

**PRESS RELEASE**

**Board of Statutory Auditors' Report for the year 2011 prepared in accordance with Article 153-ter of Legislative Decree No. 58/1998 – Requested pursuant to Article 114, paragraph 5, of Legislative Decree No. 58/1998**

**Milan, April 19, 2012** – It is announced that, on the request of Consob on April 16, 2012 in accordance with Article 114, paragraph 5 of Legislative Decree No. 58/1998 (CFA), the Board of Statutory Auditors' of Milano Assicurazioni S.p.A. – in supplementation to the Board of *“Statutory Auditors' Report on the activities undertaken for the year ended December 31, 2011”* prepared in accordance with Article 153 of Legislative Decree No. 58/1998 and made available to the public in consideration of the Shareholders' Meeting called for April 23 and 24, 2012 for the approval of the annual accounts and the presentation of the consolidated financial statements at December 31, 2011 – publishes the following requests and relative information:

*“a) the verifications the Board will carry out and those already underway, together with the results reached to date, in relation to the events highlighted by the shareholder of the Parent Company which related to the Company;”*

On March 19, 2012, at the shareholders' meeting of the parent company Fondiaria-SAI (**“Fonsai”**), the Board of Statutory Auditors of this latter presented a report pursuant to Article 2408 of the civil code (the **“Fonsai Statutory Auditors' Report”**) on the complaint made by the shareholder Amber Capital LP, as manager of Amber Global Opportunities Master Fund Ltd.; only on this date did the Board of Directors and the Board of Statutory Auditors of Milano Assicurazioni become aware of the above-mentioned complaint by the shareholder of the parent company and of the related report of the Board of Statutory Auditors of Fondiaria-SAI, a document published on the internet site of Fondiaria-SAI and subsequently transmitted to the directors and statutory auditors of Milano Assicurazioni.

The Board of Directors of Milano Assicurazioni on March 23, 2012, examined and reviewed the Fonsai Statutory Auditors' Report and decided to appoint advisors to assist in the verifications and the evaluations.

For these purposes, the appointment was made of: (i) Studio Pedersoli e Associati, as legal advisor appointed to evaluate the contractual aspects and the legal implications of the transactions reported concerning Milano Assicurazioni; (ii) PricewaterhouseCoopers, as financial/accounting advisor appointed to support the boards in the analysis relating to the transactions reported strictly concerning Milano Assicurazioni; (iii) REAG, as property expert appointed to support the boards in the evaluations on considerations of a purely real estate nature.

For the purposes of the necessary investigations, a data room was set up for the documentation relating to Milano Assicurazioni referred to in the Fonsai Statutory Auditors' Report and all information considered useful for the verification of any irregularities (also in accordance with

compliance with regulations and procedures applicable to transactions with related parties), of the evaluation of any damage caused to Milano Assicurazioni and the identification of any responsibilities.

Part of the documentation cited in the Fonsai Statutory Auditors' Report has already been made available to the advisors indicated above who have begun their analysis and verification activities, in order to, among other issues, re-examine the transactions with related parties carried out by Milano Assicurazioni, also to verify if the relative corporate and strategic evaluations had sufficiently considered the interest and usefulness of the acquisition of certain goods and services and if the transactions or acquisitions of goods and services by related parties were (i) under the independent determination of its management boards, or (ii) under a specific directive of its parent company Fonsai, or (iii) due to interventions of related parties other than Fonsai.

The collection of documentation – which began immediately as soon as the Board of Directors of Milano Assicurazioni was informed of the Fonsai Statutory Auditors' Report and the relative complaint of the shareholder of the Parent Company – has not yet been completed, also following the first requests for supplementation already received by the appointed advisor.

Given the short interval and due to the significance of the documentation to be examined, the analysis activity is still in course and to date the completion date cannot be precisely forecast, taking also account that part of the documentation is not yet available in the data room.

Currently any consideration of or decision on the events or the conduct subject to the Fonsai Statutory Auditors' Report would be premature.

For reasons of operational speed and efficiency, the Board of Statutory Auditors agreed with the Board of Directors on the reciprocal use in the coordination and the cooperation during the respective activities of document analysis, while recalling that the Board of Statutory Auditors undertakes the necessary verifications, evaluations and the consequent decisions fully independent from the Board of Directors, in compliance with the duties/powers as per Articles 149 and 151 of the CFA.

In any case, at the Shareholders' Meeting called for April 23-24, 2012, the Board of Statutory Auditors will report upon any results at that time from the investigations which have already begun.

“b) *the verification activities which the Board will carry out in relation to other transactions with related parties by the Company, also through subsidiary companies, particularly those carried out with members of the Ligresti family or with parties related to them;*”

The Board of Statutory Auditors first of all intends to analyse – and the advisors in this sense are carrying out their verifications – transactions with related parties which are subject to the Fonsai Statutory Auditors' Report and verify if they are in compliance with the procedures which should have been applied in the case of transactions with related parties; in addition to this, in relation to the choices made, the Board of Statutory Auditors is evaluating if formal compliance with the conduct regulations was accompanied by a substantially correct approach (also from a prudent viewpoint and concerning the reasonable predictability of what the effects of the proposed transactions would be) and allowed the undertaking of decisions which, at the moment of the approval of these operations, would achieve the objectives in line with the interests of Milano Assicurazioni.

The Board of Statutory Auditors is also verifying whether between Milano Assicurazioni and related parties other transactions arose which were not correctly or fully treated.

In particular, the Board of Statutory Auditors is verifying whether the conduct of the directors Umberto Bocchino, Emanuele Erbetta, Jonella Ligresti, Gioacchino Paolo Ligresti, Giulia Maria Ligresti, Fausto Marchionni, Salvatore Rubino and Antonio Talarico – who declared to have interests and to abstain when the transactions with related parties in which Milano Assicurazioni were involved were put to the approval of the Board of Directors, reported in the Fonsai Statutory Auditors' Report – was observed also in the transactions with related parties made by Milano Assicurazioni and if other directors had an interest.

Therefore to carry out the verification activities in relation to other operations with related parties by Milano Assicurazioni, also through subsidiary companies, the Internal Control Committee will be involved, coordination groups will be created between the Boards of Statutory Auditors and the Internal Control Committees of the various interested companies and meetings will be organised with the individual parties which may provide useful indications in this regard.

“c) *a summary of the significant issues notified by ISVAP – reported in the notes to the financial statements of December 31, 2011 as well as the press release of March 27, 2012 of the Parent Company – and of the corrective measures against the significant issues put in place, currently being implemented or planned by the Company, with an evaluation by the Board on the efficacy of these measures;*”

the Isvap note of November 17, 2011 sent to Milano Assicurazioni highlights these points in relation to the following aspects:

- 1) the 2010 financial statements. The Claims Reserve of the Motor and Pleasure Boat TPL classes . Analytical report prepared by the appointed actuary of the independent audit company (hereafter: Actuary auditor) and the technical report prepared by the actuary appointed for the Motor and Pleasure Boat TPL (hereafter: appointed actuary);
- 2) individual and consolidated situation at June 30, 2011;
- 3) monitoring of the investments and redemptions at September 30, 2011.

In particular, with reference to **point 1)** above, Isvap carried out a valuation of the methodologies chosen, carrying out in this regard issues of a technical nature and highlighting how the results of the methodologies applied could produce errors in the calculation procedures or inconsistent elements with the parameters illustrated in the actuarial reports.

Taking account of these valuations and the imprudent elements in the valuations carried out from an actuarial viewpoint, Isvap made its own evaluations on the claims reserves of the Motor and Pleasure Boat TPL classes.

Following the evaluations carried out, as described in the letter in question, Isvap reported that “*the average of the methods adopted by the appointed actuary and the average of the methods adopted by the actuary auditor, corrected to take account of the advanced statement factor of the ordinary Motor TPL management, highlights for the 2010 generations and previous, an insufficiency of the significantly statistical reserve, which may not be considered lower than Euro 203 million*”.

The Institute therefore reported the “*violation of the principle of valuation of the claims reserves of the Motor and Pleasure Boat TPL class recorded in the 2010 financial statements, based on the last cost criteria established by Article 37 of Legislative Decree No. 209/2005*”.

In relation to **point 2)** of the above stated note, Isvap summarises the results of the separate and consolidated half year reports at June 30, 2011, in addition to the content of the press release communicated to the market.

In relation finally to **point 3)** above, Isvap reported that the monitoring of the investments at September 30, 2011 concerning the long-term segment, highlighted a ratio between the gross losses and the book value of the investments greater than the average market value, particularly for the non-life management, underlining also the sensitivity of Milano Assicurazioni to equity risk.

In relation to the Life management from the cumulative data to September 30, 2011, it emerged that the ratio of claim charges on class I premiums increased from 112% (recorded for the period to December 31, 2010) to 154% and in the class V from 70% to 407%.

Isvap reported that, from the comparison between the cumulative data reported for the period January 1 – December 31, 2010 and that relating to the period January 1 – September 30, 2011, it emerged that the percentage of redemptions on Class V premiums which, for the market more than doubled (from 47.4% to 103.8%), for Milano Assicurazioni more than tripled (from 36% to 162%).

In conclusion, Isvap requested Milano Assicurazioni to:

- remove, in the preparation of the 2011 financial statements, taking account of the dynamics of the claims portfolio in the year, the irregularities concerning the valuation of the last cost claims reserve;
- transmit an interim representation of the claims in line with the supervisory tables, at least quarterly from December 31, 2011;
- provide the criteria utilised at the year-end for the write-down of the investments in companies not belonging to the group, classified in the long-term sector;
- specify in detail the unrealised losses at September 30 with reference to the shares and holdings in non Group companies of the long-term Non-Life sector, including expected write-downs at December 31, 2011;
- provide evaluation elements on the increase of the redemption/class V premiums ratio recorded in the first months of 2011 and the high ratio between claims charges/class I and V premiums;
- transmit the individual solvency situation at September 30, 2011 and at December 31, 2011 which takes account of the adjustments in value reported in the Institute note.

Milano Assicurazioni provided a response to Isvap on December 20, 2011, after having contacted the Appointed Actuary for a comparison on the observations drawn up by Isvap, in order to support the suitability of the valuations made.

The report of the Appointed Actuary referring to the 2011 financial statements concluded with an overall judgment of sufficiency of the reserves and the auditors issued a report without indicating significant issues.

In relation however to the requests concerning the valuation process a detailed disclosure is provided in the financial statements.

In relation to the corrective measures put in place in 2011, in the course of implementation or scheduled, it is noted that in the supplementations to the Notes to the Financial Statements provided by the Directors, disclosure is provided that Milano Assicurazioni:

- reviewed the claims reservation process, with a greater involvement of the settlement network in the valuation of the residual technical reserves for each claim, establishing a central organisational governance with specific regard for older claims or of significant amounts;
- updated and refined the actuarial-statistical models through the use of a more complete historical series;
- created a claims task force coordinated by the risk management structure with the duty to strengthen the controls on the management procedures and claims liquidation and to ensure the consolidation of the reference claims database.

In particular, following the receipt of the above stated communication of November 17, 2011, the Company decided to implement the corrective measures requested in relation to claims concerning activities attributed to the inter-managerial work group (comprising of the Non-Life and Networks Management, the Strategic Planning Management, Management Control, IT Management, Financial Management and Financial Statement Audit Management, Compliance and Organisation), called the *Claims Task Force*, constituted on October 3, 2011 by the Parent Company under the ISVAP ruling No. 21-11-001260 of September 29, 2011 with Fonsai.

The *Claims Task Force*, under the supervision of the Chief Executive Officer and the General Manager of Fonsai, put in place the following activities:

- analysis of significant issues, formulation of its deductions, definition of the remedial plan and support of the “Legal and Corporate” structure in the preparation of the response to ISVAP;
- preparation of a “Master Plan” in order to govern the implementation phases, meet the deadlines proposed in the response to ISVAP;
- constitution of a Project Committee which – under the supervision of the coordination of the control department manager – monitors the effective implementation of the interventions made.

In relation to these significant issues concerning claims, the *Claims Task Force* identified 37 corrective actions, broken down into 14 macro-interventions, in turn related to 3 areas:

1. Interventions on the Claims Reserves estimation process;
2. Interventions on the claims reservation and management processes;
3. Interventions on the Internal Control System.

Below a brief summary of the significant issues and the interventions necessary to ensure compliance of the operations of the Company are provided.

*1. Interventions on the estimate process of the Claims Reserves.*

The principal significant issues regard in summary the manner of determination of the financial statement reserve, in the various procedural phases.

The principal corrective measures adopted included the overall review of the methodologies and the valuation methods of the reserves and the relative estimate criteria, with consequent adjustment of the statistical-actuarial models, together with the review of the table of average costs of the relative management process.

*2. Interventions on the claims reservation and management processes*

The principal issues relate to the traceability of the evaluation process of the claims reserve and on the carrying out of controls of the settlement network.

The corrective measures implemented resulted in the drawing up of an operational manual of the reservation process by the network and in the establishment of the various phases of the valuation process, in addition to focused strengthening actions in the control of the network operation.

In addition to these measures, the definition and implementation of a “control model” to evaluate all of the individual operational deficiencies highlighted by Isvap together with a pervasive training intervention on the network.

*3. Interventions on the Internal Control System*

The principal issues highlighted by ISVAP concern, on the one hand, the request for the introduction of a verification programme by the relevant control functions on the issues highlighted by the Institute; on the other, the keeping of the insurance registers.

The action of the Company established the execution of specific interventions to be undertaken by the Audit and Compliance department on the processes subject to significant issues, in addition to the various corrective interventions adopted by the Company.

In relation to the insurance registers the Company implemented a specific initiative to strengthen the monitoring of the above-mentioned registers.

It is considered that the above-mentioned actions are appropriate for the operations of the Group and of the Company.

In relation to the current status, it is stated that:

- priority was given to the interventions which had a direct impact on the 2011 Financial Statements as well as interventions considered of a more critical nature;
- the state of advancement of the interventions stood at approx. 75%;
- the verification programme of the Audit and Compliance department will continue in the second quarter of 2012.

These interventions, already largely implemented, appeared to the Board of Statutory Auditors to be focused on an improvement of the quality of the data included in the reservation process with a consequent improved future reliability of the data and of the results of the reservation process.

“d) *the reasons for which, although in the presence of the critical issues highlighted in the Reports to the Shareholders’ Meeting of 19.3.2012 of the Board of Statutory Auditors of the Parent Company and the significant issues highlighted by ISVAP at the previous point c), the Board of Statutory Auditors maintained an evaluation of adequacy of the internal control system of the Company;*”

In relation to a number of significant issues highlighted by Isvap concerning the years 2009/2010 and subject to specific correspondence, relating to the governance system and control of risks, consisting principally, according to the Institute, of the excessive concentration of powers in the CEO, in a lack of supervision of control of the powers conferred, the absence of an active role of the Board of Directors and the Internal Control Committee and in the carrying out of the specific insurance process activities, together with the control functions, by the parent company in the absence of proper internal control, it was observed that Milano Assicurazioni in the course of 2011, modified its governance, appointing a new Board of Directors comprised by a majority of independent directors, including principally the Chairman, and amending the composition of the Internal Control Committee with the entry of two newly appointed independent directors.

The Board of Directors also carried out a review of the powers and a reformulation of duties, also of the Executive Committee.

The activities of the Board of Directors and of the Internal Control Committee are duly carried out in compliance with law, regulations and the internal procedures and the decisions are taken based on adequate information.

In order to render the control system more efficient and autonomous, the Board of Directors appointed specific managers to the control departments (Audit, Risk Management and Compliance) even when operational activities were also “outsourced” to the Parent Company.

Generally, the internal control systems of Milano Assicurazioni are described in detail at sub point 3) of the Directors’ Report which identifies them together with the rules, procedures and organisational structures which guarantee the correct, efficient and effective functioning of the company, guaranteeing adequate control of risks, the reliability of accounting and operational information and the conformity of conduct to applicable regulations, all of which is undertaken in order to safeguard the value of the company.

The Board of Directors and the Board of Statutory Auditors, each according to its respective ambit, examined the adequacy of the organisational structure and the appointment system and verified its results, compiling specific reports, relating to the activity carried out by the Audit, Risk Management and Compliance department; the operation and the coordination of the organisational structure and the control departments is assured by the disclosure and IT architecture, in addition to the activities of the **Coordination Committee of Control Departments**, created in 2011, which includes all board or departments which are attributed a specific control function, in order to allow these latter, as established by ISVAP Regulation No. 20/2008, collaborating between them, exchanging all information necessary for the carrying out of the relative duties.

The system of controls of Milano Assicurazioni establishes line controls which ensure the correct carrying out of operations (level 1 controls), risk management controls which have the objective to measure risk and to identify the strategies to govern it (level 2 controls) and internal audit

controls which are established to provide an independent valuation of the overall control and risk management system in order to improve the efficiency and efficacy of the organisation (level 3 controls).

Among the level 2 controls, the appointed actuary is included, the operational control and the **Inter-group activity unit** recently incorporated; this unit was established with resolution of the Board of Directors of the Parent Company of August 2, 2011 with the objective to strengthen the internal control system of the Company and of the Group with the following duties, for example purposes and non exhaustive:

- guarantee an adequate instruction concerning intercompany transactions and with related parties;
- guarantee that the approval process is in line with the “*Conduct principles adopted by the Board of Directors*”;
- ensure that the procedures for the transactions take into consideration all aspects required by regulations, and in particular:
  - (i) the reasons and the interests of the Company in the transaction;
  - (ii) the strategic and industrial importance;
- ensure the involvement in the preliminary phase of all of the corporate entities proposed in the valuation of the risks of the operation and the relative impacts;
- monitor the execution phase, verifying the correct execution of the executive phases;
- support the Control Committee, the Remuneration Committee, in addition to any management of the necessary institutions, in relation to their respective ambit, concerning the duties attributed to them by the applicable regulations and/or by the Board of Directors in relation to transactions with related parties.

A Remuneration Committee of Milano Assicurazioni was also created in 2011, comprised of non executive and independent directors, which were appointed the duty, in general, to carry out consultancy and proposal duties within the establishment of the remuneration policies of Directors and to periodically verify the adequacy, the overall compliance as well as the concrete application of such.

An IT platform was used to support the mapping of the processes; the verification ensuring the continued correct representation of the processes was appointed to the **Risk and Control Manager**, the updating in the case of deficiencies is the responsibility of the Organisation department; causes, effects, events (risks) and controls are modelled and maintained on the IT platform in which they are placed in relation to processes and between them, providing an overall view.

The creation of a culture of control is established through periodic meetings between the control managers, the Internal Control Committee, the independent audit firm and the Board of Statutory Auditors.

The Board of Statutory Auditors, based on the above indicated structure of the internal control system, of the modifications to the governance system, of the periodic meetings of the Internal

Control Committee, of the Coordination Committee of the Control Departments and the verifications carried out by the Board of Statutory Auditors, at which the managers of the various control departments and the independent audit firm usually attend, therefore maintain their evaluation of the adequacy, although which may be improved, of the internal control system of Milano Assicurazioni.

“e) *the valuations carried out in relation to the implementation of the powers established by Article 238 of Legislative Decree No. 209/2005 and by Article 2393 of the civil code.*

On the outcome of the verifications underway and on any evaluations, the Board of Statutory Auditors will automatically implement the actions which fall within its ambit and which are admissible to ascertain the eventual responsibility of that allowed (or omitted) concerning transactions or relations with related parties which have damaged Milano Assicurazioni (and not justifiable in the interests of the group).

In relation to the actions which do not fall within the ambit of the Board of Statutory Auditors, this latter will make the necessary investigations as to who may be responsible.

It is currently premature to state what actions may be taken: it will be necessary to await the outcome of the analyses underway.

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In accordance with that established by Consob, today a supplement of the “*Board of Statutory Auditors Report to the Shareholders on the activities undertaken for the year ended December 31, 2011*”, together with the requests of Consob contained in the above-stated communication of April 16, 2012, was filed at the registered office of the company.

The documentation stated above is published on the internet site of Milano Assicurazioni S.p.A.

For the Board of Statutory Auditors

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