	31/12/2010	*variation*
Financial assets held for trading:			
Net interest income	29.4	21.4	*8.0*
Realised gains/losses	18.0	-23.8	*41.7*
Unrealised gains/losses	-169.1	-74.3	*-94.8*
Other gains and losses	-23.1	-28.3	*5.1*
Total	-144.9	-104.9	***-40.0***
Financial assets at fair value through profit or loss:			
Net interest income	132.0	142.0	*-10.0*
Realised gains/losses	-15.3	24.5	*-39.7*
Unrealised gains/losses	-236.1	74.5	*-310.6*
Other gains and losses	-2.6	-5.7	*3.1*
Total	-121.9	235.3	***-357.1***
Financial liabilities held for trading:			
Realised gains/losses	0.0	-1.5	1.6
Unrealised gains/losses	-0.3	0.1	-0.4
Total	-0.4	-1.5	1.2
Financial instruments at fair value through profit or loss:			
Unrealised gains/losses	-5.6	-124.5	*119.0*
Other gains and losses	27.4	-55.7	*83.1*
Total	21.8	-180.3	***202.0***
Total net losses	-245.3	-51.4	***-193.9***

The increase in net losses on financial instruments at fair value through profit or loss was due to the fact that by the end of the year losses were €286.8m higher than in 2010, with those on assets held for trading were €94.8m higher and those on designated assets €310.6m higher, though they were partially offset by losses on financial liabilities at fair value through profit or loss being €119m lower.

Unrealised losses on financial assets held for trading included €65.7m of losses on financial derivatives held as a hedge against increases in the fair value of bonds classified as available-for-sale financial assets, for which a hedge adequacy check was carried out

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

These amounted to €12.9m (€1.4m in 2010), €9.1m of which was from the sale of investments in associates.

1.5 Gains on other financial instruments and investment property

Amounts in €m	31/12/2011	*% comp.*	31/12/2010	*% comp.*	*variation*
Interest	1,380.5	*78.7*	1,194.7	*71.1*	*185.8*
on investments held to maturity	72.9		91.2		*-18.3*
on loans and receivables	613.3		507.4		*105.9*
on available-for-sale financial assets	694.2		593.8		*100.4*
on sundry receivables	0.2		1.8		*-1.6*
on cash and cash equivalents	0.0		0.5		*-0.5*
Other gains	110.6	*6.3*	97.8	*5.8*	*12.8*
on investment property	10.0		10.4		*-0.3*
on loans and receivables	0.0		0.2		*-0.2*
on available-for-sale financial assets	100.6		87.3		*13.3*
Realised gains	184.1	*10.5*	346.3	*20.6*	*-162.3*
on investment property	3.3		2.0		*1.3*
on investments held to maturity	2.9		0.0		*2.9*
on loans and receivables	3.4		17.9		*-14.5*
on available-for-sale financial assets	174.5		326.5		*-152.0*
Unrealised gains and reversals of impairment losses	78.0	*4.5*	41.3	*2.5*	*36.8*
on available-for-sale financial assets	78.0		41.3		*36.8*
Total item 1.5	1,753.3	*100.0*	1,680.1	*100.0*	*73.1*

Unrealised gains on available-for-sale financial assets included €78m for increases in fair value of bonds hedged by IRS which were tested and proved to be effective.

1.6 Other income

Amounts in €m	31/12/2011	*% comp.*	31/12/2010	*% comp.*	*% var.*
Miscellaneous technical income	49.2	*43.5*	55.1	*42.8*	*-10.8*
Sums released from provisions	18.5	*16.4*	25.3	*19.6*	*-27.0*
Exchange rate gains	3.2	*2.8*	4.5	*3.5*	*-30.1*
Prior year items	9.5	*8.4*	12.5	*9.7*	*-24.0*
Realised gains on property, plant and equipment	0.1	*0.1*	0.1	*0.0*	*48.4*
Other income	32.6	*28.8*	31.4	*24.4*	*3.7*
Total other income	113.0	*100.0*	128.9	*100.0*	*-12.4*

On a like-for-like basis the variation in other income was -5.8%.

COSTS AND EXPENSES

2.1 Net charges relating to claims

Amounts in €m	31/12/2011	31/12/2010	*% var.*
Net charges relating to claims - direct and indirect business	7,891.8	8,528.3	*-7.5*
Non-Life business	3,212.5	3,421.1	*-6.1*
amounts paid	3,422.0	3,719.6	
changes in provision for claims	-167.7	-243.7	
changes in recoveries	-41.7	-54.5	
changes in other technical provisions	-0.1	-0.2	
Life business	4,679.2	5,107.3	*-8.4*
amounts paid	3,641.2	3,008.8	
changes in payable amounts	22.7	45.3	
changes in mathematical provisions	1,029.3	1,911.9	
changes in other tecnichal provisions	-109.6	1.7	
changes in provisions where the investment risk is borne by policyholders and arising from pension fund management	95.6	139.6	
Net charges releating to claims - reinsurers' share	-48.5	-55.7	*-12.9*
Non-Life business	-36.9	-41.9	*-11.8*
amounts paid	-70.9	-69.2	
changes in provisions for claims	30.6	26.1	
changes in recoveries	3.4	1.2	
Life business	-11.6	-13.8	*-16.3*
amounts paid	-17.9	-20.3	
changes in payable amounts	1.6	-1.0	
changes in mathematical provisions	4.5	7.2	
changes in other technical provisions	0.3	0.3	
Total net charges relating to claims	7,843.3	8,472.7	*-7.4*

On a like-for-like basis the variation in net charges relating to claims was -8.2%.

2.2 Commission expense

Amounts in €m	31/12/2011	*% comp.*	31/12/2010	*% comp.*	*% var.*
Commission expense from banking business	10.5	*37.1*	7.0	*24.8*	*49.7*
Commission expense from investment contracts	11.5	*40.7*	12.9	*45.5*	*-10.5*
Other commission expense	6.3	*22.1*	8.4	*29.7*	*-25.3*
Total commission expense	28.3	***100.0***	28.3	***100.0***	***0.0***

On a like-for-like basis the variation in commission expense was 0.6%.

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

These amounted to €24.2m (€1.1m in 2010) and included €23.6m of charges on investments to offset the profits of Bnl Vita amounting to €24.4m, which was sold on 29 September 2011.

2.4 Losses on other financial instruments and investment property

Amounts in €m	31/12/2011	*% comp.*	31/12/2010	*% comp.*	*% var.*
Interest:	276.5	*36.3*	218.6	*50.1*	*26.5*
from other financial liabilities	276.0		217.9		
from payables	0.5		0.7		
Other charges:	12.1	*1.6*	10.9	*2.5*	*11.5*
from investment property	4.0		3.0		
from available-for-sale financial assets	6.4		6.1		
from other financial liabilities	1.6		1.8		
Realised losses:	203.7	*26.7*	70.8	*16.2*	*187.7*
from loans and receivables	5.0		0.0		
from available-for-sale financial assets	198.6		70.5		
from other financial liabilities	0.0		0.3		
Unrealised losees and impairment losses:	270.1	*35.4*	135.7	*31.1*	*99.1*
from investment property	1.6		1.8		
from loans and receivables	104.3		52.7		
from available-for-sale financial assets	164.2		81.2		
Total item 2.4	762.5	*100.0*	436.0	*100.0*	*74.9*

On a like-for-like basis the variation in the item was 63.6%.

Unrealised losses and impairment losses on available-for-sale financial assets included €79.8m of impairment losses on equities already subjected to impairment testing in the previous separate and interim financial statements (€80.9m in 2010), €9.2m of it attributable to the Bnl Vita figures included in the Group's consolidated financial statements, and €83.7m of impairment losses on bonds issued by the Greek government maturing by 2020 (€60.4m of it attributable to Bnl Vita).

The threshold of materiality that determines the impairment loss under the Group's impairment policy for equities was raised from 20% to 50% as from 31 December 2011. For further details see Chapter 2 of these Notes – *Accounting policies*.
On the basis of the new parameter no new equities on which objective impairment losses were revealed were recognised on 31 December 2011.
On the basis of the 20% threshold of materiality previously applied €136.1m of further impairment losses would have been recognised.

Unrealised losses on loans and receivables included €104.3m relating to loans to customers (€52.7m in 2010).

2.5 Operating expenses

Amounts in €m	31/12/2011	*% comp.*	31/12/2010	*% comp.*	*% var.*
Insurance	1,096.1	*79.2*	1,079.2	*79.1*	*1.6*
Banking	264.9	*19.2*	265.9	*19.5*	*-0.4*
Holding and Services	86.3	*6.2*	82.8	*6.1*	*4.2*
Intersegment eliminations	-64.1	*-4.6*	-64.3	*-4.7*	*-0.3*
Total operating expenses	1,383.2	***100.0***	1,363.6	***100.0***	***1.4***

Below are details of Operating expenses in the Insurance business:

	NON-LIFE			LIFE			TOTAL		
Amounts in €m	Dec-11	Dec-10	*% var.*	Dec-11	Dec-10	*% var.*	Dec-11	Dec-10	*% var.*
Acquisition commissions	583.7	552.4	*5.7*	37.7	46.4	*-18.8*	621.3	598.8	*3.8*
Other acquisition costs	142.6	149.0	*-4.3*	36.6	35.3	*3.5*	179.2	184.3	*-2.8*
Changes in deferred acquisition costs	1.3	3.6	*-62.9*	1.0	1.6	*-38.0*	2.3	5.1	*-55.3*
Collection commissions	109.0	111.2	*-2.0*	8.4	9.2	*-9.1*	117.3	120.4	*-2.6*
Profit participation and other commissions from reinsurers	-40.1	-30.3	*32.2*	-4.3	-2.5	*72.6*	-44.4	-32.8	*35.3*
Investment management expenses	11.9	12.1	*-2.1*	21.2	20.6	*2.6*	33.0	32.8	*0.9*
Other administrative expenses	139.1	127.8	*8.9*	48.2	42.8	*12.7*	187.4	170.6	*9.8*
Total	947.5	925.8	***2.3***	148.7	153.4	***-3.1***	1,096.1	1,079.2	***1.6***

2.6 Other costs

Amounts in €m	31/12/2011	*% comp.*	31/12/2010	*% comp.*	*% var.*
Other technical charges	117.4	*17.5*	107.0	*50.9*	*9.7*
Impairment losses on receivables	4.5	*0.7*	7.4	*3.5*	*-39.4*
Other costs	547.7	*81.8*	96.0	*45.6*	*470.6*
Total other costs	669.6	***100.0***	210.3	***100.0***	***218.3***

Other costs increased owing to €419.3m of impairment losses arising from impairment tests carried out on intangible assets with an indefinite useful life, of which €300m relating to goodwill on bank branches and €119.3m to goodwill arising on consolidation of the investment in Unipol Banca.

3. Income tax

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

Amounts in €m	31/12/2011 Ires	Irap	Total	31/12/2010 Ires	Irap	Total
Current taxes	191.3	16.7	208.0	-195.4	11.4	-184.0
Deferred assets and liabilities	-402.2	20.8	-381.4	258.9	24.0	283.0
Use of deferred tax assets	80.6	2.7	83.3	210.1	4.3	214.4
Use of deferred tax liabilities	-44.5	-8.2	-52.7	-12.3	-1.5	-13.8
Accrual to deferred tax assets	-634.2	-28.8	-663.0	-116.1	-3.3	-119.4
Accrual to deferred tax liabilities	195.9	55.2	251.1	177.3	24.6	201.9
Total	-210.9	37.6	-173.3	63.6	35.4	99.0

Current taxation included €247.3m of charges for substitute tax paid on 30 November 2011 for goodwill realigned under Law Decree 98/2011, against which €431.6m of deferred tax assets were recognised, included in the item Other deferred tax assets in the table below.

The following table shows the breakdown of deferred tax assets and liabilities, showing the major differences for taxation purposes:

Amounts in €m	31/12/2011	31/12/2010
ASSETS		
Intangible assets and property, plant and equipment	94.2	24.0
Investment property	39.4	36.2
Financial instruments	454.2	242.9
Sundry receivables and other assets	0.8	0.3
Provisions	72.0	40.4
Technical provisions	124.3	105.0
Financial liabilities	0.2	0.2
Payables and other liabilities	6.5	6.2
Other deferred tax assets	438.3	54.5
Total deferred tax assets	1,230.0	509.8
LIABILITIES		
Intangible assets and property, plant and equipment	15.4	58.2
Investment property	1.9	2.7
Financial instruments	213.7	154.8
Sundry receivables and other liabilities	0.2	0.2
Provisions	1.1	2.6
Technical provisions	88.9	45.9
Financial liabilities	0.1	0.2
Loans and other liabilities	0.4	0.2
Other deferred tax liabilities	17.5	1.4
Total deferred tax liabilities	339.2	266.2

The future plans of the companies belonging to the Group assume that net tax assets are recoverable under the consolidated tax scheme and recent legislation, which have introduced more advantageous conditions in terms of both carrying tax losses forward to future years and recovering deferred tax assets based on the amount of tax loss arising out of amortisation of realigned goodwill and impairment losses on receivables as tax receivables.

5. OTHER INFORMATION

5.1 Hedge accounting

At 31 December 2011 fair value and cash flow hedges were being carried out.

Fair value hedges

Fair value hedges were transactions relating to hedge variations in fair value of several government bonds classified as available-for-sale financial assets, the aim being to cancel out the variations in fair value of the securities as a result of the variation in the interest rate compared with the market rate at the time the hedging transaction was launched.
The financial instruments designated as hedging instruments were Interest Rate Swaps, the fair value of which had fallen by €180.7m at 31 December 2011. The fair value of the hedged bonds rose by €205.1m while the hedging was in force.
At 31 December 2011 hedging was effective since the ratio between the variations in fair value of the hedged derivatives and the variation in fair value linked to the risk of the underlying assets hedged was still within the range 80%-125%.
The fair value of the IRS fell by €65.7m during 2011 and that of the underlying assets rose by €78m, the net financial repercussion being positive to the tune of €12.3m.

Cash flow hedges

Unipol Assicurazioni had a cash flow hedge on perpetual hybrid loans, with variable half-yearly coupon worth €400m, issued in May 2009 and repayable in 2018. The aim of this transaction was to transform the indexation of the loan from floating to fixed rate, thus stabilising future cash flows. The cumulative negative effect on equity, in the hedging reserve, was €46.1m at 31 December 2011 (€30.3m net of tax).

Unipol Banca had €152m of cash flow hedge types of cover on bond loans repayable in 2013 and 2017. The aim of this transaction was to transform the indexation of the loan from floating to fixed rate, thus stabilising cash flows. The cumulative negative effect on equity, in the hedging reserve, was €13.5m at 31 December 2011 (€9.1m net of tax).

5.2 Share-based payment plans

The Group pays additional benefits to senior executives under a closed share-based payment plan under which Unipol ordinary shares are granted if specific targets are achieved (*performance shares*).
The plan is for three years, ending in 2012, and provides for benefits to be paid if the following targets are met:

– overall growth in consolidated gross profit for the three-year period;
– increase in the value of Unipol ordinary securities over the three years;
– an indicator of financial stability.

It is also dependent on individual short-term targets being met.

The cost of increasing the equity for 2011 was €8.3m.

5.3 Earnings (loss) per share

Basic and diluted		
	31/12/2011	31/12/2010
Earnings/(loss) allocated to ordinary shares (€m)	-67.1	19.7
Weighted average of ordinary shares outstanding during the year (amounts in millions)	2,114.3	1,747.5
Basic earnings per share (EUR per share)	-0.03	0.01

5.4 Dividends

In view of the loss for the year made by the Parent Unipol SpA at 31 December 2010 (as shown in the financial statements drawn up in accordance with Italian GAAP), the General Shareholders' Meeting of Unipol SpA held on 28 April 2011 did not vote to pay a dividend.

The financial statements of the Parent Unipol at 31 December 2011, drawn up in accordance with Italian GAAP, show a loss for the year of €358.3m.
In view of the volatility in the markets and the strategic priority of financial stability, Unipol's Board of Directors is not proposing a dividend for 2011 to the Shareholders' Meeting.

5.5 Transactions with related parties

Most of the services supplied by the Parent Unipol that did not affect the competitiveness of the individual operating companies were in the following areas:

- Institutional Relations and relations with the Media and Corporate Identity;
- Management, development and administration of human resources, project management and organisational reporting;
- Corporate services;
- Compliance with legislation and combating money-laundering (legal services);
- Governance (internal controls, risk management and compliance with relevant legislation).

Unipol Assicurazioni provided services relating to the following areas:

- Planning and monitoring;
- Legal affairs and data protection;
- IT services;
- Health and safety at work (Legislative Decree 81/08);
- Technical training and organisation;
- Administrative (accounting, tax, administrative and financial statements services);
- Real estate, purchasing and auxiliary services;
- Development of Life products, analysis of Life provisions and settlements;
- Claims management and settlement;
- Complaints management;
- Marketing;
- Reinsurance;
- Finance.

Unipol Assicurazioni also has the following relations with the companies in the Group to which it belongs, including via subsidiaries:

- normal reinsurance and coinsurance transactions;

- property leases;
- agency mandates.

UniSalute provided the following services for the other companies in the Group:
- handling health claims on behalf of Unipol Assicurazioni;
- providing medical advice and assistance by telephone, making bookings, managing and settling health claims on behalf of Unipol Assicurazioni and Linear;
- tutoring services for the e-learning package on behalf of Unipol, Unipol Assicurazioni, Linear and Linear Life.

Unipol Banca provided the following services to the companies in the banking group of which it is the Parent:
- Organisation;
- IT services (limited to the period January-March 2011);
- Management and financial statements;
- Human Resources;
- Combating money-laundering;
- Legal services and relations with the Courts;
- Risk management;
- Compliance;
- Internal auditing;
- General business.

Both the Parent Unipol and the subsidiaries Unipol Assicurazioni and Unipol Banca seconded staff to the Group companies.

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

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

When services were provided by the Parent Unipol, the operating companies were charged a mark-up on the allocated cost.

Financial and commercial transactions between the companies in the Banking Group and the other companies in the Group were the usual types of transaction carried out by a complex group and related to services, deposit accounts or corporate financing and finance lease agreements. Agreements were also entered into for the sale and/or management of banking and financial products and/or services and for the provision of auxiliary banking services in general. The financial effects of these transactions were governed by the market terms applied to major customers.

The above transactions are not atypical or unusual.

It should be noted that in accordance with Article 2497 et seq. of the Civil Code none of the shareholders

of the Parent Unipol SpA carries out any of its administrative and coordination activities.
Finsoe SpA, which holds a controlling investment in Unipol SpA as defined in Article 2359. 1. 1, of the Italian Civil Code or 50.75% of the ordinary share capital, does not manage or coordinate it either in technical or financial terms.

The project for the non-proportional partial demerger of Holmo SpA ended on 2 November 2011. It had been launched on 12 April 2011 and approved by the Extraordinary Shareholders' Meeting held on 5 July 2011, with the consequent proportional reduction in Holmo SpA's investment in Finsoe SpA from 76.50% to 24.54% of the entire share capital with voting rights. Since the demerger neither Holmo nor any other party has held an interest in Finsoe that qualifies as 'controlling'.

Finsoe, which was also the consolidating company for tax purposes of Unipol, Unipol Assicurazioni, Linear, Linear Life, Midi and Smallpart, which, in accordance with Article 117 and seq. of Presidential Decree 917/86 and Ministerial Decree of 9 June 2004, have, as consolidated companies, opted for the Group consolidated taxation system (for the purposes of IRES). Receivables from the ultimate parent for tax purposes, Finsoe, amounted to €457.8m at 31 December 2011.

Agreement between Unipol and the subsidiaries Unipol Banca and Unipol Merchant to repay loans

On 3 August 2011 the Parent Unipol signed agreements with Unipol Banca and Unipol Merchant, with effect from 30 June 2011, relating to a fixed level of lending, mainly mortgage loans, consisting of 52 items, 49 in the case of Unipol Banca and 3 in the case of Unipol Merchant, amounting to €547m (carrying amount at 30/6/2011), of which €528m in the case of Unipol Banca and €18m in the case of Unipol Merchant.
Under these agreements the holding company, Unipol, undertook to pay Unipol Banca and Unipol Merchant the principal and interest on these loans if they had not received them after taking all possible actions provided for by law to recover the debt, including applying to the courts, up to a maximum, including capital and interest, equal to their carrying amount at 30 June 2011.
The agreements will remain in force for a maximum of ten years after the last date on which the loans are repayable.
In return Unipol Banca and Unipol Merchant will pay Unipol an annual sum of 1% of its commitment at the time (€2m in 2011).

The transaction was submitted for the opinions/validation of the relevant internal departments, in accordance with the relevant internal rules on transactions with related parties in accordance with CONSOB Regulation 17221/2010 (Procedure for Transactions with Related Parties, adopted by the Company on 16/12/2010).
The transaction was deemed to be 'exempt' from the procedural rules since it was carried out between Unipol Gruppo Finanziario and companies wholly owned by it, there being no significant interests in these companies under the CONSOB Regulation.

During December two transactions for the sale of mortgaged property complexes to Unipol Banca were concluded, with a consequent total reduction in exposures of €56m, of which €27m relates to land loans already classified as bad and doubtful debts and backed by a mortgage on the Villa Cicogna complex, part of which is of historical value, in San Lazzaro di Savena (Bologna), recorded by Ambra Property (a company wholly owned by Unipol).

The following table shows transactions with related parties (holding, associates, related companies and other companies) carried out during 2011, as laid down in IAS 24 and in CONSOB Communication DEM/6064293/2006. The information relating to directors, statutory auditors, general managers and key managers (recognised under Others) does not include remuneration and fees for their appointments nor for the work they carried out, which are shown separately.

Transactions with subsidiaries have not been recognised since in drawing up the consolidated financial statements transactions among Group companies consolidated using the line-by-line method have been eliminated as part of the normal consolidation process.

Related party transactions

	Amounts in €m	Parent	Associates	Other (2)	Total	*inc. % (1)*
4.4	Loans and receivables	0.0	38.5		38.5	*0.1*
5.1	Receivables relating to direct insurance business	0.0	13.3		13.3	*0.0*
5.3	Other receivables	457.8	0.1		458.0	*1.2*
	TOTAL ASSETS	457.8	52.0	0.0	509.8	***1.3***
4.2	Other financial liabilities	78.5	18.0		96.6	*0.2*
5.1	Payables relating to direct insurance business	0.0	1.4		1.4	*0.0*
5.3	Other payables	3.8	0.0		3.9	*0.0*
6.4	Other liabilities	0.0	0.2		0.2	*0.0*
	TOTAL LIABILITIES	82.4	19.7	0.0	102.1	***0.3***
1.2	Commission income	0.0	0.1		0.1	*-0.1*
1.5	Gains on other financial instruments and investment property	0.3	0.7		1.0	*1.1*
1.6	Other income	0.0	0.7		0.7	*0.7*
1	TOTAL REVENUE AND INCOME	0.3	1.4	0.0	1.7	***1.9***
2.1	Net charges relating to claims	0.0	0.1		0.1	*0.1*
2.4	Gains/(losses) on other financial instruments and investment property	3.8	0.2		4.1	*4.3*
2.5	Operating expenses	0.0	68.0		68.0	*72.4*
2	TOTAL COSTS AND EXPENSES	3.8	68.3	0.0	72.1	***76.8***

(1) Percentage based on total assets in the consolidated statement of financial position recognised under equity and based on the consolidated profit/(loss) for the year under financial items.
(2) The column 'Other' includes associates and individuals identified as related parties (directors, statutory auditors, general managers, key managers and their family members).
The percentage on total net cash flow from operating activities mentioned in the statement of cash flows (€4.8m) is not listed since it is not significant.

Remuneration payable for 2011 to the Parent's Directors, Statutory Auditors and Key Managers for carrying out their duties in Unipol and in other consolidated companies amounted to €11.8m, details of which are as follows (in €m):

- Directors and General Manager	6.4
- Statutory auditors	0.5
- Other key managers	4.9 *(*)*

(*) almost exclusively income from employment

The remuneration of the General Manager and the other key managers included an estimated €2m of benefits to be granted under the share-based payment plan (performance shares), which, subject to achievement of the targets provided for in the plan, provides for them to be granted Unipol ordinary shares in 2014.

During 2011 the companies in the Group paid Unipol the sum of €0.6m as remuneration for the posts held in them by the Chairman, the Chief Executive Officer, the General Manager and the Key Managers.

5.6 Non-recurring significant transactions and events

As already mentioned in the management report the following non-recurring significant transactions were carried out during 2011:

Sale of Bnl Vita Spa
On 29 September 2011, once BNP Paribas and Cardif Assicurazioni had obtained the permits required by law, Unipol's 51% investment in Bnl Vita Spa was sold for a total price, as laid down in the contract, of €325.2m.
The net financial effect of the sale on the consolidated financial statements at 31 December 2011 was not particularly significant.
The prospectus for the sale was drawn up in accordance with Article 71 of the Regulation implementing Legislative Decree 58 of 24 February 1998, adopted by CONSOB in Resolution 11971 of 14 May 1999, as amended and integrated, was published on 14 October 2011.

Realignment of goodwill
In accordance with the provisions of Article 23, paras 12 to 15, of Law Decree 98/2011 (converted by Law 111/2011), on 30 November 2011 Unipol Gruppo Finanziario and the subsidiaries Unipol Assicurazioni and Unipol Banca realigned the premium on their majority holdings to the goodwill recognised in the consolidated financial statements at 31 December 2010 and paid €247m in substitute tax based on realigned taxable goodwill of €1,545m. In return a €432m saving on future taxation is expected. The benefit recognised in the 2011 consolidated income statement amounted to €184m.

The market was timely notified of these transactions by means of press releases.

5.7 Atypical and/or unusual transactions

There were no atypical and/or unusual transactions that, because of their significance, importance, nature of the counterparties, transfer pricing procedures, or occurrence close to the end of the year, could give rise to doubts relating to the accuracy and completeness of the information in these consolidated financial statements, a conflict of interest, the safeguarding of the Group's assets or the protection of non-controlling shareholders.

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

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

Despite forecasts of an upturn in the next few years the state of the economy in general, the high volatility in the financial markets in particular led to the need to continue to be cautious when determining measurement criteria.
Appropriate Sensitivity Analyses were also developed to test the stability of the recoverable amounts of goodwill if there was a variation in the main parameters used, such as the rate of discounting and the long-term growth rate (g factor).

The Cash Generating Units to which goodwill was allocated were the same as the previous year. Thus the CGU consisted of the following at 31 December 2011:

- Non-Life CGU — Unipol Assicurazioni – Non-Life, UniSalute, Linear;
- Life CGU — Unipol Assicurazioni - Life, Arca Group;
- Banking business CGU — Unipol Banca Group.

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

Non-Life CGU	
Measurement method used	The method used, similar to that carried out last year, was an excess capital type of DDM (Dividend Discount Model) and focused on the future cash flows theoretically available for shareholders, without drawing on the assets needed to support the expected growth and in accordance with the capital requirements imposed by the Supervisory Authority. According to this method the value of the economic capital is the sum of the current value of potential future cash flows and the current terminal value.
Net profits used	The plan net profits were considered.
Projection period	Five flows were discounted.
Rate of discounting	When the rates of discounting were determined account was taken of the country risk implied in the risk-free rate. A rate of discounting of 9.55% was used, broken down as follows: – Risk-free rate: 5.28% – Beta coefficient: 0.85 – Risk premium: 5% The average figure for the 10-year Long-Term Treasury Bond for the period January - December 2011 was used for the risk-free rate. A 5-year adjusted beta coefficient for a sample of companies listed on the European market operating in Non-Life business and deemed to be

	comparable was used. The premium at risk was deemed to be 5%, in accordance with common practice among financial analysts and the profession in general.
Long term growth rate (g factor)	Several significant growth indicators relating to the reference market and to the macroeconomic situation were taken into account. In particular, the annual average rate of growth of Non-Life premiums for 2012-2016 was expected to be 2.2%. The average variation in GDP was expected to be 3.1% in nominal terms. The average consumer price index for 2012-2016 was expected to be approximately 2.0%. In view of this it was deemed appropriate to use a g factor of 2%, in line with the professional practices used.
Life CGU	
Goodwill recoverable amount	The recoverable amount of Unipol Assurazioni Vita's goodwill was based on discounting expected cash flows, as derived from the in-house actuarial model. In the case of the Arca Group Arca Vita was measured using the Appraisal Value method and the DDM mentioned above was used for the subsidiary Arca Assicurazioni. The Arca Group was considered as a whole since both companies use the same sales channel (banking).

On the basis of the simulations carried out, in accordance with the parameters described above, it was not deemed necessary to adjust goodwill recognised at 31 December 2011 relating to the Non-Life and Life CGUs.

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

Partly as a result of the crisis that has affected the banking system for the last five years the financial performance of the last few years has not made it possible to meet the targets laid down in the multiyear plans drawn up to support the impairment tests carried out in recent years.
Therefore a new multiyear plan has been drawn up that, in view of previous years' performance and the forecasts for the near future (which are still difficult, especially for the credit sector), lays down more cautious profit targets.
Nevertheless these new figures predict a substantial improvement in the Bank's economic performance over the next five years despite the assumptions underlying these figures being more cautious than those used in previous years.

Goodwill was also affected by the rise in interest rates on the national debt, which led to a rise in the financial parameters used for calculating the rate of discounting provided for in the model used for the impairment test.

The combination of these factors led to a result that does not allow the amount of goodwill on the acquisitions of bank branches that took place during the period 2001-2004, recognised as an asset in the statement of financial position, to remain unchanged. Goodwill was therefore partly impaired commensurate with the present value of the expected cash flows that will be generated by the CGU concerned.
An impairment loss of €300m was therefore recognised, reducing the total goodwill recognised in the financial statements from the original €419.2m at the end of 2010 to €119.2m at 31 December 2011. Consequently the original goodwill arising from consolidation of €119.3m recognised in the consolidated financial statements of the subsidiary Unipol Banca was fully impaired.

The impairment test model and the measurement of the actual value of the Bank were submitted for checking by an independent expert, Prof. Enrico Laghi, Professor of Corporate Economy at La Sapienza University in Rome.

Banking business CGU	
Valuation method used	The method used was based on discounting expected cash flows.
Rate of discounting	The rate used is 9.54% and is broken down as follows: – Risk-free rate: 5.28% – Beta coefficient: 0.85 – Risk premium: 5% The average figure for the 10-year Long-Term Treasury Bond for the period January – December 2011 was used for the risk-free rate. A 5-year adjusted beta coefficient for a sample of Banks listed on the Italian market and deemed to be comparable was used The premium at risk was deemed to be 5%, in accordance with common practice among financial analysts and the profession in general.
Long term growth rate (g factor)	For example in Banking Business the annual average growth rate is expected to be: • 3.8% for lending to customers (for 2012-2016) • 2.9% for funding (2012 -2016) • 2.2% for interest margin (2012-2016) • 3.4% for gross income (2012-2016) In view of this it was deemed appropriate to use a g factor of 2%, in line with the professional practices used.
Projection period	Five expected cash flows were discounted.

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

Amounts in €m	Allocation of goodwill	Recoverable amount	Surplus
Non-Life CGU	1,047	3,714	2,667
Life CGU	349	433	84
Banking business CGU	126	163	37
Total	1,522	4,310	2,788

Sensitivity analyses

Parameters used	Non-Life	Bank
Risk Free	5.28%	5.28%
Beta	0.85	0.85
Risk premium	5%	5%
Short-term discounting rate	9.55%	9.54%
Range	*8.55% - 10.55%*	*9.54% - 10.54%*
Pass	*0.5%*	*0.5%*
g factor	2%	2%
Range	*1% - 3%*	*1% - 3%*
Pass	*0.5%*	*0.5%*

				Delta of recoverable amount - goodwill = 0			
	Amounts in €m	Sensitivity (value range)		Hp. 1 (rate g same as rate used for impairment)		Hp. 2 (rate g equal to 0)	
CGU	Delta of recoverable amount - goodwill	Min	Max	g	Short-term discounting rate	g	Short-term discounting rate
Non-Life business							
Non-Life Unipol	2,295	1,723	3,314	2%	24.0%	0%	23.7%
Unisalute	181	140	256	2%	31.5%	0%	31.4%
Linear	191	144	276	2%	27.3%	0%	27.0%
Banking business	37	-167	388	2%	9.8%	0%	8.3%

Parameters used	Life
YIELD (average yield rates)	3.65%
RDR (risk discount rate)	6.15%

	Amounts in €m	Delta sensitivity of recoverable amount - goodwill	
CGU	Delta of recoverable amount - goodwill	YIELD - 50 bps/ RDR - 50 bps	YIELD + 50 bps/ RDR + 50bps
Unipol Vita	13	-35	43

	Amounts in €m	Arca Vita sensitivity value	
Company	Value	YIELD - 50 bps/ RDR - 50 bps	YIELD + 50 bps/ RDR + 50bps
Arca Vita	431	433	430
Arca Assicurazioni	185	185	185
Arca Vita+Arca Assicurazioni	611	612	609

	Amounts in €m	Arca Assicurazioni sensitivity value	
Company	Value	Min	Max
Arca Vita	431	431	431
Arca Assicurazioni	185	155	236
Arca Vita+Arca Assicurazioni	611	582	660

5.9 Notes on Non-Life business

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

The process that leads to making the assumptions is carried out in such a way as to make a neutral valuation (i.e. neither optimistic nor prudent) of the liabilities with the intention of coming up with an estimate that is as realistic as possible.
The source of the figures is internal and the trends are based on annual statistics and monitored monthly throughout the year.
As far as possible assumptions are checked against market statistics.
If any information is missing, incomplete or unreliable the estimate of the final cost is based on prudent assumptions.
The very nature of insurance business makes it very difficult to forecast the cost of settling a claim with any certainty. The provision for each claim reported is set by an adjuster and is based on the information in his possession and on experience gained in similar cases. The forecasts fed into the system are periodically updated on the basis of new information about the claim. The final cost may vary as the claim proceeds (for example deterioration in the condition in the event of injury) or in the event of natural disasters. Estimating the final cost is very difficult and the various elements that make it so complex vary depending on the class in question.
As the Group's work is concentrated in Italy the major exposure to catastrophe risks is represented by natural disasters such as earthquake and flood.
Reinsurance cover is taken out to cover this type of risk, at different levels for each of the companies in the Group. The thresholds have been judged sufficiently prudent, being calculated using statistical models that simulate the company's exposure in detail.
The provisions for claims are estimated using the inventory method and the adjusters' estimates are also combined with the results of statistical methods such as the 'chain ladder', the 'Bornhuetter Ferguson' and the 'Fisher Lange' and with valuations based on the average costs for the year (for similar groups covering a sufficiently large number of claims).
The Chain Ladder method is applied to the amount paid out and the loading. The method is based on historical analysis of the factors that affect the trend in claims. The selection of these factors is based on the figures for the accumulated amounts paid out, which produces an estimate of the final cost per year of occurrence if the claims for that year have not been paid in full. The Chain Ladder method is suitable for sectors in which the figures are stable and is therefore not suitable in cases in which there is no significantly stable previous periods.
The Bornhuetter Ferguson method uses a combination of a benchmark, or estimates of the ratio of losses to 'a priori' premium and an estimate based on claims incurred (Chain Ladder).
The two estimates are combined using a formula that gives greater weight to experience. This technique is used in situations in which the figures are not suitable for making projections (recent years and new classes of risk).
The Fisher Lange method is based on a projection of the number of claims to be paid and the various average costs. This procedure is based on four fundamental assumptions: settlement rate, rates of claims followed up, basic average costs and exogenous and endogenous inflation.
These methods extrapolate the final cost according to the year in which the claim is incurred and according to similar groups of risk on the basis of the trends in claims recognised by the Group in the past. Should there be a reason for deeming the trends recognised to be invalid some of the factors are modified and the projection is adapted to fit the available information.

Some examples of what affects the trends could be:

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

Claims incurred but not yet reported are estimated on the basis of the historical trends within the company, with the number and the average costs of the claims being estimated separately.

As provided for in IFRS 4 the provisions were not discounted.

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

The estimated cost for 2002-2010 at 31 December 2011 was €27,950m, an increase compared with the valuation carried out at 31 December 2010 for the same years (€27,810m). The new figure takes account of the savings recognised on claims that have been settled and of the revaluations required on claims that are still outstanding.

The values determined by means of the Liability Adequacy Test (LAT) indicate that the provisions are sufficient overall (0.8%) and assume that in the type of business concerned (third-party liability class) inflation is 4.5%.
The risks arising from insurance policies are complex and subject to numerous variables that make the task of quantifying the sensitivity of the model very complicated.
In order to assess the sensitivity of the models to the change in the assumptions we have valued the provisions on the assumption of a 1% increase in the rate of adjustment of the average costs of claims in Motor TPL and General TPL.

Inflation assumed to be greater than 1%

Amounts in €m

	Pre-2000	2000-2011	Total	Delta %
Provision requirements	282	5,432	5,715	
LAT 4.5%	282	5,384	5,667	-0.8%
LAT 5.5%	282	5,438	5,721	0.1%

The incidence of the amount of the 604 major claims (exceeding €800,000 in the case of Motor TPL, €400,000 in the case of General TPL and €350,000 in the case of Fire) on the total provisions of the three classes was 15.9%. A 10% increase in the number of major claims would have led to a fall in provisions of €52.6m.

The incidence on total provisions of claims handled by others was 6.3%. If reinsurers had revalued these claims by 5% costs would have risen by €13.5m.

In assessing the results of these variations it must be borne in mind that these analyses are of the deterministic type and no account is taken of any correlations.

Trend in claims

The tables below, which illustrate the trend in claims, show the estimated first-year costs for each year in which claims were incurred from 2002 until 2011 and the adjustments made in subsequent years as a result of the claim being settled or the budget being adjusted as a result of fuller information about the claim being received.
The line showing the variation compared with the first-year provision must be considered separately since subsequent adjustments may already have been incorporated into the figures for later years.
Maximum caution must be exercised when extrapolating from the figures in the following tables for the purpose of ascertaining the adequacy or inadequacy of provisions.

The Group considers the provisions for claims reported or yet to be reported incurred by 31 December 2011 to be adequate in the light of information currently available. Of course, as they are estimates there is no absolute certainty that the provisions are in fact adequate.

Trend in claims (all classes except Assistance)

Amounts in €m

Year incurred	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**TOTAL**
- at the end of year incurred	2,696	2,779	2,853	2,879	2,997	3,155	3,480	3,661	3,381	3,009	**30,890**
- after one year	2,617	2,712	2,794	2,833	3,001	3,177	3,543	3,660	3,243		
- after two years	2,611	2,714	2,795	2,809	2,991	3,232	3,635	3,747			
- after three years	2,631	2,712	2,783	2,790	3,015	3,245	3,703				
- after four years	2,636	2,690	2,769	2,794	3,017	3,275					
- after five years	2,633	2,674	2,765	2,789	3,064						
- after six years	2,635	2,676	2,771	2,814							
- after seven years	2,642	2,667	2,779								
- after eight years	2,645	2,672									
- after nine years	2,653										
Estimate of claims accumulated	2,653	2,672	2,779	2,814	3,064	3,275	3,703	3,747	3,243	3,009	**30,959**
Accumulated payments	2,526	2,535	2,595	2,590	2,769	2,912	3,145	3,022	2,356	1,222	**25,672**
Variation compared with the valuation in year 1	-42	-107	-74	-65	67	119	223	86	-138	0	
Outstanding at 31/12/2011	128	137	183	223	295	362	558	726	888	1,787	**5,287**
Effects of discounting											**0**
Carrying amount	128	137	183	223	295	362	558	726	888	1,787	**5,287**

The breakdown of the IBNR estimate at 31 December 2010 showed a shortfall in 2011 of €20.8m or 4.0% of the estimate.

5.10 Notes on Life business

Make-up of the insurance portfolio

Most of Unipol Assicurazioni's premiums came from the network of Unipol and Aurora agencies and through Head Office, whilst the companies in the Arca Group operated through bank branches.
On the basis of the above product classification consolidated direct premiums at 31 December 2011 can be broken down as follows:

Consolidated Life direct premiums	Unipol Assicurazioni	Bnl Vita [2]	Linear Life	Arca Group[1]	Total
Amounts in €m					
Insurance premiums (IFRS4)	1,806.1	2,112.2	1.2	526.8	4,446.3
% var.	*-4.4%*	*-14.7%*	*-29.1%*	*82.2%*	*-4.5%*
Investment products (IAS39)	22.7	0.0	0.0	118.9	141.6
% var.	*26.5%*	*-48.0%*	*0.0%*	*96.8%*	*80.7%*
Total Life premiums	1,828.8	2,112.2	1.2	645.7	4,587.9
% var.	*-4.1%*	*-14.7%*	*-29.1%*	*84.7%*	*-3.1%*
Breakdown:					
Insurance premiums (IFRS4)	***98.8%***	***100.0%***	***100.0%***	***81.6%***	***96.9%***
Investment products (IAS39)	***1.2%***	***0.0%***	***0.0%***	***18.4%***	***3.1%***

(1) *For the Arca Group the period of reference in the previous year is 1/7-31/12/2010*
(2) *For Bnl Vita the period of reference for 2011 is 1/1-30/9/2011*

Unipol Group Life direct premiums (insurance products plus investment products) amounted to €4,587.9m at 31 December 2011, a decrease of 3.1% compared with last year. Direct income achieved by the composite company Unipol Assicurazioni amounted to €1,828.8m (39.9% of the consolidated total) whilst consolidated direct premiums achieved by the bancassurance channel of the Arca Group and Bnl Vita were €2,757.9m (60.1% of the consolidated total).

Insurance premiums amounted to 96.9% of total premiums, a slight fall compared with 2010 (98.3%).

Direct insurance premiums: types of premiums	Unipol Assicurazioni	Bnl Vita [1]	Linear Life	Arca Group	Total
Amounts in €m					
Traditional premiums	1,281.2	1,765.5	1.2	526.6	3,574.4
Financial premiums	125.3	345.8	0.0	0.2	471.4
Pension funds	399.6	0.9	0.0	0.0	400.6
Insurance premiums (IFRS4)	1,806.1	2,112.2	1.2	526.8	4,446.3
including investment with DPF	851.6	1,744.4	0.1	488.7	3,084.8
	47.2%	***82.6%***	***5.7%***	***92.8%***	***69.4%***

(1) *For Bnl Vita the period of reference for 2011 is 1/1-30/9/2011*

Most insurance premiums, approximately 80% of the total, were from traditional policies, with a further 9% coming from Unipol Assicurazioni occupational pension fund premiums and 11% from Class III premiums on unit-linked tariffs sold by the Arca Group and Bnl Vita and on index-linked tariffs distributed by Unipol Assicurazioni, especially in the second half of the year.
There were no major changes in underwriting and risk management policies compared with those mentioned in the consolidated financial statements for 2010.
The mathematical provisions have been calculated analytically for each individual policy, taking into account all contractual liabilities and the specific provisions issued by the Supervisory Authority in accordance with the criteria disclosed in the financial statements.
The results of the Liability Adequacy Test confirmed that the technical provisions were adequate to cover the financial benefits offered by the policies.

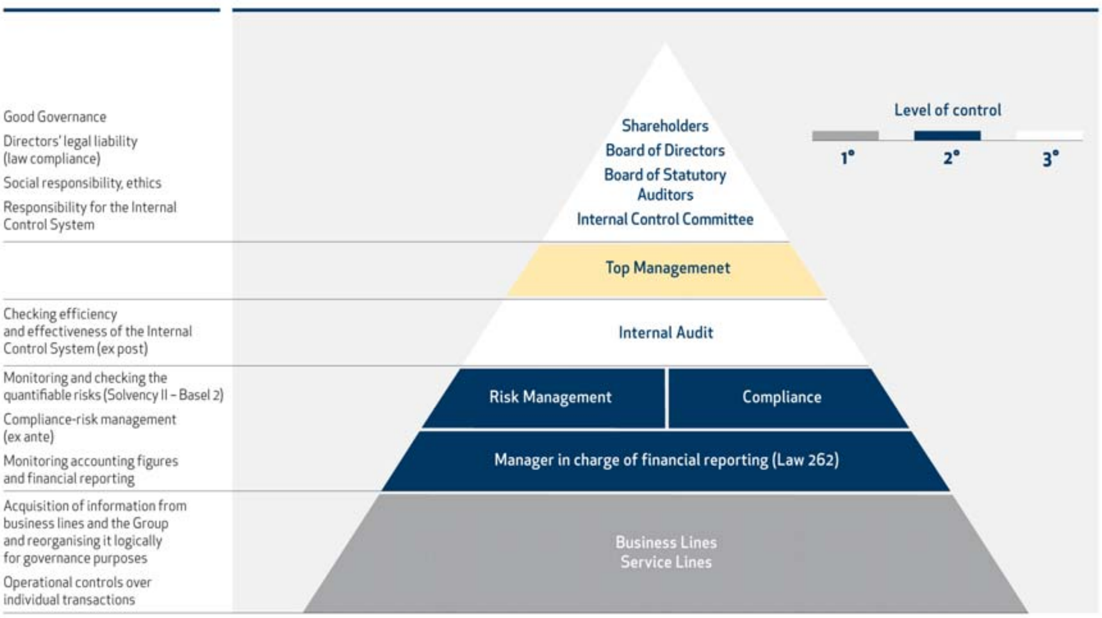
5.11 Risk Report

The Risk Report provides additional and supporting information to enable stakeholders to evaluate the Group's financial position for the purpose of Risk Management under the general principles contained in the Solvency II regulations currently being defined.

Internal Control System

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

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



Within Unipol :

- The **Board of Directors** is responsible for approving the Risk Management Policy, which contains guidelines and policies for identifying, calculating, checking and mitigating the principal risks in line with the company's risk appetite; it is also responsible for determining the risk appetite; the Board of Directors delegates risk management to the Risk Management Department, which is responsible for evaluating the combination of the various risks (Enterprise Risk Management – ERM) at Group level.
- The **Top Management** is responsible for implementing the risk management policies laid down by the Board of Directors by following the guidelines and procedures approved by the Board; they work with the Risk Management Department to establish the transactional limits and keep a constant check on whether they are being observed; they ensure that the Risk Management System remains fully functional and fit for purpose.
- The **Risk Management Department** (referred to below as Risk Management) is responsible for evaluating the combination of the various risks (Enterprise Risk Management – ERM) at Group level and the structure and efficacy of the Risk Management System and reports its conclusions to Top Management and the Board of Directors, highlighting any deficiencies and suggesting ways of resolving them. Risk Management carries out this work as part of the process of Own Risk Solvency Assessment for insurance business and the Internal Capital Adequacy Assessment Process for banking business, ensuring that the work carried out by the various company departments dealing with risk management is coordinated and in line with best practices in the market and in accordance with the regulations imposed by the Supervisory Authorities. This does not exempt the individual transactional departments from their specific responsibilities for managing the risks relating to their own work since the departments themselves must have the necessary tools and expertise. Risk Management helps the various companies in the Group to analyse the impact on the risk profile of the strategic choices relating to evaluating, in advance ('ex ante') and in retrospect ('ex post'), the impact on the risk profile of strategic business choices, specific transactions analysed, products and tariffs; it also monitors exposure to risks and ensures that risk appetite is not exceeded.
  Against this background, Risk Management works with the other monitoring units to help to make Group employees aware of risk and of the role assigned to the individual company units within the internal control system and encourage them to be fully involved.

  At organisational level the Unipol Group has decided to adopt a 'centralised' model of Risk Management, with the primary objective of ensuring that the ways in which risk management and monitoring policies, procedures and methods are adopted are the same throughout the company. The way in which this model is developed differs depending on the type of company concerned (insurance and investment management companies or companies in the Banking Group) and two organisational approaches are used:
  - outsourcing, particularly in the case of the insurance companies in the Group (excluding Arca Vita and its subsidiaries) under specific agreements concluded in accordance with the requirements of the relevant supervisory regulations;
  - taking control of the Risk Management departments of Arca Vita and Unipol Banca and the resultant work of managing, guiding and supervising them.

Monitoring Procedures: Internal Committees – Board Meetings

As part of the governance and the internal control and risk management systems of the Group and the operating companies, several internal committees have been set up to make proposals on, give advice on,

implement and monitor the policies on guidelines, coordination and operating strategy laid down by the Board of Directors and Top Management. Similar purposes are also fulfilled by board meetings, regular meetings attended by the Chief Executive Officer and Top Management.
In addition to board meetings the following Committees currently operate: Group Finance Committee, Investments Committee, Group ALM Transactional Management Committee, Group Credit Risk Committee, Life Products Committee, Non-Life Technical Committee. The Banking Group has a Credit Committee, a Credit Monitoring Committee and a Finance Committee.

Risk Management System

The Risk Management Policy lays down specific guidelines on managing risks arising from the business activities carried out by the companies in the Unipol Group. This Policy covers strategies, targets, roles, responsibilities and analysis, monitoring and calculating procedures for the company departments involved.

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

Within the Group, risk management is carried out by means of the following stages:
- identifying;
- calculating;
- checking;
- mitigating;
- reporting.

Specific policies containing guidelines for underwriting and managing risks have been issued for major risks. These policies contain definitions of the risk, calculation methods, any limits, the monitoring system and whatever else is required for the risk to be properly managed.
Significant risks, or those risks the consequences of which can undermine Group solvency or constitute a serious obstacle to achieving its objectives, are **identified** by means of a procedure that takes account of both Group structure and the specific nature of the types of business managed by the various Companies.
The categories of risk identified are as follows:
- Technical- insurance risks (Non-Life and Life);
- Financial risk (Market , ALM and Liquidity);
- Credit risk;
- Transactional risk;
- Emerging risks;
- Other risks.

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

Solvency I - a commonly used method that has introduced the minimum capital requirements (minimum solvency margin) and relates it to indicators such as premiums and claims, mathematical provisions and capital at risk.
Stress testing- used for internal risk management, stress tests are quantitative techniques by means of which undertakings assess their vulnerability to extreme but plausible events. Stress tests evaluate the effects on the economic and financial conditions of specific events or of changes in a set of economic-financial variables in the event of adverse scenarios. These techniques thus enable additional information on the actual exposure to various risk factors to be obtained, providing a better evaluation of the adequacy of capital and suggesting strategies and procedures for responding to these extreme events. Risk Management carries out the stress tests for all the operating companies in the Group, according to the type of risk deemed to be most relevant to the company's business transactions. On conclusion of the stress tests, in order to communicate the outcomes of the analyses and inform the individual companies of the risks assessed the Risk Management Department reports to Top Management and the relevant Boards of Directors.

Solvency II: Internal Model for calculating the Solvency Capital Requirement – As part of the process of incorporating Solvency II legislation the Group is in the process of adapting its risk management procedures to Solvency II, which includes developing and using an internal model that uses sophisticated financial and actuarial analysis tools to evaluate and calculate the risks identified. Combining these risks in the internal model provides a holistic assessment of the business risks. These calculations are also carried out using the standard formula, based on the findings of the most recent quantitative impact study with a reliability level of 99.5%.

Basel II for calculating capital requirements- the Unipol Banca Group comes under the category of class 2 banks (banking groups and banks that use standardised procedures, with consolidated or individual assets exceeding €3.5bn). The Banking Group deemed it appropriate to comply with the guidelines issued in Banca d'Italia Circular 263 of 27 December 2006 as amended, adopting the procedural solutions for calculating capital requirements available to intermediaries in its class and complying with regulatory procedures, in such a way as to encourage maximum dialogue with the Supervisory Authorities.

Basel III – new rules on capital and liquidity for banks
On 16 December 2010 the Basel Committee on Banking Supervision published the new rules on bank capital and liquidity (Basel III). The new rules will come into force gradually starting on 1 January 2013 until they become fully effective on 1 January 2019. There is in fact a transition period to enable the banks to adapt their transactional strategies. Unipol Banca has begun to decide what measures to adopt in order to adapt gradually to the new minimum standards.

Monitoring is split into the individual tasks of reporting and proposing corrective action.
The Group has developed an in-house reporting system as a strategic and transactional tool for monitoring, projecting and planning measures relating to capital and risk management. Developing the reporting and monitoring system guarantees that the quality and quantity of the information provided meet the specific requirements of the various recipients and are commensurate with the complexity of the business managed. Two types of risk management report are drawn up: one for Top Management and one covering transactional guidelines.
Under this system reports are structured i) according to level of responsibility, ii) according to category of risk, iii) according to frequency.
If analysis of the results reveals that the specified transactional limits have been exceeded the Department concerned, in conjunction with the Group's Business Plan Management and Financial Monitoring

department and with the help of Risk Management, decides on the measures to be taken to rectify matters within an appropriate timescale and notifies the relevant personnel.

Mitigation consists in identifying and proposing measures required and/or useful for limiting current or forecast levels of risk that are not in line with the risk objectives laid down for the business. The types of mitigation most used are:
- financial hedges;
- reinsurance;
- management actions;
- guarantees held as a hedge against credit risks.

Financial hedges: these measures may take the form of hedges on the market using financial derivatives.

Reinsurance: transfers the underwriting risk outside the Group, providing more possibility for business growth, both by proportionally reducing the amounts at risk (e.g. proportional treaties) and by limiting even further the amounts of major claims (e.g. non-proportional treaties).

Management actions: corrective actions specified at corporate governance level, such as restructuring assets and/or liabilities under management or selling assets and/or liabilities (closing items), to be taken if certain events occur.

Guarantees held as a hedge against credit risks: the main type of guarantee available on exposures to reinsurers is represented by deposits with the Group for the risks ceded and retroceded that are generally moved (placed and repaid) annually or half-yearly. Their duration largely depend on the specific nature of the underlying insurance benefits and on the actual duration of the reinsurance agreements, which are renegotiated at the end of each year. For exposures to reinsurers the group also makes use of a limited number of guarantees consisting mainly of letters of credit and securities. Collateral deposited by the counterparties for operating in derivatives under CSA-type agreements is also used as guarantees on credit risks.
If the internal models for calculating risks include mitigation techniques, steps should be taken to ensure that they are compatible with and constantly updated in line with performance.
The various mitigation techniques are documented in policies drawn up for the purpose or within existing general policies.

Internal Model

Insurance business

The logic underlying the Internal Model for calculating Unipol's Internal Capital Requirement has been developed in line with the new Solvency II standards currently being defined. To be specific, in line with the provisions of EIOPA, Unipol has laid down its own categories according to the following categories of risk:
- Technical-insurance risks (Non-Life and Life);
- Financial risks (Market, ALM and Liquidity);
- Credit risk;
- Transactional and other risks.

Categories of risk are identified and constantly updated by means of the continuous and meticulous study of legislation, consideration of the opinions of professional bodies and senior executives within the sector and contributions from meetings, forum, studies and specialists.

Under the Internal Model each risk is calculated using suitable measurements and appropriate instruments and combining them by means of a correlation matrix.
Below is a summary of how each risk is calculated, whilst the subsequent paragraphs provide additional information on the calculation procedure and the principal results for each risk.

The **Non-Life underwriting and provisions risk** is measured using an internal model, which meets the requirements of Solvency II legislation, with stochastic methods being used to evaluate the underwriting risk (premium and provisions).
In addition to the use of the internal model stress testing was carried out with different specific assumptions being made in the case of the classes deemed to be the most significant. These tests have also provided information useful for developing the internal model.

The **Life underwriting and provisions risk** is calculated using a stochastic internal model in line with the new standards laid down in Solvency II, which entail estimating the fair value of all asset and liability items in view of how they relate to one another in various scenarios. As in the Non-Life class, stress testing has been carried out here too, using quantitative prospective analyses obtained by varying the most significant sources of risk in respect of the basic scenario.

The **market risk** is calculated using an internal model made up of two different sub-models:
- Historical Simulation model (Non-Life portfolio and equity);
- Monte Carlo Life ALM model (Life portfolios).

For managing the Non-Life portfolio and equity a Value-at-Risk Historical Simulation was carried out. This procedure is based on distributions of empirical probabilities for each risk factor, extrapolated from observations of historical market scenarios.
For managing the Life portfolios, given the specific features of the business, assets and liabilities are valued jointly, bearing in mind the rules determining the return of the segregated accounts and the criteria for revaluing the provisions.

In accordance with IFRS the table in the following paragraph analyses the main sensitivities.

In 2011 the **credit risk** and the **transactional risk** were calculated using both the Standard Formula and the Internal Model, currently being validated in-house.

Banking business

For Pillar 1 risk factors, the Banking Group adopted the standardised procedures provided for by Banca d'Italia (Circular 263 of 27/12/2006 as amended) and used in the supervisory reporting at 31 December 2011.

Financial Risks

Market risks are the risk of losses depending on variations in interest rates, share prices, exchange rates, credit spread and real estate prices.
Therefore they are divided into the following categories:
– *Interest rate risk*, or the risk of a possible variation in the value of a financial asset in the portfolio as a consequence of unfavourable movements in interest rates;
– *Share price risk*, or the risk linked to losses due to unfavourable movements in share prices;

– *Currency risk*, or the risk of possible losses on currency items in the portfolio as a result of an unfavourable trend in exchange rates;
– *Credit spread risk, or* the risk that the value of the portfolio that is sensitive to credit may fall owing to the deterioration of the issuer's credit quality;
– *Real estate risk*, or the risk linked to losses due to unfavourable movements in real estate prices.

The level of sensitivity of the Unipol Group's portfolios of financial assets to market risk factors is shown below. The sensitivity is calculated as a variation in the market value of the assets following a:
- simultaneous rise of 10 bps in the interest rate curve;
- 20% fall in share prices;
- rise of 10 bps in the credit spread;
- 10% fall in real estate prices.

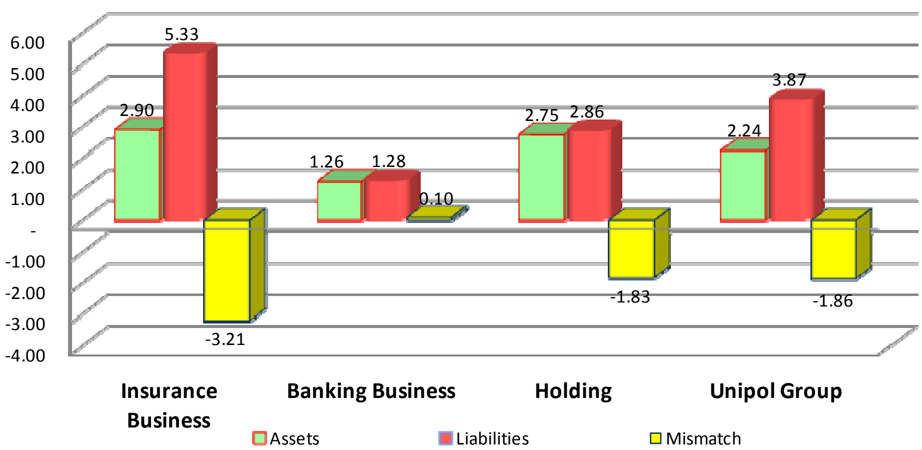
	Holding		**Insurance Business**		**Banking Business**		**Total Group**	
	Financial impact	Impact on equity	Financial impact	Impact on equity	Financial impact	Impact on equity	Financial impact	Impact on equity
Interest rate risk	-0.00	-0.46	14.10	-43.50	0.00	-0.95	14.10	-44.91
Credit spread risk	-0.01	-0.80	-2.15	-56.01	-0.00	-1.41	-2.16	-58.22
Share risk	0.00	-7.17	-18.05	-215.35	-0.00	-6.68	-18.05	-229.20
Real estate risk	0.00	0.00	-3.87	-9.62	0.00	0.00	-3.87	-9.62

(Amounts at *31/12/2011 in €m)*

The values include the hedging derivatives.

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

The interest rate risk for ALM purposes is quantified in terms of duration mismatch. The duration mismatches at 31 December 2011 of the Unipol Group insurance companies, the Unipol Banca Group and the holding company Unipol are shown below. Asset items include the securities portfolios and liquid assets (excluding investments and property, with Non-Life business also excluding receivables); liability items include financial liabilities and technical provisions; off-balance-sheet items are then taken into account for calculating the gap.



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

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

The liquidity gap situation, both structural and tactical, will be analysed weekly with the use of the maturity ladder as a tool. The net liquidity requirement is then compared with the reserves of assets that are liquid or can be easily made liquid and with credit margins available with the ECB and with lenders of lines of credit.

The Investment policy is updated annually. The policy includes the criteria on which the investment policy is based, the types of asset in which it is deemed appropriate to invest, the composition of the portfolio of medium-to-long-term investments and limits to investments in terms of asset allocation and financial risk.

Credit risk

Generally by ***credit risk*** is meant:

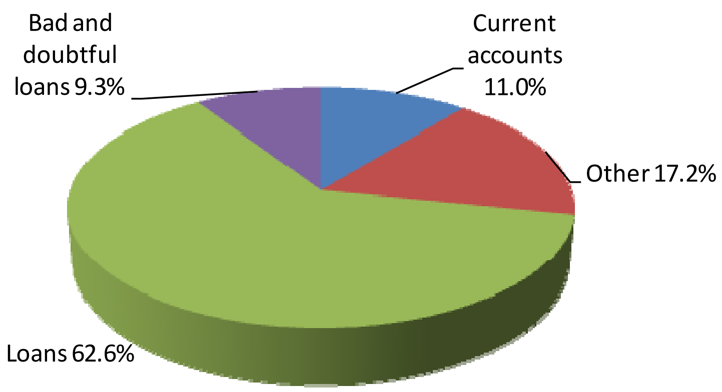
1. the risk that a debtor or a guarantor under an enforcement order may wholly or partially fail to honour its commitment to the Group (customer or borrower risk);
2. the risk of deterioration of the creditworthiness of an issuer of financial instruments (issuer risk).

Within Unipol Gruppo Finanziario the credit risk is mainly in the following areas: banking, insurance and outward reinsurance.
During 2011 the Group’s Credit Policy has been updated: this document, approved in its first version in 2009, governs the work of underwriting and monitoring the credit risk in such a way as to ascertain total exposure to the individual counterparty, in line with the risk appetite expressed in the Group's strategic objectives, thus ensuring sufficient portfolio diversification.
This policy is designed to record exposures that are of such a size as to represent a potential risk: the objective is achieved by adopting appropriate risk management and internal control mechanisms, enabling exposure to the various counterparties to be ascertained and monitored.
This policy supplements the current system of internal rules, particularly provisions relating to corporate governance, transactions within the Group and with related parties, the internal control system, outsourcing work and the Investment Policy, and is applied in line and in accordance with this system.

<u>Lending to customers of the Banking Group</u>
The trend in the credit risk is currently monitored using traditional indicators; a quarterly report on this risk is submitted to the Board of Directors and a monthly report to the Committees set up to monitor the risk (Group Credit Risk Committee and Unipol Banca's Credit Committee and Credit Monitoring Committee).

In 2011 the credit risk was calculated using the statistical models developed internally for the corporate segment and the models provided by the IT outsourcer, CEDACRI, for the other areas of business. In the fourth quarter of the year, following analysis of performance using the new statistical models based on the figures for the banks that are members of CEDACRI, Unipol Banca's Board of Directors voted to adopt these models for all areas of business as from the first quarter of 2012.

Around 63% of Unipol Banca's portfolio of loans to customers currently consists of loans.



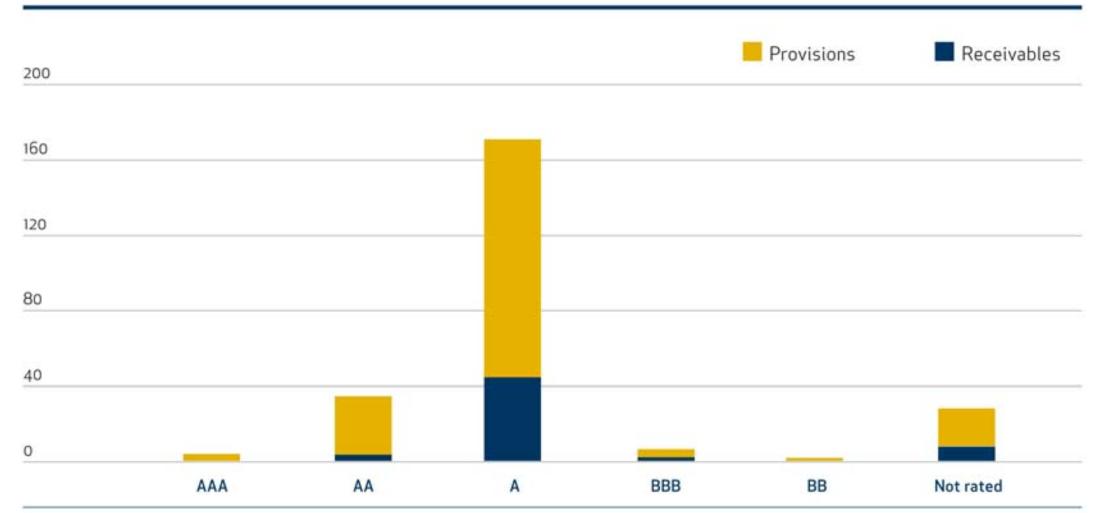
On 3 August 2011 Unipol SpA entered into a contract under which it undertook to reimburse the Banking Group for any losses it might suffer on deteriorated loans to several counterparties representing the highest concentrations of risk in the real estate sector. Most of them were mortgages on property and in almost all cases their value was greater than the amounts owed to the bank.
The guarantee provided by the parent company offers the Banking Group an important hedge against the risk represented by the substantial volatility in values in the real estate market in return for assets that can mostly be measured in the medium to long term. Apart from the commitment to indemnify the bank, the main aim of the intervention of the parent company, Unipol SpA, was to realise the value of the assets by providing the experience it had gained in the real estate sector through several subsidiaries or participating interests.
As a result of this guarantee the incidence of gross bad and doubtful debts on total lending to customers fell from 9.3% to 7.2%.

<u>Bond classes of the insurance companies in the Group</u>
This risk is calculated as a technical insurance risk (see relevant section) and monitored by the Group Credit Risk Committee.

<u>Outwards reinsurance</u>
Here the exposure to credit risk is divided into:
- liquid receivables already due arising out of the current account statement sent to the reinsurer listing the balances on each policy during the period and those still outstanding;

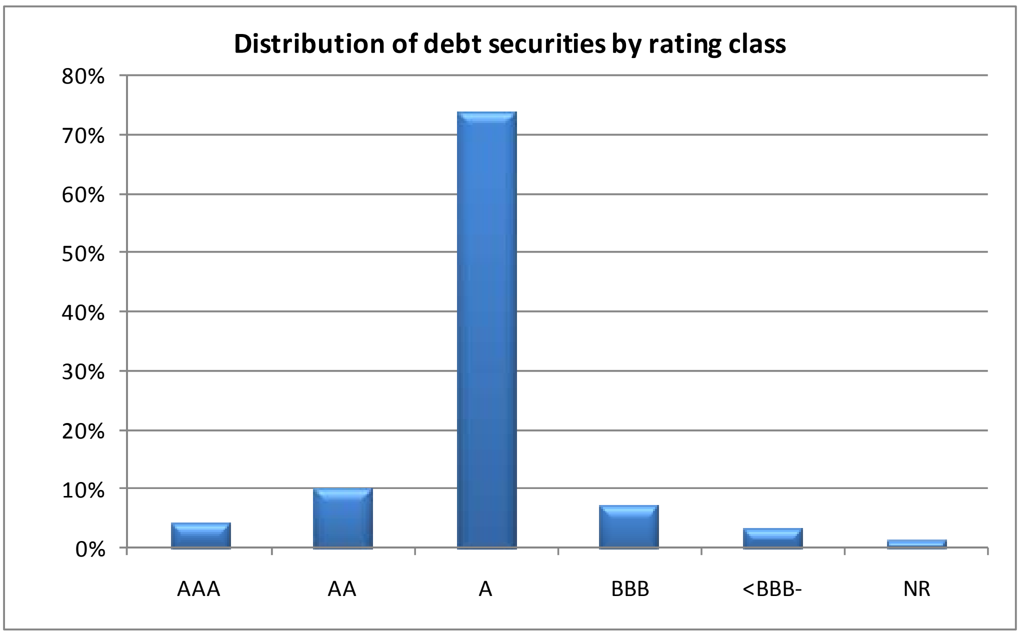
- potential estimated receivables (which will become due at the time of the payment to the policyholder and for the relative amounts) for the provisions for claims borne by the reinsurer. The exposure for provisions is always deemed to be net of any deposits retained or other collateral guarantees (e.g. Banking LOC and reinsurers' and parent's commitment,…).

The table showing the distribution of receivables (in €m) for the Unipol Group from reinsurers and of the provisions for claims borne by them (gross of any deposits or guarantees) broken down by rating class is shown below at 31 December 2011 (amounts in €m):



Debt security Issuer Risk

The table showing the distribution of the Unipol Group's debt securities, insurance business and holding business, broken down by rating class is shown below:



The figures are at 31 December 2011. On 13 January 2012, the rating agency Standard & Poor's revised the sovereign rating of nine European countries, including Italy, whose rating fell two levels (from A to BBB+).

Information relating to exposure to sovereign debt securities referred to in CONSOB Communication DEM/11070007 of 5 August 2011

In accordance with CONSOB Communication DEM/11070007 of 5 August 2011 (referring to ESMA document 2011/266 of 28/7/2011) and the subsequent ESMA document 2011/397 of 25 November 2011, relating to information to be provided in annual and interim financial reports on listed companies' exposures to sovereign debt securities and current trends in international markets, details are provided of sovereign exposures (i.e. bonds issued by central and local governments and by government organisations and loans granted to them) held by the Unipol Group at 31 December 2011, broken down by type of portfolio, nominal amount, carrying amount and fair value.

Amounts in €m	Figures at 31 December 2011		
	Nominal amount	Carrying amount	Market value
Italy	9,128.8	8,176.5	7,643.1
available-for-sale financial assets	6,044.1	5,582.6	5,582.6
investments held to maturity	861.9	842.2	741.0
loans and receivables	2,166.6	1,721.7	1,289.6
financial assets at fair value through profit or loss	56.2	29.9	29.9
Spain	857.1	743.4	740.3
available-for-sale financial assets	751.3	670.1	670.1
investments held to maturity	56.0	54.4	54.9
loans and receivables	49.8	18.8	15.2
Germany	260.7	260.1	281.8
available-for-sale financial assets	79.7	83.2	83.2
investments held to maturity	180.0	175.8	197.5
financial assets at fair value through profit or loss	1.0	1.1	1.1
Portugal	187.0	135.2	114.3
available-for-sale financial assets	134.0	84.2	84.2
investments held to maturity	53.0	51.0	30.1
Ireland	260.9	212.3	209.4
available-for-sale financial assets	250.9	202.3	202.3
loans and receivables	10.0	10.0	7.1
France	112.2	120.1	124.5
available-for-sale financial assets	62.2	71.9	71.9
investments held to maturity	50.0	48.2	52.5
Belgium	35.0	34.1	35.5
available-for-sale financial assets	10.0	10.2	10.2
investments held to maturity	25.0	24.0	25.3
Poland	27.5	26.4	26.4
available-for-sale financial assets	27.5	26.4	26.4
Holland	25.0	26.7	26.7
available-for-sale financial assets	25.0	26.7	26.7
Greece	60.0	17.4	17.4
available-for-sale financial assets	60.0	17.4	17.4
Slovenia	26.5	24.3	24.3
available-for-sale financial assets	26.5	24.3	24.3
Austria	34.5	29.8	29.8
available-for-sale financial assets	33.7	29.1	29.1
financial assets at fair value through profit or loss	0.8	0.7	0.7
Canada	33.2	37.5	37.5
available-for-sale financial assets	27.0	30.8	30.8
financial assets at fair value through profit or loss	6.2	6.7	6.7
Slovakia	5.0	4.2	4.2
available-for-sale financial assets	5.0	4.2	4.2
Cyprus	11.0	8.8	8.8
available-for-sale financial assets	11.0	8.8	8.8
GRAND TOTAL	11,064.3	9,856.8	9,324.0

The carrying amount of the sovereign exposures represented by debt securities at 31 December 2011 totalled €9,856.8m, 83% being accounted for by securities issued by the Italian State.

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

Technical insurance risks

Risks relating to Life portfolios

In order to evaluate Life risks a stochastic internal model has been adopted in line with the new standards laid down in Solvency II which entail estimating the 'fair value' of all asset and liability items in view of how they relate to one another in various scenarios. In particular the internal model evaluates the impact, in terms of capital absorption (Internal Capital Requirement), of the following risk factors:

- mortality/longevity risk, understood as the increase (mortality risk) or decrease (longevity risk) in death rates compared with those used to calculate premiums;
- lapse risk, understood as the variation (increase/decrease) in surrendered policies compared with those used to calculate premiums;
- expense risk, understood as the increase in contractual and business expenses compared with those expected;
- catastrophe risk, understood as the immediate increase in the probability of death, caused by a catastrophic event such as pandemic or war;
- interest rate risk, understood as the risk of a possible variation in assets and liabilities because of variations in the forward structure and/or volatility of interest rates;
- share risk, i.e. the risk of a possible variation in assets and liabilities because of variations in market prices and/or the volatility of equity instruments;
- currency risk, understood as the risk of possible variations in the value of assets and liabilities because of variations in, or the volatility of, exchange rates;
- spread risk, understood as the risk of variation in value of assets and liabilities (debt securities and other fixed-income instruments, credit derivatives and other investment instruments subject to the credit risk) because of variations in credit spreads compared with the risk-free curve.

Life insurance risks have also been assessed by means of a stress test approach, using quantitative prospective analyses obtained by varying the most significant sources of risk in respect of the basic scenario.

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

Only Head Office may issue group death benefits policies, if necessary in collaboration with the reinsurer, the questions relating to health being laid out in a grid based on brackets of sum assured and agreed with the reinsurer.
The quality of the underwriting carried out by the Group companies is illustrated by comparing the actual death rate in the portfolio with the theoretical death rate in the same portfolio.
This comparison showed an actual death rate significantly lower than the theoretical death rate.
As regards the amounts of death benefits, as already indicated, the Group has recourse to risk-premium types of reinsurance cover that are in line both with the nature of the products sold and with the retention levels that are appropriate for the equity structure of the individual companies. The Group's principal Life reinsurers are financially very sound.

Annuity option
Some Life policies offer the customer the possibility of opting for a benefit that can be paid in the form of an annuity instead of the capital on maturity. The trend for people to live longer means that these policies expose the Group to a longevity risk. For some years now this risk has been limited in the case of new policies by postponing the moment when the annuity coefficient is calculated and the minimum guaranteed rate is fixed to the time when the benefit is paid. The mathematical provisions are increased in the case of contracts already in the portfolio, for which the annuity rate is guaranteed and based on demographic trends that have not been updated.

Deferment option
The companies in the Group offer customers with some types of policy the possibility of deferring the capital assured on maturity in whole or in part for a number of years decided by the policyholder. If the policyholder dies during the deferment period the designated beneficiaries receive the capital revalued as at the date of death. At the specific request of the policyholder the policy may be surrendered in whole or in part at any time. In the event of partial surrender the remaining capital will continue to be subject to revaluation until the policy matures in accordance with the terms in force at the time the option is exercised.
The deferment option does not lead to additional risks in terms of guaranteed minimum, apart from the company's commitment. Therefore, since 1998 the deferment option in the policy terms has stipulated that the option is based on the terms in force at the time it is exercised.
The propensity to exercise this option is assessed by analysing the forfeitures applied to the portfolio in order to monitor the commitments underwritten, with particular reference to the levels of financial guarantee and to the trends in the adjustments made to the benefits provided for under the policies.

Guaranteed minimum rate option
The companies in the Group market a number of products that have returns linked to the results obtained from separately managed businesses. In most cases these products offer guaranteed minimum revaluation rates and therefore the companies in the Group are exposed to the risk that returns on the assets invested will fall short of those paid to policyholders. In view of the trend in market interest rates and in compliance with provisions issued by the Supervisory Body, the guaranteed minimum rate offered when these products are marketed has been gradually reduced over the last few years and is now down to 2.5%.
Therefore the portfolio now contains policies issued in previous years that provide for guaranteed minimum rates that are higher than those now being marketed. Consequently the average guaranteed minimum rate on the existing portfolio is less than that recognised in the previous year.
The risk involved in these options is monitored and assessed using methods and instruments that allow the risks underwritten by the Group to be managed quantitatively, thus helping to bring about a reduction in profit volatility and enabling financial resources to be allocated in the best possible way.

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

Risks relating to Non-Life portfolios

During 2011 the Non-Life technical-insurance risks were calculated using the Non-Life Internal Model. Specialist software, developed in accordance with professional standards, was purchased for valuing the following at both company and consolidated level:

- current and expected economic capital (solvency capital requirement) for the underwriting risk, subdivided into premium risk and reserve risk ascertained with a reliability level of 99.5%;
- risk margin determined using the cost-of-capital method.

In order to assess the premium risk the stochastic model estimates capital absorption based on the volatility of the historic loss ratios in each line of business (LoB). In the case of the reserve risk the stochastic model estimates capital absorption by simulating future payments for claims already incurred and determining how they vary.

In 2011 the catastrophe risk was assessed using the standardised scenario method recommended by Quantitative Impact Study 5 (QIS 5).
This method makes it possible to determine the probable maximum loss (PML) that may affect the portfolio once every 200 years (return time) in the event of the following:

- natural disasters such as earthquake, flood and hail;
- man-made disasters such as large-scale fires and acts of terrorism;
- 'health' risks, such as the risk of a pandemic.

The procedures described above were also used for stress-testing each individual company's most significant lines of business.

The Risk Management Department works with the various lines of business to set tariffs in order to introduce risk benchmarks into pricing models. A risk-adjusted technical pricing model enables the expected costs of the various benefits provided to be properly covered and the return on the capital absorbed by these benefits to be in line with the risk profile and the Group's performance objectives.
A prototype pricing model has been developed in collaboration with the Non-Life Business Unit, which considers, when calculating a product's tariff premium or a specific quote for a policy, whether the capital allocated for the risk underwritten is adequately remunerated.

Capital allocation policies

Risk appetite

The risk appetite is defined as the amount of capital at risk[1] that the Board of Directors specifies as the maximum acceptable loss without the Group's business continuity being jeopardised. The risk appetite is specified as the maximum sustainable loss at a specific reliability level over a year. The risk appetite is specified according to risk factor and business unit.

The risk appetite is based on the consolidated budget figures and those of the individual companies in the Unipol Group.

For the insurance business, calculations are based on the expected levels of growth shown in the business plan or the budget, using the reliability level of 99.50% laid down by the Solvency II Directive.
The other elements Unipol takes into account when ascertaining risk appetite can be divided into three types: rating, risk/profitability and solvency.

The Unipol Group determines risk appetite on the basis of total economic capital ascertained by applying internal models, the Standard formula and the procedures for combining the various major risks mentioned in Pillar I[2] provided for by Solvency II. The Unipol Group's risk appetite is the sum of the total economic capital of the Banking Group, ascertained in accordance with Basel II, and the total economic capital of insurance business.

The Banking Group's risk appetite is measured using Pillar I[3], based on potential growth, contained in the business plan or the budget, in line with the calculations for insurance business. Subsequently, under ICAAP[4], the Banking Group also uses the Pillar II risks and the further requirements revealed by stress testing to assess its potential capital adequacy.

ORSA and ICAAP

Under their own risk management system the companies that fall within the scope of the policy use, as instruments for evaluating the efficacy of the risk management system:

- *Own Risk Solvency Assessment* – ORSA, in the case of insurance companies;
- the *Internal Capital Adequacy Assessment Process* – ICAAP, in the case of banking companies.

The primary objective of the two tools is to ensure that the company evaluates all the risks inherent in its work and determines the corresponding capital requirement. This evaluation covers at least the overall solvency requirement and takes account of the specific risk profile, the approved risk appetite limits and the company's operating strategy. These two tools analyse both current and potential risks.

For this purpose the company establishes and carries out procedures that are commensurate with the nature, scope and complexity of its work and enable it to identify and assess accurately the risks to which it is or could be exposed in the short and long term.

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[1] By capital at risk, or economic capital, is meant the capital requirement for a specific risk where it is thought necessary to cover losses above a given expected level. (This definition assumes that the expected loss is met from the technical provisions.) The economic capital for all the major risks underwritten by the company is defined as total economic capital.
[2] The types of risk used for calculating the Risk Appetite are laid down in the QIS5 Technical Specifications: Non-Life and Life technical insurance risk (underwriting and provisions), financial risk, credit risk and transactional risk.
[3] The Pillar I risks provided for in Basel II are the credit and counterparty risk, the market risk and the transactional risk.
[4] Each year, the banking groups send Banca d'Italia the ICAAP report at 31 December of the previous year by the end of April of the following year.

The ORSA and ICAAP reports explain, at least: i) the legislative framework; ii) the economic background; iii) the scope of analysis; iv) the roles and responsibilities of the Bodies and Departments involved in the process; v) the procedures for identifying, assessing and mitigating the risk; vi) the links between assessing the risk and the procedure for allocating the capital, and the discrepancies in respect of the risk appetite over the period concerned laid down in the Business Plan; vii) the procedures for obtaining any additional funds; viii) the management actions used to evaluate and describe their impact; ix) the in-house report and the report to the Supervisory Authorities.

Bologna, 15 March 2012

The Board of Directors
(signed on the original)

Tables appended to the Notes to the Financial Statements

Consolidation scope

Name	State		Registered office	Method (1)	Activity (2)	% direct holding	% indirect holding		% total participating interest (3)	% votes available at ordinary General Meetings (4)	% consolidation
Unipol Gruppo Finanziario Spa	086	Italy	Bologna	G	4						100.00%
Compagnia Assicuratrice Linear Spa	086	Italy	Bologna	G	1	100.00%			100.00%		100.00%
Unisalute Spa	086	Italy	Bologna	G	1	98.53%			98.53%		100.00%
Midi Srl	086	Italy	Bologna	G	10		100.00%	Unipol Assicurazioni Spa	100.00%		100.00%
Unifimm Srl	086	Italy	Bologna	G	10		100.00%	Unipol Assicurazioni Spa	100.00%		100.00%
Unipol Banca Spa	086	Italy	Bologna	G	7	67.74%	32.26%	Unipol Assicurazioni Spa	100.00%		100.00%
Unipol SGR Spa	086	Italy	Bologna	G	8	100.00%			100.00%		100.00%
Unipol Merchant - Banca per le Imprese Spa	086	Italy	Bologna	G	7		100.00%	Unipol Banca Spa	100.00%		100.00%
Unicard Spa	086	Italy	Milan	G	11		53.56%	Unipol Banca Spa	53.56%		100.00%
Unipol Fondi Ltd	040	Ireland	Dublin	G	11		100.00%	Unipol Banca Spa	100.00%		100.00%
Centri Medici Unisalute Srl	086	Italy	Bologna	G	11		100.00%	Unisalute Spa	98.53%		100.00%
Smallpart Spa	086	Italy	Bologna	G	9		100.00%	Unipol Assicurazioni Spa	100.00%		100.00%
Grecale Abs Srl (*)	086	Italy	Bologna	G	11		10.00%	Smallpart Spa	10.00%		100.00%
		Italy						Unipol Banca Spa			
Nettuno Fiduciaria Srl	086	Italy	Bologna	G	11		100.00%	Unipol Banca Spa	100.00%		100.00%
Linear Life Spa	086	Italy	Bologna	G	1	100.00%			100.00%		100.00%
Unipol Assicurazioni Spa	086	Italy	Bologna	G	1	100.00%			100.00%		100.00%
Castoro Rmbs Srl (*)	086	Italy	Milan	G	11			Unipol Banca Spa			100.00%
Atlante Finance Srl (*)	086	Italy	Milan	G	11			Unipol Banca Spa			100.00%
Unipol Leasing Spa	086	Italy	Bologna	G	11		100.00%	Unipol Banca Spa	100.00%		100.00%
UGF Private Equity SGR Spa in liquidation (****)	086	Italy	Bologna	G	8		100.00%	Unipol Banca Spa	100.00%		100.00%
Ambra Property Srl	086	Italy	Bologna	G	11	100.00%			100.00%		100.00%
Arca Vita Spa (***)	086	Italy	Verona	G	1	60.84%			60.84%	61.58%	100.00%
Arca Assicurazioni Spa	086	Italy	Verona	G	1		96.99%	Arca Vita Spa	59.72%		100.00%
Arca Vita International Ltd	040	Ireland	Dublin	G	2		100.00%	Arca Vita Spa	61.58%		100.00%
Arca Direct Assicurazioni Srl	086	Italy	Verona	G	11		100.00%	Arca Vita Spa	61.58%		100.00%
Arca Inlinea Scarl	086	Italy	Verona	G	11		60.22%	Arca Vita Spa	60.84%		100.00%
		Italy					39.78%	Arca Assicurazioni Spa			
Isi Insurance Spa (**)	086	Italy	Verona	G	1		50.00%	Arca Vita Spa	30.79%		100.00%
Arca Sistemi Scarl	086	Italy	Verona	G	11		82.03%	Arca Vita Spa	61.25%		100.00%
		Italy					16.97%	Arca Assicurazioni Spa			
		Italy					1.00%	Arca Inlinea Scarl			
Grecale 2011 Rmbs Srl (*)	086	Italy	Bologna	G	11			Unipol Banca Spa			100.00%
Punta di Ferro srl	086	Italy	Castelnovo di Sotto (RE)	G	10		100.00%	Unipol Assicurazioni Spa	100.00%		100.00%
Comsider srl	086	Italy	Bologna	G	10		100.00%	Covent Garden BO srl	100.00%		100.00%
Covent Garden BO srl	086	Italy	Bologna	G	11		100.00%	Midi Srl	100.00%		100.00%

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

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

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

(4) Total percentage of votes available at ordinary General Meetings if different from the direct or indirect investment.

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

(**) The company is consolidated on a line-by-line basis both in view of the fact that 1% of the shares in the share package that it does not own have limited voting rights and in view of Arca Vita Spa's power to appoint and terminate the contract of the majority of the members of the executive body.

(***) Taking into account the treasury shares in the portfolio held by Arca Vita Spa the percentage is 61.58%.

(****) Removed from the Register of Companies on 3/2/2012.

Details of unconsolidated investments

Name	State		Registered office	Activity (1)	Type of business (2)	% direct holding	% indirect holding	% total participating interest (3)	% votes available at ordinary General Meetings (4)	Carrying amount (€m)
Hotel Villaggio Città del Mare Spa in liquidation	086	Italy	Terrasini (Palermo)	11	b		49.00% Unipol Assicurazioni Spa	49.00%		0.0
Euresa Holding SA	092	Luxembourg	Luxembourg City	4	b		25.00% Unipol Assicurazioni Spa	25.00%		3.2
Assicoop Modena & Ferrara Spa	086	Italy	Modena	11	b		43.75% Smallpart Spa	43.75%		4.9
Assicoop Bologna Spa	086	Italy	Bologna	11	b		40.21% Smallpart Spa	40.21%		2.5
Assicoop Siena Spa	086	Italy	Siena	11	b		49.00% Smallpart Spa	49.00%		0.2
Fondazione Unipolis	086	Italy	Bologna	11	a		100.00% Unipol Assicurazioni Spa	100.00%		0.3
ZIS Fiera 2 - Consorzio	086	Italy	Bologna	11	b		31.72% Midi Srl	31.72%		0.3
Assicoop Imola Spa	086	Italy	Imola (Bo)	11	b		47.33% Smallpart Spa	47.33%		2.0
Assicoop Firenze Spa	086	Italy	Florence	11	b		44.00% Smallpart Spa	44.00%		0.6
Pegaso Finanziaria Spa	086	Italy	Bologna	9	b		45.00% Smallpart Spa	45.00%		5.2
SCS Azioninnova Spa	086	Italy	Bologna	11	b		40.00% Unipol Merchant - Banca per le Imprese Spa	40.00%		1.1
Promorest Srl	086	Italy	Castenaso (Bologna)	11	b		48.92% Unipol Merchant - Banca per le Imprese Spa	48.92%		5.0
EuroMilano Spa	086	Italy	Milan	10	b		20.00% Unipol Assicurazioni Spa	20.00%		15.0
Isi Insurance Direct Srl	086	Italy	Rome	11	a		100.00% Isi Insurance Spa	30.79%		0.0
OMEGA 2004 Spa in liquidation	086	Italy	Verona	11	a		90.00% Arca Vita Spa	55.42%		0.0
Campuscertosa Srl	086	Italy	Milan	11	b		26.16% Unipol Banca Spa	26.16%		1.3
Assicoop Grosseto Spa	086	Italy	Grosseto	11	b		50.00% Smallpart Spa	50.00%		0.8

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

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

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

(4) Total percentage of votes available at ordinary General Meetings if different from the direct or indirect investment.

Statement of financial position by business segment

	Amounts in €m	Non-Life business		Life business		Banks		Holding and Services		Intersegment eliminations		Total	
		31/12/2011	31/12/2010	31/12/2011	31/12/2010	31/12/2011	31/12/2010	31/12/2011	31/12/2010	31/12/2011	31/12/2010	31/12/2011	31/12/2010
1	INTANGIBLE ASSETS	209.5	200.4	147.8	145.6	151.5	457.4	7.3	5.4	1,125.0	1,249.1	1,641.0	2,057.8
2	PROPERTY, PLANT AND EQUIPMENT	686.7	601.1	39.3	9.8	21.7	23.0	51.8	21.6	4.5	4.7	804.1	660.2
3	TECHNICAL PROVISIONS - REINSURERS' SHARE	308.0	344.7	88.0	115.7							396.0	460.4
4	INVESTMENTS	6,822.4	6,965.8	16,266.3	16,343.7	11,130.9	11,115.5	5,208.1	5,596.9	-6,246.6	-6,206.6	33,181.1	33,815.3
4.1	Investment property	316.1	198.7	0.1	0.1				0.0	-2.1	-2.0	314.2	196.8
4.2	Investments in subsidiaries and associates and interests in joint ventures	220.5	357.1	232.8	288.4	7.4	8.8	4,649.8	4,880.1	-5,068.3	-5,487.9	42.3	46.5
4.3	Investments held to maturity	832.7	837.3	1,257.3	1,369.9					-401.0	-384.2	1,689.0	1,823.0
4.4	Loans and receivables	1,687.9	1,605.3	3,532.9	2,761.3	10,401.8	10,525.6	392.1	183.3	-764.4	-320.9	15,250.3	14,754.6
4.5	Available-for-sale financial assets	3,697.4	3,887.4	7,451.3	8,088.8	683.8	531.0	163.3	527.9	-10.8	-11.6	11,985.1	13,023.6
4.6	Financial assets at fair value through profit or loss	67.8	80.0	3,791.8	3,835.1	37.8	50.1	2.9	5.6			3,900.3	3,970.7
5	OTHER RECEIVABLES	1,124.6	1,240.1	415.7	451.5	54.4	112.4	188.5	111.6	-21.6	-21.1	1,761.5	1,894.5
6	OTHER ASSETS	399.4	357.4	380.0	12,117.4	348.0	238.5	435.4	19.0	-8.5	-98.0	1,554.3	12,634.4
6.1	Deferred acquisition costs	4.5	5.8	12.9	13.3					1.4	1.9	18.8	21.1
6.2	Other assets	394.9	351.6	367.1	12,104.1	348.0	238.5	435.4	19.0	-9.9	-99.9	1,535.5	12,613.2
7	CASH AND CASH EQUIVALENTS	156.1	296.3	319.9	459.0	131.4	111.0	134.6	327.4	-502.3	-961.7	239.7	231.8
	TOTAL ASSETS	9,706.7	10,005.7	17,657.0	29,642.6	11,838.0	12,057.7	6,025.6	6,081.9	-5,649.6	-6,033.6	39,577.8	51,754.4
1	EQUITY	915.0	1,038.3	708.0	1,370.3	902.2	1,031.8	4,633.2	4,782.0	-8,919.0	-9,610.9	3,204.5	4,020.8
2	PROVISIONS	86.0	71.3	2.3	3.1	3.8	3.8	73.4	6.8	-53.0		112.5	85.0
3	TECHNICAL PROVISIONS	7,372.1	7,575.1	14,667.1	14,670.8							22,039.3	22,245.9
4	FINANCIAL LIABILITIES	729.5	722.2	1,869.5	1,942.2	10,596.9	10,575.0	1,258.1	1,232.3	-1,625.2	-1,818.4	12,828.7	12,653.3
4.1	Financial liabilities at fair value through profit or loss	27.4	15.5	1,416.7	1,448.5	14.1	8.5	0.1	0.0			1,458.2	1,472.6
4.2	Other financial liabilities	702.1	706.7	452.8	493.6	10,582.8	10,566.5	1,258.0	1,232.3	-1,625.2	-1,818.4	11,370.5	11,180.8
5	PAYABLES	286.3	275.0	103.3	69.9	54.2	105.5	17.7	22.4	-22.0	-21.2	439.7	451.5
6	OTHER LIABILITIES	317.8	323.7	306.9	11,586.5	280.8	341.5	43.3	38.4	4.4	7.7	953.2	12,297.8
	TOTAL EQUITY AND LIABILITIES	9,706.7	10,005.7	17,657.0	29,642.6	11,838.0	12,057.7	6,025.6	6,081.9	-10,614.8	-11,442.8	39,577.8	51,754.4

Income statement by business segment

	Amounts in €m	Non-Life business		Life business		Banks		Holding and Services		Intersegment eliminations		Total	
		31/12/2011	31/12/2010	31/12/2011	31/12/2010	31/12/2011	31/12/2010	31/12/2011	31/12/2010	31/12/2011	31/12/2010	31/12/2011	31/12/2010
1.1	Net premiums	4,250.8	4,157.8	4,428.4	4,640.3							8,679.1	8,798.1
1.1.1	*Gross premiums*	*4,388.5*	*4,281.0*	*4,447.9*	*4,658.3*							*8,836.4*	*8,939.3*
1.1.2	*Ceded premiums*	*-137.7*	*-123.2*	*-19.6*	*-18.0*							*-157.3*	*-141.2*
1.2	Commission income	5.8	7.3	24.2	23.9	139.9	133.6	2.1		-41.0	-39.8	130.9	125.0
1.3	Gains and losses on remeasurement of financial instruments at fair value through profit or loss	-2.6	-48.8	-255.6	-1.6	12.4	1.4	0.5	-2.4			-245.3	-51.4
1.4	Gains on investments in subsidiaries, associates and interests in joint ventures	12.2	1.3	4.5	0.1	0.6	0.1	12.3	140.1	-16.7	-140.1	12.9	1.4
1.5	Gains on other financial instruments and investment property	327.4	324.3	1,018.1	980.8	411.3	364.1	44.7	49.1	-48.3	-38.2	1,753.3	1,680.1
1.6	Other income	56.7	63.8	43.5	57.3	17.9	10.0	38.1	41.2	-43.4	-43.3	113.0	128.9
	TOTAL REVENUE AND INCOME	4,650.2	4,505.6	5,263.1	5,700.8	582.2	509.1	97.8	228.0	-149.4	-261.4	10,443.8	10,682.1
2.1	Net charges relating to claims	3,175.6	3,379.2	4,667.7	5,093.4							7,843.3	8,472.7
2.1.1	*Amounts paid and changes in technical provisions*	*3,212.5*	*3,421.1*	*4,679.2*	*5,107.3*							*7,891.8*	*8,528.3*
2.1.2	*Reinsurers' share*	*-36.9*	*-41.9*	*-11.6*	*-13.8*							*-48.5*	*-55.7*
2.2	Commission expense	5.5	7.3	13.9	15.6	18.5	14.2			-9.5	-8.8	28.3	28.3
2.3	Losses on investments in subsidiaries, associates and interests in joint ventures	0.4	0.9	0.6		0.1	0.0	23.7	0.2	-0.6		24.2	1.1
2.4	Losses on other financial instruments and investment property	126.8	105.0	214.3	107.9	268.8	199.1	140.8	54.4	11.8	-30.4	762.5	436.0
2.5	Operating expenses	947.5	925.8	148.7	153.4	264.9	265.9	86.3	82.8	-64.1	-64.3	1,383.2	1,363.6
2.6	Other costs	133.9	108.1	98.3	102.2	310.3	8.9	73.4	6.0	53.6	-14.9	669.6	210.3
2	TOTAL COSTS AND EXPENSES	4,389.7	4,526.3	5,143.5	5,472.6	862.5	488.2	324.1	143.4	-8.8	-118.4	10,711.1	10,512.0
	PRE-TAX PROFIT (LOSS) FOR THE YEAR	260.5	-20.7	119.6	228.2	-280.3	20.9	-226.4	84.7	-140.6	-143.0	-267.3	170.1

Details of property, plant & equipment and intangible assets

Amounts in €m	At cost	At restated value or at fair value	Total carrying amount
Investment property	314.2		314.2
Other property	746.0		746.0
Other property, plant and equipment	58.2		58.2
Other intangible assets	118.5		118.5

Details of financial assets

	Investments held to maturity		Loans and receivables		Available-for-sale financial assets		Financial assets at fair value through profit or loss				Total carrying amount	
							Financial assets held for trading		Financial assets at fair value through profit or loss			
Amounts in €m	31/12/2011	31/12/2010	31/12/2011	31/12/2010	31/12/2011	31/12/2010	31/12/2011	31/12/2010	31/12/2011	31/12/2010	31/12/2011	31/12/2010
Equity instruments and derivatives at cost					216.0	210.4					216.0	210.4
Equity instruments at fair value					951.5	1,053.6	1.0	16.6	55.0	50.1	1,007.4	1,120.2
listed securities					*948.3*	*1,051.0*	*1.0*	*16.6*	*55.0*	*50.1*	*1,004.3*	*1,117.6*
Debt securities	1,689.0	1,823.0	4,754.2	4,063.8	10,541.3	11,490.3	312.4	413.2	2,352.8	2,246.1	19,649.6	20,036.3
listed securities	*1,096.1*	*1,152.2*	*410.7*	*38.8*	*9,542.6*	*10,334.8*	*89.9*	*212.4*	*1,983.5*	*1,765.3*	*13,122.8*	*13,503.5*
OEIC units					276.3	269.4	86.6	93.8	896.1	948.9	1,259.0	1,312.1
Loans and receivables from bank customers			9,924.4	10,311.3							9,924.4	10,311.3
Interbank loans and receivables			324.9	133.8							324.9	133.8
Deposits with ceding companies			18.0	19.4							18.0	19.4
Financial receivables on insurance contracts									142.5	109.1	142.5	109.1
Other loans and receivables			228.8	225.2							228.8	225.2
Non-hedging derivatives							18.9	60.5	3.4	26.8	22.2	87.3
Hedging derivatives							31.7	5.7	0.0	0.0	31.7	5.7
Other financial investments			0.0	1.2					0.0	0.0	0.0	1.2
Total	1,689.0	1,823.0	15,250.3	14,754.6	11,985.1	13,023.6	450.6	589.7	3,449.7	3,381.0	32,824.6	33,572.0

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

	Benefits linked to investment funds and market indices		Benefits linked to pension fund management		Total	
Amounts in €m	31/12/2011	31/12/2010	31/12/2011	31/12/2010	31/12/2011	31/12/2010
Recognised assets	1,612.9	1,797.8	1,836.3	1,582.8	3,449.2	3,380.6
Intragroup assets*					0.0	0.0
Total assets	1,612.9	1,797.8	1,836.3	1,582.8	3,449.2	3,380.6
Recognised financial liabilities	1,027.9	1,171.2	90.5	87.1	1,118.4	1,258.3
Recognised technical provisions	585.0	626.6	1,745.8	1,495.8	2,330.8	2,122.3
Intragroup liabilities*					0.0	0.0
Total liabilities	1,612.9	1,797.8	1,836.3	1,582.8	3,449.2	3,380.6

* Assets and liabilities eliminated on consolidation

Details of technical provisions - reinsurers' share

	Direct business		Indirect business		Total carrying amount	
Amounts in €m	31/12/2011	31/12/2010	31/12/2011	31/12/2010	31/12/2011	31/12/2010
Non-Life provisions	304.3	341.5	3.7	3.2	308.0	344.7
Provision for premiums	64.0	63.2			64.0	63.2
Provision for claims	240.4	278.3	3.7	3.2	244.0	281.5
Other provisions					0.0	0.0
Life provisions	86.7	115.0	1.3	0.6	88.0	115.7
Provision for payable amounts	3.9	5.5			4.0	5.5
Mathematical provisions	82.5	109.3	1.2	0.6	83.8	109.9
Technical provisions where the investment risk is borne by policyholders and provisions arising from pension fund management					0.0	0.0
Other provisions	0.2	0.2			0.2	0.2
Total reinsurers' share of technical provisions	391.0	456.5	5.0	3.8	396.0	460.4

Details of technical provisions

Valori in Milioni di Euro

Amounts in €m	Direct business		Indirect business		Total carrying amount	
	31/12/2011	31/12/2010	31/12/2011	31/12/2010	31/12/2011	31/12/2010
Non-Life provisions	7,340.8	7,539.7	31.3	35.5	7,372.1	7,575.1
Provision for premiums	1,589.7	1,618.0	2.7	4.4	1,592.4	1,622.4
Provision for claims	5,736.8	5,906.3	28.6	31.0	5,765.4	5,937.3
Other provisions	14.3	15.3			14.3	15.4
including provisions allocated as a result of the liability adequacy test					*0.0*	*0.0*
Life provisions	14,654.1	14,656.8	13.0	13.9	14,667.1	14,670.8
Provision for payable amounts	130.7	121.7	1.4	2.1	132.1	123.8
Mathematical provisions	12,818.4	12,722.2	11.6	11.9	12,830.0	12,734.0
Technical provisions where the investment risk is borne by policyholders and provisions arising from pension fund management	2,330.8	2,122.3			2,330.8	2,122.3
Other provisions	-625.8	-309.4			-625.8	-309.4
including provisions allocated as a result of the liability adequacy test					*0.0*	*0.0*
including deferred liabilities to policyholders	*-692.7*	*-377.7*			*-692.7*	*-377.7*
Total technical provisions	21,995.0	22,196.5	44.3	49.4	22,039.3	22,245.9

Details of financial liabilities

Valori in Milioni di Euro

	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					
Amounts in €m	31/12/2011	31/12/2010	31/12/2011	31/12/2010	31/12/2011	31/12/2010	31/12/2011	31/12/2010
Financial instruments with DPF								
Subordinated liabilities					1,545.8	1,580.1	1,545.8	1,580.1
Liabilities arising from financial contracts issued by insurance companies			1,134.4	1,271.8	30.9	43.2	1,165.3	1,315.0
arising from contracts where the investment risk is borne by policyholders			*1,043.9*	*1,184.8*			*1,043.9*	*1,184.8*
arising from pension fund management			*90.5*	*87.1*			*90.5*	*87.1*
arising from other contracts					*30.9*	*43.2*	*30.9*	*43.2*
Deposits received from reinsurers					149.8	179.0	149.8	179.0
Financial items payable on insurance contracts					0.0	0.0	0.0	0.0
Debt securities issued					2,871.4	2,665.8	2,871.4	2,665.8
Payables to banking customers					5,771.7	5,443.8	5,771.7	5,443.8
Interbank payables					999.8	1,268.8	999.8	1,268.8
Other borrowings					0.5		0.5	0.0
Non-hedging derivatives	48.2	71.0					48.2	71.0
Hedging derivatives	275.7	129.8					275.7	129.8
Other financial liabilities	0.0	0.0			0.5		0.5	0.0
Total	323.8	200.7	1,134.4	1,271.8	11,370.5	11,180.8	12,828.7	12,653.3

Details of technical insurance items

	Amounts in €m	31/12/2011			31/12/2010		
		Gross amount	Reinsurers' share	Net amount	Gross amount	Reinsurers' share	Net amount
Non-Life business							
NET PREMIUMS		4,388.5	-137.7	4,250.8	4,281.0	-123.2	4,157.8
a	Premiums	4,358.8	-139.2	4,219.6	4,267.3	-128.1	4,139.2
b	Change in provision for premiums	29.7	1.5	31.2	13.7	5.0	18.6
NET CHARGES RELATING TO CLAIMS		3,212.5	-36.9	3,175.6	3,421.1	-41.9	3,379.2
a	Amounts paid	3,422.0	-70.9	3,351.1	3,719.6	-69.2	3,650.4
b	Change in provision for claims	-167.7	30.6	-137.1	-243.7	26.1	-217.6
c	Change in recoveries	-41.7	3.4	-38.3	-54.5	1.2	-53.3
d	Change in other technical provisions	-0.1	0.0	-0.1	-0.2	0.0	-0.2
Life business							
NET PREMIUMS		4,447.9	-19.6	4,428.4	4,658.3	-18.0	4,640.3
NET CHARGES RELATING TO CLAIMS		4,679.2	-11.6	4,667.7	5,107.3	-13.8	5,093.4
a	Amounts paid	3,641.2	-17.9	3,623.3	3,008.8	-20.3	2,988.5
b	Change in provision for payable amounts	22.7	1.6	24.3	45.3	-1.0	44.3
c	Change in mathematical provisions	1,029.3	4.5	1,033.7	1,911.9	7.2	1,919.1
d	Change in technical provisions where the investment risk is borne by policyholders and provisions arising from pension fund management	95.6	0.0	95.6	139.6	0.0	139.6
e	Change in other technical provisions	-109.6	0.3	-109.3	1.7	0.3	2.0

Investment income and charges

Valori in Milioni di Euro

	Amounts in €m	Interest	Other gains	Other losses	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 31/12/2011	Total gains and losses 31/12/2010
Balance on investments		1,541.7	179.7	-125.6	288.2	-296.0	1,588.1	158.9	0.0	-592.1	-164.2	-597.3	990.7	1,593.2
a	Arising from investment property		10.0	-4.0	3.3		9.3			-1.6		-1.6	7.7	7.6
b	Arising from investments in subsidiaries, associates and interests in joint ventures		3.7	-24.1	9.1	-0.1	-11.3				-0.1	-0.1	-11.3	0.3
c	Arising from investments held to maturity	72.9			2.9		75.7						75.7	91.2
d	Arising from loans and receivables	613.3			3.4	-5.0	611.7	0.0		-104.3		-104.3	507.5	472.7
e	Arising from available-for-sale financial assets	694.2	100.6	-6.4	174.5	-198.6	764.2	78.0		-0.1	-164.2	-86.2	678.0	891.0
f	Arising from financial assets held for trading	29.4	47.9	-71.0	59.4	-41.4	24.3	17.3		-186.5		-169.1	-144.9	-104.9
g	Arising from financial assets at fair value through profit or loss	132.0	17.4	-20.0	35.6	-50.9	114.2	63.6		-299.6		-236.1	-121.9	235.3
Balance on sundry receivables		0.2					0.2						0.2	1.8
Balance on cash and cash equivalents		0.0					0.0						0.0	0.5
Balance on financial liabilities		-276.0	36.4	-10.7		0.0	-250.3	14.8	0.0	-20.7	0.0	-5.9	-256.3	-401.8
a	Arising from financial liabilities held for trading	0.0					0.0	0.1		-0.4		-0.3	-0.4	-1.5
b	Arising from financial liabilities at fair value through profit or loss		36.4	-9.0			27.4	14.7		-20.3		-5.6	21.8	-180.3
c	Arising from financial liabilities	-276.0		-1.6		0.0	-277.7						-277.7	-220.0
Balance on payables		-0.5		0.0			-0.5				0.0		-0.5	-0.7
Total		1,265.4	216.1	-136.3	288.2	-296.0	1,337.4	173.7	0.0	-612.8	-164.2	-603.3	734.1	1,193.0

Details of insurance business expenses

	Amounts in €m	Non-Life business		Life business	
		31/12/2011	31/12/2010	31/12/2011	31/12/2010
Gross commissions and other acquisitions expenses		836.6	816.2	83.6	92.5
a	Acquisition commissions	583.7	552.4	37.7	46.4
b	Other acquisition expenses	142.6	149.0	36.6	35.3
c	Change in deferred acquisition expenses	1.3	3.6	1.0	1.6
d	Renewal commissions	109.0	111.2	8.4	9.2
Commissions and profit-sharing received from reinsurers		-40.1	-30.3	-4.3	-2.5
Investment management expenses		11.9	12.1	21.2	20.6
Other administrative expenses		139.1	127.8	48.2	42.8
Total		947.5	925.8	148.7	153.4

Details of other consolidated comprehensive income

	Amounts allocated		Transfers to the Income Statement		Other changes		Total changes		Taxation		At	
Amounts in €m	31/12/2011	31/12/2010	31/12/2011	31/12/2010	31/12/2011	31/12/2010	31/12/2011	31/12/2010	31/12/2011	31/12/2010	31/12/2011	31/12/2010
Translation reserve												
Gains or losses on available-for-sale financial assets	-470.8	-203.8	38.8	-74.1	-20.7	7.3	-452.7	-270.5	238.8	129.0	-1,119.1	-666.4
Gains or losses on cash flow hedges	-13.3	-12.7	-7.5	0.4	3.8	0.0	-17.1	-12.3	9.7	5.8	-39.3	-22.2
Gains or losses on hedges of net investment in foreign operations												
Variation in equity of investees												
Variation in the revaluation reserve for intangible assets												
Variation in the revaluation reserve for property, plant and equipment							0.0				20.7	20.7
Gains or losses on non-current assets held for sale or disposal groups												
Actuarial gains and losses and adjustments relating to defined benefit plans												
Other items												
TOTAL OTHER COMPREHENSIVE INCOME/(LOSS)	-484.1	-216.5	31.2	-73.7	-16.9	7.3	-469.8	-282.8	248.5	134.9	-1,137.8	-668.0

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

Amounts in €m

Categories of financial assets subject to reclassification		Type of asset	Amount of reclassified assets in 2011 at the reclassification date	Carrying amount at 31/12/2011 of reclassified assets		Fair value at 31/12/2011 of reclassified assets		Reclassified assets in 2011		Reclassified assets up to the end of 2011		Reclassified assets in 2011		Reclassified assets up to the end of 2011	
from	to			Reclassified assets in 2011	Reclassified assets up to the end of 2011	Reclassified assets in 2011	Reclassified assets up to the end of 2011	Profit or loss in income statement	Profit or loss in comprehensive income	Profit or loss in income statement	Profit or loss in comprehensive income	Profit or loss that would have been recognised in profit or loss if there had been no reclassification	Profit or loss that would have been recognised in comprehensive income if there had been no reclassification	Profit or loss that would have been recognised in profit or loss if there had been no reclassification	Profit or loss that would have been recognised in comprehensive income if there had been no reclassification
Fin. assets at FV through P or L	Loans and receivables	debt securities			292.8		265.0			0.7				-13.6	
Fin. assets at FV through P or L	Loans and receivables	other financial instruments													
Available for sale	Loans and receivables	debt securities			752.8		573.1								-136.3
Available for sale	Loans and receivables	other financial instruments													
Fin. assets at FV through P or L	Available for sale	equity instruments			1.3		1.3			-0.2					
Fin. assets at FV through P or L	Available for sale	debt securities			2.2		2.2								
Fin. assets at FV through P or L	Available for sale	other financial instruments													
Fin. assets at FV through P or L	Investments held to maturity	debt securities													
Fin. assets at FV through P or L	Investments held to maturity	other financial instruments													
Available for sale	Investments held to maturity	debt securities													
Available for sale	Investments held to maturity	other financial instruments													
Total					1,049.1		841.5			0.5				-13.6	-136.3

Details of financial assets and liabilities by level

	Amounts in €m	Level 1		Level 2		Level 3		Total	
		31/12/2011	31/12/2010	31/12/2011	31/12/2010	31/12/2011	31/12/2010	31/12/2011	31/12/2010
Available-for-sale financial assets		10,462.2	11,538.5	376.1	548.9	1,146.8	936.2	11,985.1	13,023.6
Financial assets at fair value through profit or loss	Financial assets held for trading	93.8	203.1	192.1	232.0	164.7	154.7	450.6	589.7
	Financial assets at fair value through profit or loss	2,883.9	2,648.1	466.9	578.1	98.9	154.8	3,449.7	3,381.0
Total		13,439.9	14,389.7	1,035.1	1,358.9	1,410.3	1,245.7	15,885.4	16,994.3
Financial liabilities at fair value through profit or loss	Financial liabilities held for trading	5.8	8.7	306.2	172.0	11.8	20.1	323.8	200.7
	Financial liabilities at fair value through profit or loss					1,134.4	1,271.8	1,134.4	1,271.8
Total		5.8	8.7	306.2	172.0	1,146.2	1,291.9	1,458.2	1,472.6

Details of changes in financial assets and liabilities at level 3

	Financial assets			Financial liabilities at fair value through profit or loss	
	Available-for-sale financial assets	Financial assets at fair value through profit or loss			
Amounts in €m		Financial assets held for trading	Financial assets at fair value through profit or loss	Financial liabilities held for trading	Financial liabilities at fair value through profit or loss
Opening balance	936.2	154.7	154.8	20.1	1,271.8
Acquistions/Issues	40.3	40.2			
Disposals/Repurchases	-19.1	-10.9	-52.7		
Repayments	-24.8	-15.3			
Profit or loss recognised in profit or loss	0.1	-8.5	-3.3	0.0	
Profit or loss recognised in other comprehensive income	42.1				
Transfers to level 3	171.3	19.0			
Transfers to other levels		-14.5		-8.3	
Other variations	0.6	0.0	0.0		-137.4
Closing balance	1,146.8	164.7	98.9	11.8	1,134.4

Statement on the Consolidated Financial Statements

(in accordance with Article 81 of Consob Regulation 11971/1999)

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

1. The undersigned Carlo Cimbri, in his capacity as Chief Executive Officer, and Maurizio Castellina, in his capacity as Manager in charge of financial reporting of Unipol Gruppo Finanziario S.p.A., hereby declare that, under the provisions of Article 154-*bis*, paras 3 and 4, of Legislative Decree 58 of 24 February 1998, the administrative and accounting procedures applied in drawing up the 2011 consolidated financial statements:

   - were appropriate for the type of business concerned and
   - were properly applied.

2. The suitability of the administrative and accounting procedures for drawing up the consolidated financial statements at 31 December 2011 was assessed using a process laid down by Unipol Gruppo Finanziario S.p.A. that is based on the COSO Framework (Internal Control – Integrated Framework, issued by the Committee of Sponsoring Organisations of the Tradeway Commission), and in terms of the IT component, is based on the COBIT Framework (Control OBjectives for IT and related technology), which are unanimously recognised as the standard for the implementation and assessment of internal control systems.

3. They also represent that:

   3.1. The consolidated financial statements at 31 December 2011:

   - are drawn up in accordance with IFRS endorsed by the European Union in accordance with EC Regulation 1606/2002 and with Legislative Decree 38/2005, Legislative Decree 209/2005 and the relevant ISVAP rulings, regulations and circulars;
   - correspond to the information recorded in the books and accounting records;
   - give a true and fair view of the financial position and results of operations of the issuer and the consolidated companies;

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

Bologna, 15 March 2012

The Chief Executive Officer	The Manager in charge of financial reporting
Carlo Cimbri	*Maurizio Castellina*
(signed on the original)	*(signed on the original)*

Summary of fees for the year for services provided by the Independent Auditors

SUMMARY OF FEES FOR THE YEAR FOR SERVICES PROVIDED BY THE INDEPENDENT AUDITORS (Art. 149 duodecies of the CONSOB Issuers Regulation)			
Amounts in €K			
Type of services	Provider of the service	Recipient	Fees (*)
Legally-required audit	KPMG SpA	Unipol S.p.A.	166
Attestation services	KPMG SpA	Unipol S.p.A.	3
Other services: review of proforma financial statements	KPMG SpA	Unipol S.p.A.	53
Other services: advisory	KPMG Advisory SpA	Unipol S.p.A.	22
Total Unipol S.p.A.			245
Legally-required audit	KPMG SpA	Subsidiary	1,007
Attestation services	KPMG SpA	Subsidiary	256
Total subsidiaries			1,263
Grand total			1,508

(*) The fees do not include recharged expenses and any non-deductible VAT

Board of Statutory Auditors’ Report

Statutory Auditors' Report on the 2011 Consolidated Financial Statements

Dear Shareholders,

The Board of Statutory Auditors reports as follows on the Consolidated Financial Statements of Unipol Gruppo Finanziario S.p.A. (UGF S.p.A.) at 31 December 2011.

1. Basis of presentation.
   We have checked that the Consolidated Financial Statements have been drawn up in accordance with Article 154-*ter* of Legislative Decree 58/1998 and of ISVAP Ruling 7 of 13 July 2007, as amended by ISVAP Ruling 2784 of 8 March 2010, and they conform to the IFRS issued by the IASB and endorsed by the European Union, along with the interpretations issued by IFRIC, in accordance with the provisions of EC Regulation 1606/2002 in force on the date the financial statements closed. The layout (statement of financial position, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and other tables) conforms to the provisions of ISVAP Ruling 7 of 13 July 2007, Part III, and subsequent amendments, relating to the layout of the consolidated financial statements of insurance and reinsurance companies that must adopt IFRS. The information requested in CONSOB Communications DEM/6064293 of 28 July 2006 and DEM/11070007 of 5 August 2011 is also provided.

2. Consolidation scope.
   The variations in the consolidation scope that took place during 2011 are shown below.

   Acquisitions

   – On 1 December 2011, the real estate company Midi Srl acquired 100% of Covent Garden BO Srl, which in turn holds, as its single asset, the entire quota capital of Comsider Srl, the company that owns the site and the property (demolition of which was already planned), at Via Stalingrado 31, Bologna, near the Group's new offices (Porta Europa). The site will be used for the construction of a new building for the use of the Group. The price paid was €2m in addition to the €2.5m shareholder loan provided by Midi. This acquisition is not deemed to be a business combination but an acquisition of assets (IFRS 3, para. 2 b). The whole of the price paid was for the site, which is therefore recognised in the consolidated financial statements, totals €4.6m.
   – On 13 December 2011, Unipol Assicurazioni acquired 100% of Punta di Ferro Srl, registered in Castelnovo di Sotto (Reggio Emilia), owner of the arcade, and holder of the relative operating permits, in the shopping centre of the same name on the outskirts of Forlì that opened in April 2011. The price paid was €49m, in addition to the €73.7m shareholder loan granted on the same date for a future capital increase in order to strengthen the company's equity. This acquisition is not deemed to be a business combination but an acquisition of assets (IFRS 3, para. 2 b). The whole of the price paid was for the building, which is therefore recognised in the consolidated financial statements, totals €123.9m.

- On 19 December 2011, by underwriting a €0.7m capital increase, Smallpart became the holder of 50% of the share capital of Assicoop Grosseto Spa, an insurance brokerage company. This investment is deemed to be a significant interest.

Cessions

- On 7 April 2011, BNP Paribas exercised its option right to acquire the 25,500,000 shares held by UGF S.p.A. in Bnl Vita, corresponding to 51% of the share capital, and designated the subsidiary Cardif Assicurazioni as purchaser. On 29 September 2011, once BNP Paribas and Cardif Assicurazioni had obtained the permits required by law, the investment was sold for a total, as laid down in the contract, of €325.2m. This price enabled UGF S.p.A. to recognise a gain of €55m in the individual financial statements net of tax (€1m). It had almost no overall effect on the consolidated income statement. In view of the impending sale, the Bnl Vita figures had already been set out in accordance with the provisions of IFRS 5 in the consolidated financial statements at 31 December 2010.
- On 22 December 2011 and 23 December 2011, Smallpart sold 30% and 41.5% of the share capital of the associated insurance brokerage companies of Assicura Spa of Reggio Emilia and APA Spa of Parma, respectively, making a total gain in the consolidated financial statements of €5m. Smallpart's remaining units, 4.99% of both companies, were reclassified at fair value as available-for-sale assets, as provided for by IAS 28, para. 18. On 15 December, these companies signed the deed contributing (with effect from 1/1/2012) the respective insurance businesses to Assicoop Emilia Nord Srl, set up jointly by Assicura and APA on 4 March 2011, in which Smallpart has held a significant interest of 50% since 1 January 2012.
- On 27 December 2011, Smallpart also sold 44% of its share capital in the associated insurance brokerage companies Assicoop Ravenna Spa of Ravenna and Assicoop Romagna Spa of Forlì, making a total gain in the consolidated financial statements of €4.7m. Smallpart's remaining units, 4.99% of both companies, were reclassified at fair value as available-for-sale assets, as provided for by IAS 28, para. 18. On 20 December, these companies signed the deed contributing (with effect from 1/1/2012) the respective insurance businesses to Assicoop Romagna Futura Srl, set up jointly on 26 September 2011 by Assicoop Ravenna and Assicoop Romagna, in which Smallpart has held a significant interest of 50% since 1 January 2012.
- On 30 November 2011, Unipol Banca sold 22.86% of the share capital of the associate CampusCertosa, of which it held 49.02%.
- On 21 December 2011, Arca Vita sold its entire investment (28.57%) in the associate B&A Broker Spa.

3. We have ascertained that the accounting policies and the measurement criteria were applied correctly. In particular, the consolidation policies and the rules on determining the consolidation scope and the date to which the figures apply were observed.
   With reference to the measurement criteria the Board of Statutory Auditors intends to provide evidence of the change in the criterion used in the 2011 Consolidated Financial Statements, shown as follows.
   IAS 39, para. 58, provides that on each reporting date companies must check whether there is any objective evidence that a financial asset or a group of financial assets is impaired. In order to determine an impairment loss on a financial asset or a group of financial assets, the asset must be periodically impairment-tested. In addition, in accordance with para. 61 of IAS 39, a 'significant or prolonged' impairment loss on an equity instrument below its cost must be considered to be 'objective evidence of impairment.' Starting with the 2009 financial statements the Group defined as significant a reduction in the market value of the equity instruments classified as available-for-sale (AFS) financial assets of 20%

compared with the initial subscription value and deemed as prolonged a market value remaining below the initial subscription value for more than 36 months. These benchmarks also remain unchanged in the subsequent measurements until and including the 2011 interim report. At the end of the 2011 financial year, in view of the impact of the crisis in the financial markets on the performance of share prices, which recorded a gradual downturn combined with an increase in volatility, thus giving rise to doubts as to whether current prices were the best indicator of the intrinsic value of assets, the Group carried out a thorough analysis of how markets have performed over the last decade. The results of this analysis led the Group to raise the threshold of significance of impairment losses on equity instruments classified as AFS from 20% to 50%. However, from 31 December 2011 in the case of equities the impairment test is carried out by selecting all the securities to which at least one of the following conditions applies:

a) the market price has remained below the initially recognised amount for the last 36 months;

b) the impairment losses on the reporting date is more than 50% of the initially recognised amount.

The impairment losses on these securities is deemed to be confirmed and the total variation in fair value is recognised in the income statement, fully utilising the related reserve for gains or losses on available-for-sale financial assets. On the basis of the new measurement criterion no new share securities on which objective impairment losses were revealed were recognised at 31 December 2011. On the basis of the measurement criterion previously applied (20% significance threshold) €136.1m of further losses would have been recognised, which would have affected the consolidated income statement.

4. The Board of Statutory Auditors wishes to point out that several companies in the Group complied with the provisions of Article 23, paras 12 to 15, of Law Decree 98/2011 (converted by Law 111/2011) by realigning the increase in the goodwill of its controlling interests recognised in the Consolidated Financial Statements at 31 December 2010 and paying 16% substitute tax. As a result current taxation recognised in the consolidated financial statements at 31 December 2011 included €247.3m of charges for substitute tax paid for the realignment of goodwill and Other deferred tax assets included €431.6m of Accrual to deferred tax assets. The net positive effect on the Consolidated Income Statement for 2011 was €184.3m.

5. We have ascertained that the Parent's organisational and procedural structure was suitable for managing the flows of information and the operations arising from consolidation.

6. We have ascertained that the Parent fulfilled CONSOB's requirements relating to accounting information on the performance of the various categories of business and the outlook. In accordance with the provisions of Article 14 of Legislative Decree 39 of 27 January 2010 it is the responsibility of the Independent Auditors to decide whether the Management Report is consistent with the Consolidated Financial Statements. In this respect, we note that, in their Report, the Independent Auditors confirmed the consistency of the Management Report with the Consolidated Financial Statements.

7. The Parent UGF S.p.A. complies with the Code of Corporate Governance issued by the Borsa Italiana S.p.A. and drew up the ‘Annual report on corporate governance and ownership’. In this respect we must point out that the new wording of Article 123-*bis* of Legislative Decree 58 of 24 February 1998 introduced by Legislative Decree 173 of 3 November 2008 provides that the Independent Auditors express their opinion on the consistency of some information in the 'Report on corporate governance and ownership' with the Separate Financial Statements and the Consolidated Financial Statements. This information, relating to corporate governance, ownership and the risk management and internal control system, may be included in the management report or be the subject of a separate report to be published at the same time. The Parent UGF S.p.A. decided to record this information in the 'Annual

report on corporate governance and ownership', which was approved by the Board of Directors on 15 March 2012. The Board of Statutory Auditors reports that the Independent Auditors' Report contained no findings on the matter mentioned above.

8. Your Directors report on the criteria (and the results of) determining the recoverable amount of the goodwill with an indefinite useful life recognised in the Consolidated Financial Statements for the insurance and banking subsidiaries (impairment test). Paragraph 5.8 of the Notes to the Consolidated Financial Statements shows the criteria used for the tests, and the results, which revealed that there was no need to recognise an impairment loss on the goodwill recognised in the UGF Group's Non-Life and Life CGUs at 31 December 2011. However, the following applies in the case of the Unipol Banca Group's goodwill.
   Partly as a result of the crisis that has affected the banking system for the last five years, the financial performance of the last few years has not made it possible to meet the targets laid down in the multiyear plans drawn up to support the impairment tests carried out in recent years. Therefore a new multiyear plan (2012 – 2016) has been drawn up that takes account of previous years' performance and the forecasts for the near future (which are still difficult, especially for the credit sector), and therefore sets more cautious profit targets. Goodwill was also affected by the rise in interest rates on the national debt, which led to a rise in the financial parameters used for calculating the discount rate provided for in the model used for the impairment test.
   The combination of these factors led to a result that did not allow the goodwill on the acquisition of bank branches that took place during the period 2001-2004, recognised as an asset in the statement of financial position, to remain unchanged. Goodwill was therefore partly impaired commensurate with the current cash flows expected to be generated by the CGU concerned. Consequently an impairment loss of €300m was recognised, reducing the total goodwill recognised in the financial statements from the original €419.2m at the end of 2010 to the current €119.2m at 31 December 2011. The original goodwill arising from consolidation of €119.3m recognised in the consolidated financial statements of the subsidiary Unipol Banca was also fully impaired.
   On the basis of the findings that the Board of Statutory Auditors has, to the best of its ability, made on the above, both directly and by exchanging information with the Independent Auditors, we have no observations to make in this Report.

9. The Independent Auditors' Reports on the subsidiaries' financial statements comply with the provisions of Legislative Decree 39 of 27 January 2010.

10. The Independent Auditors' Report on these Consolidated Financial Statements, issued in accordance with Articles 14 and 16 of Legislative Decree 39 of 27 January 2010, is unqualified.

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

Bologna, 4 April 2012

For the Board of Statutory Auditors

________*(signed on the original)*____
Roberto Chiusoli, Chairman

Independent Auditors' Report

KPMG S.p.A.
Revisione e organizzazione contabile
Via Andrea Costa, 160
40134 BOLOGNA BO

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Telefax +39 051 4392599
e-mail it-fmauditaly@kpmg.it

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

Report of the auditors in accordance with articles 14 and 16 of Legislative decree no. 39 of 27 January 2010

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

1 We have audited the consolidated financial statements of Unipol Gruppo Finanziario Group ("Unipol Group") as at and for the year ended 31 December 2011, comprising the statement of financial position, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes thereto. The parent's directors are responsible for the preparation of these financial statements in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05. Our responsibility is to express an opinion on these financial statements based on our audit.

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

Reference should be made to the report dated 4 April 2011 for our opinion on the prior year consolidated financial statements, which included the corresponding figures presented for comparative purposes.

3 In our opinion, the consolidated financial statements of Unipol Group as at and for the year ended 31 December 2011 comply with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05. Therefore, they are clearly stated and give a true and fair view of the financial position of Unipol Group as at 31 December 2011, the results of its operations and its cash flows for the year then ended.

4 The directors of Unipol Gruppo Finanziario S.p.A. are responsible for the preparation of a management report and a report on corporate governance and ownership, published in the "Corporate Governance" section of Unipol Gruppo Finanziario S.p.A.'s website, in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the management report and the information required by article 123-bis.1.c/d/f/l/m and article 123-bis.2.b of Legislative decree no. 58/98

disclosed in the report on corporate governance and ownership with the financial statements to which they refer, as required by the law. For this purpose, we have performed the procedures required by the Italian Standard on Auditing 001 issued by the Italian Accounting Profession and recommended by Consob. In our opinion, the management report and the information required by article 123-bis.1.c/d/f/l/m and article 123-bis.2.b of Legislative decree no. 58/98 disclosed in the report on corporate governance and ownership are consistent with the consolidated financial statements of Unipol Group as at and for the year ended 31 December 2011.

Bologna, 4 April 2012

KPMG S.p.A.

(signed on the original)

Luca Ferranti
Director of Audit

Unipol Gruppo Finanziario S.p.A.

Registered and Head Offices
via Stalingrado, 45
40128 Bologna

Share capital
€2,699,066,917.47 fully paid-up

Bologna Company Register
Tax and VAT No. 00284160371
R.E.A. No. 160304

Parent of the Unipol Insurance Group
entered in the Register of Insurance
Groups - No. 46

cia flessibilità disponibilità efficienza capa
micità volontà ottimismo energia unione c
gresso trasparenza **solidità** consapevolezza

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