Fellow Shareholders,

The company’s 107th fiscal year, for which we present the annual report to you, was one of the most intense and constructive in the company’s 100+ years of history.

During 2002 we in fact laid the foundations to adapt our corporate structure and operational models to the role acquired by the company as the 6th leading Italian insurer⁽¹⁾.

Alongside intensive normal business activity, which enabled us to achieve net profit of € 59.5 million (mn) (+36.44% vs. FY2001), we achieved a net profit, following demerger of the company’s property division, of € 113.6 mn, leading to full-year net income of € 173.1 mn (+296.97%), after taxes of € 58.6 mn.

During FY2002 we started and largely completed numerous extraordinary activities.

Of these, particularly important was the corporate reorganisation plan that will channel some subsidiaries’ non-life divisions into the parent company and creation of Cattolica Immobiliare, 100% owned by group companies, to which the property division was spun off.

The start of acquisition of the aforementioned divisions from the subsidiaries Cattolica On Line, Verona Assicurazioni and Cattolica Aziende will help to optimise the Group’s organisational facilities, achieving further operating efficiency. Reorganisation is also intended to achieve better exploitation within the parent company of the skills and know-how built up by individual companies within their respective business sectors.

Enhanced exploitation of the three company vehicles, following planned demerger operations, will assure an adequate initial structure for the start of strategically attractive business areas.

As regards the newly incorporated property company, this move meets the following aims, i.e. (a) in capital terms, to fully surface the value of the Group’s property assets and (b) in business terms, to facilitate more dynamic and efficient management of the assets in question. The primary objectives of the new company’s business plan include improvement of investment profitability, enhanced exploitation of property assets’ value also via disposal, within the next three years, of some 75% of the properties included in the division spun off, and partial reinvestment of cash-in thus achieved in properties featuring high income potential.

⁽¹⁾ Based on the ANIA (Italian national insurer association) 2001 ranking, taking into account the SAI/Fondiaria merger (direct Italian premiums – elaborations by corporate groups in 2001 – September 2002).
As anticipated, our company ended FY2002 with a positive bottom-line result.

The following table summarises the impact of the property spin-off on the company’s year-end results.

**Table 1 - Results gross and net of property spin-off**

<table>
<thead>
<tr>
<th>Results as at 31.12.2002</th>
<th>Effect of property spin-off</th>
<th>Results net of property spin-off</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-tax income</td>
<td>231,747</td>
<td>142,389</td>
</tr>
<tr>
<td>Taxes</td>
<td>58,640</td>
<td>28,778</td>
</tr>
<tr>
<td>Net income</td>
<td>173,107</td>
<td>113,611</td>
</tr>
</tbody>
</table>

The result achieved by the company makes it possible to propose distribution of an ordinary dividend of € 1.00 per share, up by +28.2% over the previous year.

The overall amount proposed for distribution totals € 43.1 mn.

As regards this, the Board of Director proposes, when approving allocation of FY2002 earnings, assignment to an “extraordinary spin-off reserve” of an amount equivalent to the capital gain on spin-off to the Cattolica Immobiliare subsidiary of the property division, net of related taxes and of the portion assigned by law to the legal reserve. This is because this positive income item stems from an intercompany transaction.

Taking into account the above and the company’s earning capability as highlighted in the company’s 2003-2005 Business Plan approved in November...
2002, it is proposed to undertake a free capital increase envisaging assignment of one free share of the nominal value of € 3.00 for every 10 shares owned, via use of € 12,924,066.00 of the available extraordinary book, on the books at € 14.442 mn before the increase just mentioned.

In Tables 2 and 3 below, we respectively show key operating figures and data concerning employees and the sales network, compared with those of FY2001.

**Table 2 - Summary data**

<table>
<thead>
<tr>
<th>Summary data</th>
<th>2002</th>
<th>2001</th>
<th>Change</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Amounts in € '000)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross premiums written</td>
<td>1,222,689</td>
<td>1,233,099</td>
<td>-10,410</td>
<td>-0.84</td>
</tr>
<tr>
<td>Direct business - non life</td>
<td>833,719</td>
<td>706,212</td>
<td>127,507</td>
<td>18.06</td>
</tr>
<tr>
<td>Direct business - life</td>
<td>369,015</td>
<td>511,566</td>
<td>-142,551</td>
<td>-27.87</td>
</tr>
<tr>
<td>Indirect business - non-life</td>
<td>19,607</td>
<td>14,638</td>
<td>4,969</td>
<td>33.95</td>
</tr>
<tr>
<td>Indirect business - life</td>
<td>348</td>
<td>683</td>
<td>-335</td>
<td>-49.05</td>
</tr>
<tr>
<td>Investments</td>
<td>5,241,585</td>
<td>4,843,003</td>
<td>398,582</td>
<td>8.23</td>
</tr>
<tr>
<td>as % of premiums</td>
<td>428.69%</td>
<td>392.75%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-life and life technical provisions</td>
<td>4,688,678</td>
<td>4,434,452</td>
<td>254,226</td>
<td>5.73</td>
</tr>
<tr>
<td>Non-life technical provisions (premiums+claims)</td>
<td>1,291,101</td>
<td>1,064,421</td>
<td>226,680</td>
<td>21.30</td>
</tr>
<tr>
<td>as % of premiums</td>
<td>151.30%</td>
<td>147.66%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Life technical provisions (actuarial+Class D)</td>
<td>3,397,577</td>
<td>3,370,031</td>
<td>27,546</td>
<td>0.82</td>
</tr>
<tr>
<td>as % of premiums</td>
<td>919.85%</td>
<td>657.89%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>of which provisions benefiting policyholders</td>
<td>1,505,947</td>
<td>1,446,331</td>
<td>59,616</td>
<td>4.12</td>
</tr>
<tr>
<td>Net investment income</td>
<td>113,033</td>
<td>110,375</td>
<td>2,658</td>
<td>2.41</td>
</tr>
<tr>
<td>Class III (unit/index-linked) income &amp; gains net of charges</td>
<td>18,747</td>
<td>-24,309</td>
<td>43,056</td>
<td>-177.12</td>
</tr>
<tr>
<td>Other administrative expenses</td>
<td>43,586</td>
<td>40,675</td>
<td>2,911</td>
<td>7.16</td>
</tr>
<tr>
<td>as % of premiums</td>
<td>3.56%</td>
<td>3.30%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-life insurance business-technical account result</td>
<td>19,759</td>
<td>34,949</td>
<td>-15,190</td>
<td>-43.46</td>
</tr>
<tr>
<td>Life insurance business-technical account result</td>
<td>16,971</td>
<td>22,330</td>
<td>-5,359</td>
<td>-24.00</td>
</tr>
<tr>
<td>Net income</td>
<td>173,107</td>
<td>43,607</td>
<td>129,500</td>
<td>296.97</td>
</tr>
</tbody>
</table>
Table 3 - Employees and sales network

<table>
<thead>
<tr>
<th>Employees and sales network</th>
<th>2002</th>
<th>2001</th>
<th>Amount</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees No.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>542</td>
<td>526</td>
<td>16</td>
<td>3.04</td>
</tr>
<tr>
<td>premiums per employee (in € ’000)</td>
<td>2,256</td>
<td>2,344</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct network:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agencies No.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>545</td>
<td>522</td>
<td>23</td>
<td>4.41</td>
</tr>
<tr>
<td>Partner networks:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Branches No.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1,296</td>
<td>1,155</td>
<td>141</td>
<td>12.21</td>
</tr>
<tr>
<td>Financial advisors/promoters No.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>457</td>
<td>344</td>
<td>113</td>
<td>32.85</td>
</tr>
</tbody>
</table>

In its internal and external development orientations, the Cattolica Group has always maintained a strong focus on its core business, endowing the entire operating organisation with consolidated technical expertise and a strong image.

The growth and fast-track development achieved in the last three years, the corporate operations and commercial agreements – the result of widening of our strategic frontiers in terms of markets, product/service portfolio and channels – are evolutionary choices made consistently with the strategic orientation highlighted above.

Two primary channels assure sales coverage, i.e. agents and bancassurance.

As at year-end agencies totalled 545 (+4.41% YoY) spread as follows: 332 in North Italy, 134 in Central Italy, 49 in Southern mainland Italy, and 30 in the Southern Italian islands.

Going against the market trend, the company has continued to strengthen its agency set-up as a stable and profitable force for business development, continuing to seek new models featuring product innovation, support for recruiting and retaining agency staff, permanent training, reduction of administrative tasks, and optimisation of network remuneration, according to technical production results achieved.
As regards bancassurance, in the last decade the company has steadily acquired a significant number of equity interests in medium/small, medium, and medium/large banks. The strategic objective of these deals was and is ongoing expansion of premiums collected via bancassurance with attractive returns on capital employed in terms of both dividends and sales margin.

The model based on shareholdings in partner banks is confirmed. This approach has enabled the company to create stable relationships and to achieve a leadership position in the national panorama – with 1,296 bank branches, up by 12.21% YoY – and has enabled the Group to achieve a total of 2,748 bank branches.

The new alliances with Banca di Cividale and Cassa di Risparmio di San Miniato consolidate the Group’s strategic stance in this respect.

In December we set up a new life insurance company with Cassa di Risparmio di San Miniato – San Miniato Previdenza – that is 66% owned by Cattolica.

In November we completed acquisition of 50% of Eurosav, an insurance company active in the life business via a diversified sales network. The joint venture between Cattolica and Banca Popolare di Bari enables our company to strengthen its presence in a geographical area featuring strong development.

2002 also featured the foundation of two other companies, i.e. Axa-Cattolica in Azienda, a company specialised in corporate welfare, 50/50 owned with Axa, and Cattolica Immobiliare into which, as already mentioned, the property division has flowed, thus permitting separation of the insurance and property businesses, with a view, in both cases to achieving greater efficiency and profitability.

*****
By way of confirmation of the trends already highlighted, the Group’s market share was 4.37% (virtually unchanged vs. 4.28% in 2001). Non-life market share rose from 3.47% to 3.9% whilst market life share was 4.65% (vs. 4.96% in the previous year). The Cattolica Group maintained its No. 6 slot in the national insurance ranking, with premium collections channelled as follows: banks 58.41%, agencies 37.45%, financial advisors 0.74%, brokers 0.76%, and direct 2.64%.

The downturn in life premiums was due to changes in bank sales networks. At group level this change, caused by constitution of joint ventures that previously sold products directly for Cattolica, is naturally counterbalanced.

In non-life segment, motoring premiums continued their strong growth, increasing by €110 mn (+25.33%). Non-motoring non-life premiums grew by 6.42%, increasing by €17 mn in outright terms.

(2) Based on final 2001 premiums and on estimates of 2002 direct Italian insurance premiums contained in the ANIA president’s report (June 2002).
Due to the effect of further acceleration of non-life business, the latter’s incidence on direct business rose to 69.32% vs. 57.99% in FY2001.

Insurance operations also benefited from our selective approach, implemented via prudent underwriting policies in the non-life business. The ratio of claims made in the year to premiums pertaining to the year was 73.29%, whilst the ratio of claims pertaining to the year to premiums pertaining to the year was 76.64%.

Actuarial provisions amounted to €1,892 mn, whilst non-life technical provisions amounted to €1,291 mn.

At year-end the total reinsurance balance was negative due to the increased cost of reinsurance coverage, also as a consequence of September-11th events.

Financial management

At year-end net equity amounted to €1,010 mn.
As at December 31st 2002 investments exceeded € 5,241 mn (+8.233%). Investments in land & buildings decreased due to spin-off to the new property company and accounted for 1.11% of total investments as opposed to 3.41% in FY2001. 22.94% of the total consisted of shares and holdings in subsidiary, associated and other companies – of which 24.19% accounted for by the newly incorporated companies Cattolica Immobiliare, Axa-Cattolica Previdenza, and San Miniato Previdenza. 39.95% consisted of bonds and other fixed-income securities, 32.89% of shares in investment funds and index, and 3.11% of other types of investment.

The year featured a decrease in net capital and financial income, accompany by a decrease in net disposal income, which was not offset by the improvement in the balance between write-backs and write-downs.

Besides the effects of the property spin-off, we also highlight the capital gains made on the sale of some properties, totalling € 38.4 mn, together with disposal of some equity investments in group companies, functional to corporate reorganisation, with disposal profits of € 5.8 mn.

**Work organisation and operating costs**

At year-end headcount totalled 542 employees (+3.04%).

Payroll costs, before allocation to specific areas, amounted to € 30.8 mn with a 2.23% YoY decrease.

G&A costs, although up, showed the tendency to stabilise at a ratio of around 3.56% to premiums.

The incidence of acquisition costs was 12.19% vs. 11.93% in FY2001.

*****
In order to provide an overall picture of our activities, with special reference to shareholders, other individuals, groups and organisations that maintain relationships with the company – and also to improve awareness of our corporate identity – for the first time Cattolica has prepared a Social Report, which refers to FY2002, thus also responding to a request made in the past by shareholders.

The report provides the qualitative and quantitative description of the results achieved by the Group and of their impact on those who have relationships with Group companies. Value-added generated and its distribution are the tangible expression of the Group’s impact in economic and social terms.

The document recalls the ethical values that Cattolica, together with all Group companies, conveys and highlights the consistency between our mission and the policies applied for its accomplishment.

The Social Report is a particularly wide-ranging relationship medium, addressed to all stakeholders and that considers all the effects associated with the company’s conduct.

It maintains strong consistency with the accounting data shown in the Group’s annual report, which it supplements and rounds off, and aids dialogue with stakeholders to whom it provides an overall representation of company performance.

In July “The Wall Street Journal” published the ranking of the top 500 European countries in which there were four new Italian companies, including Cattolica in 419th position.

At the beginning of 2003 the US firm A.M. Best Co., one of the oldest and most authoritative rating firms, specialised in the insurance sector, confirmed an “A” rating for the Cattolica Group – equivalent to “excellent” – as regards the group’s financial soundness. The same firm had already assigned our group an “A” rating in its previous four analyses, the last of which dated back to April 2002. The rating was accompanied by forecast of a stable near-term outlook.

Cattolica’s rating reflects its excellent capitalisation model, based on careful risk analysis, its outstanding operational performance, and the stability of the company’s positioning in the Italian market. And – taking into account the foreseeable growth in premium volume – the US firm believes that profits from the property spin-off will keep capitalisation at levels appropriate to the group’s present rating.
2003-2005 BUSINESS PLAN

2002 marked the end of the third financial year considered in the business plan presented when the company was floated in 2000.

The considerable expansion achieved by the organisation and the market scenario featuring growing competition have made it necessary for the Group to identify a new development path, able to further enhance its market position and consolidate its profitability.

We have therefore elaborated the new 2003-2005 Business Plan, which pinpoints the Group’s mission and strategic guidelines for the next three years, together with the new business model and medium-/long-term operational and financial projections.

Group mission

The Group’s mission confirms our strategic focus on the core insurance business, consistently with the market’s new and wider strategic frontiers, continuing consolidation of existing businesses and developing new initiatives and strategic alliances in order to pursue:

- excellence in customer relationships with unified and integrated coverage of insurance, assurance and pension-planning requirements and with an offering of complete, customised and competitive services;
- permanent creation of value, with the aim of development, stability, and soundness for shareholders and stakeholders, assuring a satisfactory risk/return trade-off with steady development of future profits, featuring limited volatility to the benefit of capital robustness, with an attractive payout;
- promotion of the ethical values that the Group has historically championed.

Strategic objectives

The plan identifies the guidelines that will make it possible to achieve our business and financial targets, i.e.

- full activation of intercompany synergies, strengthening governance functions and centralisation of activities and services;
- enhancement of the Group’s insurance identities and of its technical risk-management capability, as levers to ensure consistent product/channel offerings to customers;
- maximisation of traditional networks’ commercial leverage in terms of territorial coverage (existing networks, new sales network) and integration of bank partners’ banking and financial products, also via creation of a sales brokerage house, whilst confirming the fundamental role played by the agency channel as the key lever in the Group’s competitiveness. The main initiatives identified consist of (a) revision of organisational mechanisms and processes, (b) commitment in the recruitment, development and training of agency networks, and (c) development of a new physical network of single-card
agents (Newco) that will further boost the Group’s growth in terms of non-life market share and that will feature an innovative, efficient, and fast-acting distribution model, enhanced by the relationship factor typical of physical presence;

• strong coverage of banking partnerships, aiming to consolidate our position in the bancassurance market and monitor new business opportunities both in the same channel and also with other partners, capitalising on the experience built up in managing the partnership model. The leadership achieved by the Group in terms of banking sales outlets confirms the soundness of the partnership model. This will be consolidated in the next three years with further agreements of both the commercial and alliance types (acquisition of minority interests and joint ventures), albeit at a slower rate of growth than in the past. The stability now achieved in the bancassurance partnership market enables to project growth in the next three years aligned with that of the market, thus confirming our ability to cover it effectively;

• steady ongoing growth of future profits and a sound Group capital structure with attractive effects on return on equity.

The drivers of business-plan growth

The primary moves in the plan can thus be related to three main action areas, i.e. (1) the new business model (the parent company’s new macro-organisation, Group reorganisation, management of equity investments, and centralisation of shared services, (2) commercial strategies (inauguration of new agencies, development of an innovative sales network, confirmation of banking JVs, and coverage of new markets), and (3) consolidation of operational mechanisms (infrastructures and application systems, risk-related tariffs, and commercial and operating processes).
The Group will adopt a new business model aiding – immediately – development of a customer orientation via segmentation of the production process (creation and product design/engineering – sale) and assignment of clear responsibility by sales channel and specific organisational facilities, whilst at the same time assuring unitary management and full co-ordination at group level of all sales channels utilised.

The coming on-stream of the business model will require further, gradual adaptation of the parent company’s organisation – in terms both of managerial functions and operating areas – able to support the process of convergence of all group companies towards the chosen model. This will lead to evolution of the group’s legal-entity and organisational structure and upgrading of the approach to managing equity investments. It is in this context that the legal-entity reorganisation project is set, as already highlighted in the preliminary overview. This will cause some non-life activities currently managed by specific legal vehicles to move into the parent company’s business units, thus freeing up company facilities for the development of new initiatives.

The new business model will also enable the Group to strengthen its focus on the market of reference via an offering diversified (in terms of products/services and channels) according to the various customer segments’ characteristics and specific needs.

To this end, the plan envisages some strategic initiatives that will enable the Group to consolidate a “customer culture” and, when on stream, to achieve competitive positioning of our brands, with benefits in terms of both the quality
of customer relationships and commercial penetration and effectiveness. Specifically, we envisage reinforcement of the mission as regards “channel co-ordination” and of the operational marketing facilities created within the Assurance and Bancassurance areas. These must receive commercial guidelines and orientations concerning the individual products/channels covered by each area of responsibility, plus identification of the customer segments to be targeted by products/services/sales channels. The new sales initiatives will, right from the start, be given a specific positioning (for example the Newco will focus on the mass and middle market).

Within the strategic guidelines that the Group intends to follow, an important part is played by actions to consolidate operating mechanisms. These aim for (a) standardisation/optimisation of operating approaches in order to achieve economies of scale and scope, (b) savings/redeployment of resources to core business activities, and (c) homogeneous, linear and tightly managed processes.

Consistently with the development thrusts indicated in the plan, we are now completing a master implementation plan. The latter creates the link between the strategic and operating phases via definition of project work to be launched, timing, and the main objectives to be pursued.
The master plan in fact contains operating plans for the individual projects necessary to implement the strategic plan. The information it contains will permit effective monitoring of individual projects and of coherent progress in overall implementation of the plan.

The business plan’s profit and financial projections forecast ROE rising to 12.3% and a parent-company payout remaining at 77% for the entire plan time-span, excluding the extraordinary property component relating to FY2002.

This objective will be achieved via:

• group premiums in line with market expectations for the life business and ahead of market expectations as regards non-life business;
• competitive pricing, appropriate to the degree of risk;
• an approach designed to handle risk/return profiles with adoption of an integrated asset & liabilities management (ALM) system for special life operations;
• strategic management of capital in order to optimise its allocation to the various businesses.
The main consolidated results expected for the period 2003-2005 are summarised below.

Table 4 - 2003-2005 Business plan - Key consolidated results expected and CAGR

<table>
<thead>
<tr>
<th>Expected consolidated results (Amounts in € millions)</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>CAGR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net premiums - Non-life business</td>
<td></td>
<td>1,388</td>
<td>1,562</td>
<td>1,719</td>
</tr>
<tr>
<td>Gross premiums written - Non-life business</td>
<td>1,454</td>
<td>1,617</td>
<td>1,782</td>
<td></td>
</tr>
<tr>
<td>Underwriting result - Non-life business</td>
<td>26</td>
<td>41</td>
<td>53</td>
<td></td>
</tr>
<tr>
<td>Net premiums - Life business</td>
<td>2,727</td>
<td>2,965</td>
<td>3,179</td>
<td></td>
</tr>
<tr>
<td>Underwriting result - Life business</td>
<td>66</td>
<td>74</td>
<td>92</td>
<td></td>
</tr>
<tr>
<td>Pre-tax profit</td>
<td>155</td>
<td>174</td>
<td>219</td>
<td></td>
</tr>
<tr>
<td>Consolidated net income</td>
<td>108</td>
<td>117</td>
<td>149</td>
<td></td>
</tr>
<tr>
<td>Group net income</td>
<td>96</td>
<td>103</td>
<td>133</td>
<td></td>
</tr>
<tr>
<td>Total net provisions</td>
<td>12,264</td>
<td>14,436</td>
<td>16,429</td>
<td></td>
</tr>
<tr>
<td>ROE</td>
<td>10.2%</td>
<td>10.3%</td>
<td>12.3%</td>
<td></td>
</tr>
</tbody>
</table>

THE OVERALL SCENARIO

Macroeconomic scenario

Review of the economic situation and of the trend in financial markets provides the key for interpretation the context in which core business has been conducted.

International economy

Macroeconomic data during 2002 featured the alternating trend in economic growth in the USA which, following the sharp slowdown caused by September 2001 events, experienced a very dynamic first four months. Such marked economic growth was not tenable and was followed by growth at a slower pace – but such as to create the basis for a new expansionary path, thanks to the contribution of private consumption, which remained decidedly robust.

Deterioration of the economic picture led the Federal Reserve Bank to make a further cut in the official discount rate, taking it down to 1.25% – the lowest level since 1948.

In the Far East, Japan continued what was close to a decade of stagnation. The repeated measures supportive of the economic fabric developed by the Japanese government were nullified by the ongoing slackness of private consumption. The deflationary spiral thus continued, further exacerbating the position of one of the country’s main financial institutions.

Emerging countries’ economies featured better trends – 2002 was in fact a positive year for the so-called minor Asian countries. Conversely, it was a very
difficult year for Latin American countries. Specifically, Argentina was unable to keep up with its foreign debt repayments, whilst for most of the year Brazil suffered from political uncertainty, with its economy several times suffering the consequences of speculation against the Brazilian real. Uruguay and Venezuela did not experience a positive year either, also because of internal social tensions.

Financial markets
The main US market indexes ended the year down, even although they once again performed better than European market indexes. The Standard & Poor’s index fell back by 23%, the biggest drop in the last 25 years.

European economy
The slowdown already emerging in the latter months of 2001 continued. Germany and France, in particular, were unable to reverse their negative trend due to structural labour-market rigidity. Overall, the trend in public accounts underpinned production activity via use of stabilisers, such as tax relief decided upon in previous years – not matched, however, by action to achieve structural limitation of spending. All the Old World economies felt the effects of the euro’s relative strength vis-à-vis the main currencies. Continuation of a considerable spread in interest-rate structure in favour of the European currency, rather than an increase of the intrinsic value of underlying production realities was the reason why the euro exchange rate appreciated by 17.8% vs. the US dollar in 2002.

Monetary policy
2002 featured stability of policies oriented towards monetary expansion in order to prevent and head off an across-the-board and difficult-to-manage recession. The European Central Bank, very attentive to possible inflationary dynamics, implemented a rigorous monetary policy reducing, at the beginning of December, short-term rates taking them down from 3.25% to 2.75%. This action on rates was taken only after the markets, driven by operators’ expectations, had already factored in the cuts, based on the action taken in November by the US Federal Reserve – which, as always, continued to be the benchmark for global monetary rates.

The trend in long-term rates felt the effects of portfolio recalibration by some categories of institutional investments who allocated part of the capital previously allocated to equity investments – penalised during the year – to government bonds or to higher yield corporate bonds.

Financial markets
European equity markets felt the effects of downsizing of listed companies’ earnings growth expectations and of the higher premium for equity investments asked of investors. In France the CAC40 index lost 33.75%, whilst in Germany the DAX 30 index descended by 43.94%.
Italian economy

As regards the Italian context, there was slight growth.

Domestic demand
GDP increased by 0.4% and in any case below the government target of 0.6%. The Deficit/GDP ratio was 2.3% in 2002 compared with 2.6% in the previous year.

Private consumption increased by 2.8%, thanks to higher spending for services and new technological aids. Public consumption grew at a slower pace than in the previous two years. Capital goods investments, up by little more than one percent point, featured a trend of steep slowdown – but a rate definitely much better than that of the German trend.

Exports
Export performance, also due to the euro effect, was negative in Italy as it was in other European countries. Industrial output showed a modest decrease, basically ascribable to the downturn in world trade.

Labour market
The unemployment rate continued its downward trend, decreasing from 9.3% to 8.9%.

Consumer prices
Physical circulation of the euro contributed to an increase in mass-market consumer goods’ prices and therefore of inflation. The latter’s average annual rate was 2.45%. This was higher than the Italian government’s target inflation rate of 1.8%, but in line with the average calculated for euro-zone countries. The YoY increase in the last month of the year (December 2002 vs. December 2001) – i.e. 2.8% - was not encouraging.

Inflation was also affected by the trend in oil prices – constantly upward in 2002 due to the growing fears of a conflict in Iraq and, to a lesser extent, to Venezuela’s internal problems. Prices of the other main commodities remained substantially stable.

Public finance
Coverage of the Italian deficit was achieved by greater us of bonds of medium-/long-term duration, meaning that the average residual duration of the Italy’s debt increased. The deficit was higher than had been forecast.

Financial markets
For the second year running the Italian market ended heavily down in all sectors, despite recovery of the index for the lows hit at the beginning of October. The MIBtel index was down by -23.5%.
Within the complex panorama of intervention by the legislator and by the sector’s authorities characterising the year, it is worth highlighting measures concerning life policies, solvency margin, provisions concerning criminal and administrative offences, remote sale of services, delays in payment of commercial transactions, and insurance sales via distributor networks. The directive concerning insurance intermediation, the proposed directive for financial conglomerates, changes in motoring TPL rules, rules concerning equitable judgement (justice of the peace), and the proposed regulation for application of international accounting standards complete the institutional and regulatory scenario of reference, briefly highlighted in a summary manner below.

Of particular importance are reform of joint-stock companies and new surveillance regulations concerning co-operatives.

**New measure concerning life policies**

With its circular 474/D dated February 21st, ISVAP (the Italian insurance watchdog) issued new provisions concerning life insurance policies linked to internal funds or UCITS, as per Article 30, paragraph 1, of Italian Legislative Decree 174/1995 (so-called unit-linked policies).

These provisions consider the various types of policy and related regulatory rules, the information to be given to the contractual counterpart in the contractual and pre-contractual phase and, lastly, the categories of assets earmarked for coverage of underwriting reserves.

**Life insurance – New Directive**

December 19th marked publication of the Directive 2002/83/CE directive concerning life insurance. This directive replaces, abrogating them, previously issued directives on these matters, consolidating and organising the provisions that they contained.

**Solvency margin**

On February 26th ISVAP issued, in application of Italian Legislative Decree 239 dated April 17th 2001 concerning supplementary surveillance, order no. 2050 concerning the technical methods for proper calculation of the solvency of insurance companies belonging to a group. On March 20th the Official Journal of the European Union published two new directives designed to strengthen insurance companies' solvency margins. The main innovations concern modification of calculation criteria and of the requisites for assets able to be used to cover the margin.
New rules concerning criminal and administrative offences

On April 11th, executing the Delegated Government Law 366 dated October 3rd 2001, Legislative Decree 61 was issued. This reforms the rules for criminal and administrative offences as related to commercial companies. The new, extensive set of rules, besides incisively revising previously existing regulations, extends administrative liability – as per Legislative Decree 231 dated June 8th 2001 – to a number of corporate offences.

Remote sales of financial services

On October 9th the Official Journal of the European Union published Directive 2002/65/CE, issued by the European Parliament on September 23rd, concerning remote sale of financial services, including insurance services. The directive, which has to be incorporated within member countries’ individual legislations within two years, specifically regulates the approach pre-contractual information, the right of withdrawal, and methods for payment of premiums using payment cards.

Regulation against delays in payment of commercial transactions

Italian Legislative Decree 231 dated October 9th 2002, which implements Directive 2000/35/CE, introduces a specific regulation against delays in payments for commercial transactions. It specifically envisages, for contracts stipulated as from August 8th 2002, automatic application of interest on arrears as from the day after expiry of the payment term. The regulation, which is applicable to transactions between companies, also affects the insurance sector for those transactions possessing the characteristics indicated in the decree’s provisions.

Rules concerning insurance sales via distributor networks

With circular 487 dated October 24th, ISVAP has issued rules designed to regulate insurance selling via distributor networks operating on the basis of techniques such as multilevel marketing, network marketing and so forth – originally used in other commercial contexts and recently also applied to the insurance sector.

Insurance intermediation directive

On January 15th 2003 the Official Journal of the European Union published directive 2002/92/CE concerning insurance and reinsurance intermediation. The new set of regulations, which has to be incorporated in national legislation
within, at the very latest, two years after it comes into force, aims to standardise insurance intermediaries’ activity within EU member countries.

The directive also introduces the new category of “associated insurance intermediaries”, defining these as being those who exercise the activity on a prevalent or secondary basis under the full responsibility of one or more insurance companies, without collecting premiums or paying benefits.

**Directive on financial conglomerates**

On November 20th the European Parliament approved the proposed directive concerning financial conglomerates. This directive will reinforce means of surveillance of groups active in the banking, insurance and financial sectors – considered separately to date from the regulatory standpoint.

The directive envisages and includes, among other things:

- definition of a financial conglomerate and of the directive’s field of application, based on criteria concerning the composition and nature of business undertaken by these entities;
- possession by financial conglomerates of equity of an amount matching their capital-adequacy requirements – to be calculated using one of the three methods indicated in the directive to prevent, in particular, double-counting of equity within conglomerates (i.e. double gearing);
- exercise of supplementary surveillance over concentration of risks and intercompany transactions and the faculty for member countries to introduce quantitative limits if they deem it necessary;
- creation within financial conglomerates of adequate internal audit systems and of appropriate risk-management procedures;
- appointment of a co-ordinator, from amongst the member countries’ relevant authorities, with responsibility for co-ordinary and exercising of supplementary surveillance over the companies belonging to each financial conglomerate.

The directive also introduces amendments to existing sector directives. These include amendments to the solvency-margin system for life and non-life insurers, consisting of deduction from the calculation of holdings equalling or exceeding 20% of voting rights or of share capital of other financial companies, be they insurance or other companies.

**Changes in regulations for motoring TPL policies**

On December 12th Law 273/2002 was enacted making significant changes to motoring TPL regulations. We specifically highlight:
a) tariffs: obligation for insurance companies to appoint an actuary to determine motoring TPL tariffs; possibility of negotiating guarantees for recovery of the deductible amount for the tariffs that envisage it;
b) transparency: obligation for insurers to activate a Web site on which to make available tariffs and policy conditions: extension of the faculty to discontinue policies;
c) indemnities: extension of applicability of the “Direct Indemnity” form also to claims featuring personal injury; obligation to present the invoice for repair work done; limitation of the court’s discretionality in establishing indemnities for loss of health; and provision for the crime of insurance swindle (Article 642 of the Italian Criminal Code).

On December 13th ISVAP approved, pursuant to Article 5 of Italian Law 39 dated February 26th 1997, a new claim report form. The novelty introduced concerns an additional document containing further information relating to – besides accident witnesses and vehicle owners – any casualties. This is designed to make ISVAP’s anti-fraud database more effective.

The measure as such does not affect the direct-indemnity system (“CID”), which continues to be applicable solely to damage to assets.

On December 27th the European Commission – acknowledging designation of Indemnity Organisms by all member countries and signature of an agreement between them – declared Article 6 of Directive 2000/26/CE (the so-called IVth motor vehicle insurance directive) to be effective. This envisages that damaged parties can apply to the aforementioned organisms if the insurer of the person causing the claim fails to designate an agent in the victim’s country of residence.

**Provisions concerning equitable judgement (Justice of the Peace)**

The Italian Official Gazette (no. 33, February 10th 2003) published Decree Law 18 dated February 8th 2003, which replaces the second paragraph of Article 113 of the Italian Code of Civil Procedure. It establishes that the justice of the peace is competent rule according to equity on cases the value of which does not exceed the amount of € 1,100, with exclusion of cases stemming from juridical relationships concerning contracts concluded as per the approach indicated in Article 1342 of the Civil Code (adhesion or mass contracts).

**Regulation concerning application of International Accounting Standards proposed by the European Parliament and Council**

The European Commission has proposed a regulation requiring companies listed in EU member countries’ regulated markets, including banks and insurance companies, to prepare their consolidated accounts according to International Accounting Standards (IAS). If the regulation is approved in its present form, this obligation will come into force in 2005 at the latest.
Reform of company regulations

On January 22nd 2003 the Italian Official Gazette published Legislative Decree no. 6 dated January 17th 2003 that reforms regulation for joint-stock and co-operative companies, implementing the mandate of delegation given by Law 366/2001. The provisions, which will come into force on January 1st 2004, replace previous company regulations.

The innovations introduced – which generally aim to make legal entities more adaptable to operators’ needs and therefore, indirectly, to make the Italian body of law more competitive, are numerous and will require further analysis and verification in order to understand their full implications.

As regards joint-stock companies [Italian acronym = SpA], besides modifications of a more “technical” nature, we highlight: (a) rules for accompanying pacts for unlisted packs that creates continuity with the rules contained in Legislative Decree 58/1998 and (b) possible configuration of corporate governance systems envisaging the possibility of adopting – besides the traditional dualistic model (board of directors – statutory auditors’ committee), the German-style dualistic model (management board – supervisory board) or the single-tier “Anglo-Saxon” model (board of directors comprising an audit committee).

Besides the changes in accounting control induced by the aforementioned governance-model options, there are also changes concerning capital management including: the possibility of setting up capital earmarked for a specific business deal, plus the possibility of issuing innovative equity instruments (shares with rights correlated with the results of a specific business sector, redeemable shares).

The rules for limited-liability companies [Italian acronym = Srl] have also been totally revised, with these companies now figuring as personal businesses that enjoy the benefit of limited-liability status and no longer as “mini joint-stock companies”. Consistently with this, greater room has been given for statutory independence.

As regards groups, we recall that the mandate of delegation required a system for transparency, with rules such as to ensure that management and coordination activities simultaneously serve the interests of the group, subsidiaries, and of minority interests. The new rules requires justification of decisions consequent to an assessment of group interests, adequate publicity of membership of a group, and adequate forms of protection of shareholders upon entry into and exit from a group company.

Further modifications – procedural and otherwise – concerning extraordinary operations (transformations, mergers and demergers). In addition, conditions of admissibility for leveraged buyout deals have also been regulated.
With special reference to co-operative companies, we note:

- heightening, via various provisions, of such companies’ mutualistic nature and of the correlated benefit withdrawable by shareholders;
- definition of the criteria and requisites that “co-operatives of a prevalently mutualistic” nature must possess;
- widening of the possibility to issue financial instruments – both equity (fixing the limits for the number of votes expressible) and otherwise (with consequently separate shareholder meetings);
- strengthening of the so-called “open-door principle”;  
- confirmation of the per-head voting system;
- expansion of the possibility of delegation for attendance of shareholders’ meetings;
- the mandatory obligation to hold separate shareholders’ meetings in certain circumstances (not applicable to listed co-operative companies);
- constraints on designation for appointment as a director and limits on re-election;
- provision for significant rights to information for numerically important groups of shareholders;
- increase to 30% of the amount of earnings to be mandatorily assigned to legal reserves;
- the necessity for certain financial conditions to exist for distribution of reserves and dividends;
- transformability, on basis of outright majority votes, into another type of company with related assignment of mutualistic funds to indivisible reserves (this obligation is not envisaged for co-operatives that have not adopted the terms of Article 14 of Italian Presidential Decree 601/1973.

In addition. Legislative Decree no. 5 dated January 17th 2003 also defines some rules concerning judiciary proceedings concerning company and financial intermediation transactions.

**Surveillance of co-operative entities**

The Italian Official Gazette of October 8th published Legislative Decree no. 220 dated August 2nd 2002, implementing Article 7 of Law 147/2001 and concerning rules for surveillance of co-operative entities. These provisions lead to abrogation of most of the Provisional Head of State’s legislative decree no. 1577 dated December 14th 1947 (the so-called “Basevi Law”).

Summarising them, the measures contained in the decree envisage concentration in a single authority – the Industry Ministry – of mutualistic checks of all co-operative entities. This surveillance activity will be implemented via a new inspection system (reviews of co-operatives on a previously established periodical basis and extraordinary inspections), designed to check the administration and accounting management of the entities concerned. In addition, special importance is placed on the functions of assistance and control delegated to legally recognised national co-operative
associations. Lastly, in order to improve surveillance in both qualitative and quantitative terms, the decree establishes an increase in the number of auditors, also laying down requirements as regards their professional qualifications.

**Tax-related measures**

The most significant tax-related measures for the insurance sector are those introduced by Law 265 dated November 22nd 2002, those concerning the 2003 National Budget Law, and those currently undergoing approval concerning corporate income tax.

**Law 265 dated November 22nd 2002 (enactment of Decree Law no. 209/2002)**

This measure contains, as specifically concerns corporate taxation, a number of provisions concerning write-down of equity investments and allocation to underwriting reserves of insurance companies.

The law contains a provision that subjects technical provisions to taxation. Companies and organisations active in life insurance are obliged to make a tax payment on account that will be a credit to be used against payment of withholding taxes and substitute taxes to apply to returns on policies when benefits are paid out. The tax is equivalent to 0.20% of life actuarial provisions booked in the year-end accounts. For 2002 only, the tax payable is equivalent to 0.52% of technical provisions.

For the non-life claims provision the law introduces, as from the tax period underway as at the in-force date of Decree Law 209/2002, a system whereby 95% of the change in such reserves is deductible in each fiscal year. The excess is deductible on a straight-line basis in the next nine fiscal years.

**2003 Italian Budget Law**

Law 289 dated December 27th 2002 (the so-called “Budget Law”) contains a number of provisions concerning reduction of personal income tax (IRPEF), corporate income tax (IRPEG), and regional business tax (IRAP), plus suspension of increases in IRPEF tax supplements.

As from January 1st 2003 the statutory corporate tax rate is fixed as being 34% – and therefore the tax credit for earnings, distribution of which is decided upon in 2004, will be aligned accordingly.

The 2003 Budget Law also envisages reduced application of Dual Income Tax (DIT). “Freezing” of the benefits is also confirmed for 2002, envisaging that income eligible for relief for DIT purposes will be calculated according to the increase in equity produced as up to June 30th 2001.

The same law contains provisions concerning tax settlements and pardons.
Specifically, it lays down rules to facilitate settlement of situations and pending matters concerning income tax, regional business tax and VAT and other indirect taxes (register tax, mortgage and property register tax, taxes on inheritances and donations, and on the increase in property value), as well as local taxes.

Specific items are:
- “Agreed settlement for previous years”;
- “Supplements of taxable income” ("straight supplementary tax return");
- automatic settlement (the so-called “tombstone tax pardon”);
- settlement of revised tax estimates and of pending and potential tax litigation.

The Financial Administration has repeated provided guidelines and procedures concerning the approaches envisaged in the 2003 Budget Law.

Delegate law for reform of national tax system

The delegate law for reform of the Italian tax system is continuing the approval process.

More specifically, Article 4 contains the outline for reform of corporate income tax, with the main objective to harmonise the Italian tax system with that in force in other European Union countries. As regards corporate taxation, major innovations will be introduced concerning:

- **Consolidated tax return for corporate groups**: the law envisages the possibility of corporate groups to opt for a consolidated domestic tax return, whereby the parent company reflects the taxable income for the entire group, at the individual companies’ optional choice and to an extent corresponding to the algebraic sum of each company’s adjusted taxable income;
- **Dividend treatment**: the law envisages from formation of taxable income 95% of earnings paid out by companies;
- **Treatment of capital gains on equity investments**: the reform introduces tax exemption for capital gains made on disposal of equity holdings in companies booked under non-current financial assets and that have been owned for at least 12 months.

Insurance industry

In the Italian insurance industry, according to the forecasts outlined in the annual report of the president of ANIA (the Italian insurance company association) dated June 13th 2002, direct Italian premiums in 2002 are estimated to have totalled € 85,000 mn, with an 11.5% YoY increase and a 6.8% incidence in GDP, still well below the European average, which already in 2000 was 8.3%.

Non-life premiums should amount to € 32,000 mn with a 6.9% increase, Life premiums should amount to € 53,000 mn with a 14.4% increase.
The most significant data concerning the Italian insurance market in 2001, taken from the booklet “L’Assicurazione Italiana nel 2001” (Italian Insurance in 2001), published by ANIA (May 2002) are shown in Tables 5 and 6 below.

**Table 5 - P&L highlights - Italian insurance sector in 2001**

<table>
<thead>
<tr>
<th></th>
<th>Non-life business</th>
<th>Life business</th>
<th>Total 2001</th>
<th>Total 2000</th>
<th>Amount</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct and indirect premiums</td>
<td>29,322</td>
<td>46,551</td>
<td>75,873</td>
<td>66,965</td>
<td>8,908</td>
<td>13.30</td>
</tr>
<tr>
<td>Change in actuarial &amp; premium res.</td>
<td>-750</td>
<td>-29,412</td>
<td>-30,162</td>
<td>-27,500</td>
<td>-2,662</td>
<td>9.68</td>
</tr>
<tr>
<td>Investment income</td>
<td>2,014</td>
<td>3,875</td>
<td>5,889</td>
<td>7,567</td>
<td>-1,678</td>
<td>-22.18</td>
</tr>
<tr>
<td>Operating costs</td>
<td>-6,997</td>
<td>-3,486</td>
<td>-10,483</td>
<td>-9,791</td>
<td>-692</td>
<td>7.07</td>
</tr>
<tr>
<td>Net balance of other income &amp; underwriting charges</td>
<td>-350</td>
<td>160</td>
<td>-190</td>
<td>-479</td>
<td>289</td>
<td>-60.33</td>
</tr>
<tr>
<td><strong>Underwriting result</strong></td>
<td>596</td>
<td>1,479</td>
<td>2,075</td>
<td>1,179</td>
<td>896</td>
<td>76.00</td>
</tr>
<tr>
<td>Other income</td>
<td>762</td>
<td>814</td>
<td>1,576</td>
<td>1,581</td>
<td>-5</td>
<td>-0.32</td>
</tr>
<tr>
<td>Net balance of other income/(charges)</td>
<td>-110</td>
<td>-394</td>
<td>-284</td>
<td>-72.08</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Ordinary operating profit</strong></td>
<td>3,541</td>
<td>2,366</td>
<td>1,175</td>
<td>49.66</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Extraordinary income/(charges)</td>
<td>1,440</td>
<td>1,067</td>
<td>373</td>
<td>34.96</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxes</td>
<td>-1,680</td>
<td>-1,390</td>
<td>-290</td>
<td>20.86</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net income for year</strong></td>
<td>3,301</td>
<td>2,043</td>
<td>1,258</td>
<td>61.58</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(*) Underwriting items net of cessions and reversals

**Table 6 - Balance-sheet highlights - Italian insurance sector 2001**

<table>
<thead>
<tr>
<th></th>
<th>2001</th>
<th>2000</th>
<th>Amount</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land &amp; buildings</td>
<td>8,012</td>
<td>8,753</td>
<td>-741</td>
<td>-8.47</td>
</tr>
<tr>
<td>Bonds &amp; other fixed-income securities</td>
<td>147,313</td>
<td>124,441</td>
<td>22,872</td>
<td>18.38</td>
</tr>
<tr>
<td>Shares and equity interests</td>
<td>41,402</td>
<td>40,344</td>
<td>1,058</td>
<td>2.62</td>
</tr>
<tr>
<td>Loans and deposits</td>
<td>27,102</td>
<td>22,411</td>
<td>4,691</td>
<td>20.93</td>
</tr>
<tr>
<td>Class D investments</td>
<td>71,518</td>
<td>45,522</td>
<td>25,996</td>
<td>57.11</td>
</tr>
<tr>
<td><strong>Total investments</strong></td>
<td>295,347</td>
<td>241,471</td>
<td>53,876</td>
<td>22.31</td>
</tr>
<tr>
<td>Reinsurers’ share of technical provisions</td>
<td>23,272</td>
<td>19,812</td>
<td>3,460</td>
<td>17.46</td>
</tr>
<tr>
<td>Other assets</td>
<td>34,718</td>
<td>29,646</td>
<td>5,072</td>
<td>17.11</td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td>353,337</td>
<td>290,929</td>
<td>62,408</td>
<td>21.45</td>
</tr>
<tr>
<td>Net shareholder equity</td>
<td>36,658</td>
<td>34,159</td>
<td>2,499</td>
<td>7.31</td>
</tr>
<tr>
<td>Life technical provisions</td>
<td>222,640</td>
<td>175,684</td>
<td>46,956</td>
<td>26.73</td>
</tr>
<tr>
<td>Non-life technical provisions</td>
<td>59,251</td>
<td>54,317</td>
<td>4,934</td>
<td>9.08</td>
</tr>
<tr>
<td><strong>Total technical provisions</strong></td>
<td>281,891</td>
<td>230,001</td>
<td>51,890</td>
<td>22.56</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>34,788</td>
<td>26,769</td>
<td>8,019</td>
<td>29.96</td>
</tr>
<tr>
<td><strong>TOTAL LIABILITIES</strong></td>
<td>353,337</td>
<td>290,929</td>
<td>62,408</td>
<td>21.45</td>
</tr>
</tbody>
</table>
MAJOR EVENTS IN THE YEAR

Below we highlight major events occurring during 2002 as regards management of equity investments in Group companies and legal-entity and corporate reorganisation, functional to implementation of the strategic and operating guidelines envisaged in the 2002-2002 plan and by the new business model outlined in the 2003-2005 business plan.

Company and Group Transactions with Banco Popolare di Verona e Novara

On March 15th the company signed an agreement with Banco Popolare di Verona e Novara (BPVN) concerning transfer (which took place on April 19th) to Cattolica of 7,488,000 shares of the company Cattolica Partecipazioni Assicurative, accounting for 20% of the latter’s capital, for a value of € 37,834,797, thus causing the company to gain 100% ownership.

The same agreement also envisaged transfer (completed on April 19th) by Cattolica Partecipazioni Assicurative to BPVN of 12,004,298 shares of Il Duomo Assicurazioni e Riassicurazioni, accounting for 20% of the latter’s capital, for a value of € 37,238,869.

On May 31st and June 1st, the Boards of Directors of Cattolica and BPVN decided to strengthen their bancassurance agreements, increasing the extent of their reciprocal collaboration.

Specifically, following the merger of Banca Popolare di Verona and Banca Popolare di Novara, the Banco Popolare di Verona network was joined by over 100 bank branches that will become operational as from next year, selling BPV Vita insurance products.

This means that over 700 BPVN branches will be selling BPV Vita life policies.

At the same time, in order to enhance resources deployed in their respective core businesses, a number of purchases and sales of shareholdings were agreed upon, i.e.
- sale to BPVN of the entire 50% interest owned in Creberg SIM, besides a part, i.e. 4.06% or 2,504,000 shares, of the interest owned in Credito Bergamasco, for a total value of some € 57.1 mn. Following completion of the sale on July 19th, Cattolica owns a 7.38% equity interest in Credito Bergamasco;
- purchase by Cattolica from BPVN of 20% of the share capital of Il Duomo and Duomo Previdenza for a total value of some € 55.7 mn. This transaction was completed on July 19th, meaning that Cattolica now owns 100% of Duomo Previdenza and 99.97% of Il Duomo.

Cattolica Partecipazioni Assicurative

The company was merged by incorporation in Cattolica effective August 1st. We therefore outline the main transactions undertaken by the company prior to the merger.
Cattolica Partecipazioni Assicurative subscribed its own quota, as well as the unopted portion, for a total of 39,606,722 shares, of the paid capital increase of Il Duomo, which totalled €25,749,220.12, via issue of 49,517,731 shares with a nominal value of €0.52 each. The operation was concluded on June 27th, taking share capital up to €56,960,395.96. For the settlement of this increase, Cattolica Partecipazioni Assicurative used the payment that it had made into Il Duomo’s future-capital-increase account in November 2001.

On April 19th Cattolica Partecipazioni Assicurative repaid the loans of €34,860,840 received from Cattolica during 2001.

On the same date, as detailed in the paragraph “Transactions with Banco Popolare di Verona e Novara”, Cattolica acquired from BPVN 20% of Cattolica Partecipazioni Assicurative, thus achieving total control of the latter. At the same time Cattolica Partecipazioni Assicurative sold BPVN 20% of Il Duomo.

On April 26th the extraordinary meeting of shareholders of Cattolica Partecipazioni Assicurative, and on April 27th the extraordinary meeting of Cattolica shareholders, approved the project for merger by incorporation of the former into the latter, with no capital increase since Cattolica, following the share purchase highlighted earlier, owned 100% of the share capital of the company being incorporated.

The deed of merger by incorporation executing the above resolutions was stipulated on July 31st. The deed was registered with the relevant Company Register department on August 1st.

**Cattolica Immobiliare**

During 2002 major action was taken as part of rationalisation of assets within the Group. Key highlights of such action were the property spin-off and creation of the new property company.

The parent company’s Board of Directors decided to spin off the property division to Cattolica Immobiliare, wholly owned by Group companies, and incorporated, having completed mandatory formalities, by virtue of the conferment completed on December 19th.

Of the business and financial motivations underlying the spin-off, we recall the following:

- surfacing of property assets’ value associating the typical property management activity with a more intensive and dynamic property trading activity;
- the need to ensure clearer evidencing of the results of property operations with a clear-cut separation of the property and insurance businesses;
- the advantages of concentrating experience built up in the property sector and of endowing the new company with specific skills, dedicated solely to the property business, with consequent benefits in terms of efficiency.

The property division spun off includes assets accounting for about half the book value of the Group’s properties. Against the division’s book value of €139 mn, the spin-off was completed for a total of €281 mn, based on the current values shown in the appraisal estimate prepared as required under Article 2343 of the Italian Civil Code.

The transaction permitted achievement of a capital gain of €142 mn by the parent company. The transaction was completed, for tax purposes, as a “disposal” (special tax rate of 19%), with a tax cost of some €29 mn for the year.

Other major events

On August 6th the agreement was officially stipulated for acquisition from National Westminster International Holdings BV of RBS Asset Management SGR, a company in business since 1999 and specialised in asset management for institutional investments. The acquisition is part of the Cattolica Group’s plan to strengthen its offering of specialised services also in the area of institutional customers.

The deal was closed on October 25th, when the necessary approvals were obtained from the surveillance authorities. On the same date an extraordinary shareholder meeting took place and changed the company name to Verona Gestioni SGR, whilst transferring its registered offices from Milan to Verona.

During October ISVAP performed an inspection at company HQ in relation to compliance with anti-money laundering requirements.

On October 16th the director Mr. Nicolò Luxardo de Franchi resigned for personal reasons. In order to replace him, on November 9th the Board of Directors co-opted Mr. Angelo Ferro on to the Board.

On October 18th, as already mentioned in the paragraph “Introductory Overview”, Cattolica’s Board of Directors approved a group reorganisation plan. The latter, causing some non-life activities to flow into the parent company, is designed to optimise the Group’s organisational system to achieve greater operational efficiency. The reorganisation effort is also intended to develop, within the parent group, the skills and know-how acquired by individual companies in their respective business segments.

It is envisaged that the parent group, after having obtained the necessary authorisations, will acquire the non-life divisions of three subsidiaries, i.e. Verona Assicurazioni, Cattolica Aziende and Cattolica On Line.

The three companies involved in the operation will develop new businesses, strategic for the Group, consistently with the 2003-2005 business plan.
The subsidiaries’ Boards of Directors in turn approved the operation in similar terms.


On December 19th Il Duomo Assicurazioni e Riassicurazioni sold Cattolica 98% of the share capital of Sopass. The value of the transaction, as testified by an asseverated appraisal report, was €10,247.86.

As regards the writs actioned by shareholders (already indicated in the 2000 and 2001 Annual Reports), following the summoning of the company only pre-hearing investigations have been completed.

More specifically, as regards the first of the two civil court cases (concerning approval of year-end financial statements as at December 31st 1999) the technical evaluation ordered by the courts is being completed. As regards the second (relating to approval of financial statements for the year ending on December 31st 1987), we have lodged contestation of the writ’s eligibility.

**Partnership agreements**

**Axa-Cattolica Previdenza in Azienda**

On January 29th Cattolica and Axa Assicurazioni implemented the agreements signed on July 24th 2001 concerning strategic development of their insurance businesses in Italy and in an international perspective, signing an agreement consolidating common strategic paths.

The first initiative in this respect was defined on September 13th with the creation of Axa-Cattolica Previdenza in Azienda, a company featuring 50/50 ownership and share capital of €7.5 mn consisting of 1,500,000 shares of €5.00 each.

The new company, specialised in the employee-benefit area, intends to provide integrated services in the areas of life, injury and health, to companies and their employees. For the two groups the creation of this company means the opportunity to grow in a market that is still not very developed and that also offers substantial potential. In Italy there are more than 70,000 companies with over 20 employees. In terms of distribution the new company will rely above all on brokers and agents, the preferential interfaces for medium and large businesses.

**Banca di Cividale**

On March 6th Cattolica signed a bancassurance agreement, on an exclusive basis, with Banca Popolare di Cividale for the sale of insurance products via the
branches of Banca di Cividale, a company fully owned by Banca Popolare di Cividale.
The agreement also included the acquisition by Cattolica, completed on July 15th, of a 10% interest in Banca di Cividale, with an outlay of some €19.6 mn.

Cassa di Risparmio di S. Miniato e S. Miniato Previdenza

On October 10th Cassa di Risparmio di San Miniato and Cattolica signed an agreement envisaging incorporation of a new bancassurance company. The newco, called “San Miniato Previdenza”, 66% controlled by Cattolica, will specialise in sale, on an exclusive basis of the Group’s life, pension-planning, and targeted-savings products. The sales network will be that of the Tuscan bank, present in the region with significant market shares and over 70 branches, and growing steadily.

Simultaneously to incorporation of the new company, Cattolica signed an agreement to acquire from Monte dei Paschi di Siena a 25% equity interest in Cassa di Risparmio di San Miniato. The investment involves acquisition of 3,900,000 ordinary shares at the unit price of €18.47, for a total value of €72,033,000. The above transactions, following receipt of the authorisations required by law, were completed on December 9th.

Thanks to the new agreement, the company will distribute via the Tuscan bank’s branches both Cattolica life products already sold, and new insurance and pension-planning products tailor-made for the bank’s customers, whilst non-life products will be supplied by other Group companies.

Eurosav and Nuova Banca Mediterranea

On November 21st we completed acquisition of 50% of the share capital of Eurosav Assicurazioni Vita (“Eurosav” for short) for some €15 mn, inclusive of the amount paid in for future capital increases by the vendor. Via this company we will further develop the bancassurance partnership already existing with Banca Popolare di Bari. Cattolica has become the exclusive partner of the entire Banca Popolare di Bari Group for the sale of insurance products and services.

On October 10th, taking effect as from October 31st, the deed was signed for the merger by incorporation of Nuova Banca Mediterranea in Nuova Finanziaria Mediterranea, which then changed its name to that of the non-surviving company. On December 5th, following withdrawal of a shareholder following the change of the surviving company’s corporate purpose, Nuova Banca Mediterranea’ share capital was reduced by 137,486,537, or 25% of the total. As a result of this operation, Cattolica’s percent ownership rose from 15.09% to 20.12%.
Other agreements

On February 27th the company acquired 5% of the share capital of Brescia On Line with payment of € 542,279.75. The stake in Brescia On Line share capital consists of 62,500 shares of the nominal value of € 1.00 each.

On March 20th the Cattolica Group and the Credito Valtellinese Group terminated the agreement signed in 1996 due to the changes in their strategic plans and to the new competitive scenario. The parties also terminated their cross-footed shareholdings. Cattolica sold its 5% stake in Credito Artigiano at the price of € 3.66 per share, for a total amount of € 20,664,052.56. It also sold Credito Artigiano 1999-2004 convertible bonds for a total price of € 4,950,000 and its 5.56% equity interest in Bancaperta for a total of € 4,490,200. Cattolica in turn acquired from Credito Valtellinese 5% of the capital of the Risparmio & Previdenza subsidiary for an outlay of € 2,258,625.00. To date the company has a 68% directly owned equity interest in Risparmio & Previdenza.

On April 26th Cattolica, after having received the necessary mandatory authorisations, acquired a further 2% stake in Cassa di Risparmio di Fabriano e Cupramontana with an investment of € 3,715,894. The total interest in this bank now accounts for 17% of the latter’s share capital.

On September 20th Cattolica acquired a 2% equity interest in Banca Carige SpA from Fondazione Cassa di Risparmio di Genova e Imperia (the banking foundation). The investment involved the purchase of 17,598,121 ordinary shares at a unitary price of € 1.9651, for a total value of some € 34 million. With this investment Cattolica intends to become Banca Carige’s exclusive insurance partner (with the exception of the bank’s subsidiaries Carige Vita Nuova and Levante Norditalia – now Carige Assicurazioni) in terms of activating commercial relationships for the insurance coverage of the bank and its employees and of developing bancassurance products to be sold both by Carige Vita Nuova and Cattolica. The deal is also intended to strengthen Cattolica’s presence in a territorial area only marginally covered thus far.

Having completed presentation of general information, we now review the key items in year-end financial statements.
INSURANCE PERFORMANCE

Key items in year-end statements

The following table (Table 7) shows gross premiums written, with percent changes versus the previous fiscal year.

**Table 7 - FY2002 premiums**

<table>
<thead>
<tr>
<th>Classes</th>
<th>Premiums 2002</th>
<th>% of total</th>
<th>Premiums 2001</th>
<th>% of total</th>
<th>Change</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other damage to assets</td>
<td>59,103,059</td>
<td>4.91</td>
<td>55,445,741</td>
<td>4.55</td>
<td>3,657,318</td>
<td>6.60</td>
</tr>
<tr>
<td>Assistance</td>
<td>6,347,655</td>
<td>0.53</td>
<td>5,922,293</td>
<td>0.49</td>
<td>425,362</td>
<td>7.18</td>
</tr>
<tr>
<td>Suretyship</td>
<td>7,372,881</td>
<td>0.61</td>
<td>7,035,990</td>
<td>0.58</td>
<td>336,891</td>
<td>4.79</td>
</tr>
<tr>
<td>Aircraft hulls</td>
<td>2,381,827</td>
<td>0.20</td>
<td>962,599</td>
<td>0.08</td>
<td>1,419,228</td>
<td>147.44</td>
</tr>
<tr>
<td>Ships (sea and inland water vessels)</td>
<td>419,632</td>
<td>0.03</td>
<td>840,184</td>
<td>0.07</td>
<td>-420,552</td>
<td>-50.05</td>
</tr>
<tr>
<td>Land vehicle hulls</td>
<td>60,824,706</td>
<td>5.06</td>
<td>53,356,659</td>
<td>4.38</td>
<td>7,468,047</td>
<td>14.00</td>
</tr>
<tr>
<td>Credit</td>
<td>10,584 nmf</td>
<td>nmf</td>
<td>508 nmf</td>
<td>nmf</td>
<td>10,076 nmf</td>
<td>nmf</td>
</tr>
<tr>
<td>Fire &amp; natural forces</td>
<td>58,389,534</td>
<td>4.85</td>
<td>46,101,872</td>
<td>3.79</td>
<td>12,287,662</td>
<td>26.65</td>
</tr>
<tr>
<td>Accident and injury</td>
<td>54,087,734</td>
<td>4.50</td>
<td>51,180,851</td>
<td>4.20</td>
<td>2,906,883</td>
<td>5.68</td>
</tr>
<tr>
<td>Health</td>
<td>31,427,207</td>
<td>2.61</td>
<td>42,286,284</td>
<td>3.47</td>
<td>-10,859,077</td>
<td>-25.68</td>
</tr>
<tr>
<td>Goods in transit</td>
<td>2,590,283</td>
<td>0.22</td>
<td>3,594,774</td>
<td>0.30</td>
<td>-1,004,491</td>
<td>-27.94</td>
</tr>
<tr>
<td>Sundry financial losses</td>
<td>3,080,978</td>
<td>0.26</td>
<td>2,755,518</td>
<td>0.23</td>
<td>325,460</td>
<td>11.81</td>
</tr>
<tr>
<td>TPL - Land motor vehicles</td>
<td>483,621,215</td>
<td>40.21</td>
<td>381,036,796</td>
<td>31.29</td>
<td>102,584,419</td>
<td>26.92</td>
</tr>
<tr>
<td>TPL - General</td>
<td>60,546,568</td>
<td>5.03</td>
<td>52,687,190</td>
<td>4.33</td>
<td>7,859,378</td>
<td>14.92</td>
</tr>
<tr>
<td>TPL - Shipping (sea &amp; inland)</td>
<td>531,774</td>
<td>0.04</td>
<td>452,092</td>
<td>0.04</td>
<td>79,682</td>
<td>17.63</td>
</tr>
<tr>
<td>Legal expenses</td>
<td>2,982,998</td>
<td>0.25</td>
<td>2,552,302</td>
<td>0.21</td>
<td>430,696</td>
<td>16.87</td>
</tr>
<tr>
<td>Total non-life classes</td>
<td>833,718,635</td>
<td>69.32</td>
<td>706,211,653</td>
<td>57.99</td>
<td>127,506,982</td>
<td>18.06</td>
</tr>
<tr>
<td>Class I</td>
<td>189,751,685</td>
<td>15.78</td>
<td>206,449,231</td>
<td>16.95</td>
<td>-16,697,546</td>
<td>-8.09</td>
</tr>
<tr>
<td>Class III</td>
<td>177,347,137</td>
<td>14.75</td>
<td>278,690,224</td>
<td>22.89</td>
<td>-101,343,087</td>
<td>-36.36</td>
</tr>
<tr>
<td>Class IV</td>
<td>3,894 nmf</td>
<td>nmf</td>
<td>438 nmf</td>
<td>nmf</td>
<td>3,456 nmf</td>
<td>nmf</td>
</tr>
<tr>
<td>Class V</td>
<td>1,391,322</td>
<td>0.12</td>
<td>25,931,894</td>
<td>2.13</td>
<td>-24,540,572</td>
<td>-94.63</td>
</tr>
<tr>
<td>Class VI</td>
<td>521,013</td>
<td>0.04</td>
<td>494,278</td>
<td>0.04</td>
<td>26,735</td>
<td>5.41</td>
</tr>
<tr>
<td>Total life classes (1)</td>
<td>369,015,051</td>
<td>30.68</td>
<td>511,566,065</td>
<td>42.01</td>
<td>-142,551,014</td>
<td>-27.87</td>
</tr>
<tr>
<td>Total direct business</td>
<td>1,202,733,686</td>
<td>100.00</td>
<td>1,217,777,718</td>
<td>100.00</td>
<td>-15,044,032</td>
<td>-1.24</td>
</tr>
<tr>
<td>Indirect business</td>
<td>19,955,120</td>
<td>1.65</td>
<td>15,320,803</td>
<td>1.26</td>
<td>4,634,317</td>
<td>30.25</td>
</tr>
<tr>
<td>GRAND TOTAL</td>
<td>1,222,688,806</td>
<td>100.00</td>
<td>1,233,098,521</td>
<td>100.00</td>
<td>-10,409,715</td>
<td>-0.84</td>
</tr>
</tbody>
</table>

nmf = nota meaningful figure

(1) Class I = Pure life-span insurance
Class III = Unit- and index-linked life insurance
Class IV = Long-term healthcare as per Art. 1, number 1, letter d), of EEC directive no. 79/267 dated March 5th 1979
Class V = Capital redemption policies
Class VI = Pension funds
Below we present comments and some numerical data on performance in individual insurance classes and on operations in the main company segments.

**NON-LIFE BUSINESS**

Non-life direct premiums rose by 18.06% from €706 mn to €834 mn.

The trend in premiums was mainly driven by growth in the motoring TPL segment, which rose from €381 mn to €484 mn, with a YoY increase of 26.92%.

Other classes featuring growth were land vehicle hulls (+14%), accident & injury (casualty) (+5.68%), and general TPL (+14.92%), whilst goods in transit decreased by −27.94%. The health segment (-25.68%) decreased due to non-renewal of a major policy.

Premiums were generated via the agency channel with €771 mn (+18.69%) and by other channels with €82 mn (+15.54%).

Individual classes’ underwriting results and the overall non-life underwriting results are summarised in Attachments 25 and 26.

**Other damage to assets**

This class includes risks with specific technical features and it is to these risks that the comment below refers.

**Theft**

The theft segment continues to be particularly delicate, therefore requiring constant monitoring and adjustment of regulations and tariffs.

We continued refreshment of our portfolio – which will be made easier in 2003, since right from the early months of the year we will market two new multi-risk products targeting the retail and office sectors.
We also continued review and revision of the portfolio concerning banks – a sector that continued to generate negative results, albeit showing improvement.

**Hail**

The more rigid stance taken by the reinsurance market, mainly due to the segment’s adverse underwriting performance in recent years, made it necessary to make substantial changes to the distribution of risks in terms of both territorial and agricultural crops insured.

The decrease of some 10% in premiums was therefore mainly due to two factors:

1) Less writing of risks in the territorial zones most exposed to the risk;
2) Recalibration of the portfolio by writing low-risk/high-profit products but also at lower prices.

The final underwriting result can be considered to be satisfactory since break-even was substantially achieved, even although the season featured numerous hailstorms, some of which were of considerable intensity.

**Farming risks**

In the last few years the farming industry has been going through a period of crisis that has caused a decrease in the number of farms. In addition a different entrepreneurial approach is emerging in the sector.

Our company has dedicated special attention to these changes and has developed “targeted” products to give preference to the most advanced and economically most attractive segments.

In FY2002 we laid the foundations for a strategy of reform of the farming portfolio with products more closely reflecting the new reality of farming.

In the early months of FY2003 we will undertake market launch of innovative products for the agritourism sector.

The underwriting result was at break-even.

**Assistance**

The year confirmed the positive growth results already emerging in the previous year, together with positive underwriting performance.

The biggest contribution came from assistance coverage linked to motoring TPL policies, which continued to grow at a rate above the market average.
Good growth results were also evident in sale of coverage combined with personal-line non-life products (accident & injury, health, and home) sold during the year.

**Suretyship**

The year ended with an increase in premiums stemming from higher demand for coverage in traditional segments, i.e. contracting, urbanisation, and VAT rebates.

Special attention and caution were brought to bear on writing risks concerning the various types of grants – increasingly widespread in the market – and other particularly burdensome segments.

Underwriting performance, strictly linked to the general economic trend, deteriorated, confirming the current market situation.

**Land vehicle hulls**

FY2002 featured more than satisfactory results, confirming the premium growth trend achieved in previous years and with growth performance above the estimated market average.

There was a 14% increase in the number of policies on our books, virtually in line with the growth trend noted in the motoring TPL class.

A careful risk selection policy, control of new contracts, and monitoring of agencies’ underwriting results – together with a tariff structure designed to achieve acquisition of good risks – are a combination of levers that helped to contain competitive pressure and achieved good underwriting results.

**Ships (sea and inland water vessels)**

The sector continued be of little importance and did not feature any significant aspects.

**Credit**

The business opportunities in the sector continue to be limited and related to just a few types of risks for our global customers.

The most significant amount of business – concerning coverage of commercial credits – is normally handled by specialised insurance companies.
Fire and natural forces

The class confirmed premium growth at a rate above the estimated market average. This was mainly due to acquisition of a major policy.

Work on reforming our portfolio continued, contributing to the achievement of good results.

A fundamental factor in the year’s results was the technical field support provided, mainly for new agencies.

We prepared two new products, to be marketed as from the first half of 2003. These target retail businesses and the office sector, thus completing renewal of the product catalogue for the business sector.

Underwriting performance continued to be positive.

Accident & injury

The growth trend of personal-line products reported in FY2001 was confirmed, going against the market current.

The increase was mainly driven by three factors, i.e.

• the contribution from the launch of new products targeting specific customer segments – an approach started in 2001 and consolidated in 2002;
• the constantly applied policies of portfolio updating and revision;
• systematic cross-selling to new customers acquired in the motoring segment.

The underwriting result continued to be positive, with performance above the market average. This was due both to careful selection of risks acquired and, as regards the personal-line segment, to application of a customised and more selective tariff vs. the market, permitting the acquisition of better risks from the underwriting standpoint.
Health

The decrease in premiums reported in FY2002 was due to non-renewal of a major policy and to our termination of some collective policies featuring negative underwriting performance.

In individual policies growth continued to be in line with that of the market. Work on reforming and updating the portfolio continued.

In particular, cross-selling of a product – launched last year and that envisages purchase of daily reimbursement coverage in the case of hospitalisation – contributed to the positive growth trend within the personal segment.

Goods in transit

The goods-in-transit sector – which has always been a service for our customers – felt the effects of the economic and industrial crisis, suffering a reduction in premiums of some –27.94%.

Conversely, the vehicle TPL sector grew by 14%, confirming our decision to focus on our traditional customers in other classes (motoring TPL).

Work on portfolio revision is underway.

Sundry financial losses

Coverage was largely linked to land vehicle hull policies and therefore premiums showed strong growth.

We were also active in providing insurance coverage for events.

The underwriting result was positive.

Motoring TPL

Premium growth of 26.92% was over three times higher than estimated market growth. The number of policies increased by some 14%. The major growth achieved by the company in motoring insurance thus continued. Claims frequency, following the significant decrease noted in 2001, remained stable during 2002.

Our control of claims levels, despite an extended phase of business growth, was largely ascribable to three key policy-writing levers applied by the company, i.e. (1) systematic control of all new policies, (2) active selection performed by the agency network, and (3) customisation of tariffs. The first two factors permit timely blockage of the unfortunately increasingly widespread phenomena of tariff elusion and frauds, promptly reported by us to the relevant authorities. Our tariff
structure is more customised and selective than the average for the market, thus aiding entry and retention of the best risks.

The underwriting result nevertheless reflected the negative market scenario, featuring a high incidence of claims with bodily injuries and an average per-claim cost with an inflationary trend well above that of the cost of living. Consequently, constant tariff adjustments are necessary.

Following reduction by one percent point of the rate for contributions to the Road Victims’ Guarantee Fund, which insurers are obliged to pay to CONSAP, the company adjusted its tariffs on the first possible date, returning the difference to policyholders who had already paid a higher premium.

Since our company was not involved in the 2000 Antitrust case, it will not have to bear any charges for demands for premium rebates from insurees.

The recent law “reforming” motoring TPL insurance (Law no. 273 passed in December 2002) is a step in the right direction as regards reining in claims costs, but does not yet go far enough. Compared with the original reform project, some innovative elements have been eliminated that would have been more effective in reducing the cost of claims for damage to assets – such as direct handling of vehicle repair by insurances. The biggest novelty – which we hope will have a favourable impact on claims costs and therefore on insurance prices – concerns valuation of minor injuries. The reform law in fact envisages the introduction of tables that should indicate both the average cost of such injuries and territorial variability. To make a proper assessment of this we will have to wait for the relevant authorities to issue the tables in question.

A further contribution to the reduction of claims costs could come from extension of the direct indemnity procedure (Italian acronym = CID) also to claims featuring injuries. ANIA is currently working on this project. As regards actions designed to combat fraudulent conduct by insurees and damaged parties more effectively, we highlight (a) ANIA’s SITA databank – containing numerous items of information on insured vehicles – and (b) the claims databank set up by ISVAP in order to monitor claims costs and to identify fraudulent conduct. The creation of this databank, the cost of which is borne by insurers, has required major IT investments and significant changes in claims settlement processes.
**General TPL**

The increase in premiums was mainly due to reform of our portfolio with the aim of consolidating previous years’ premium levels and improving profitability.

We revamped products for professionals and for companies and developed a new standard basic rate allowing the agency network greater autonomy in writing some risks.

Special attention was dedicated to the reform and acquisition of risks concerning the healthcare and public administration sectors.

The underwriting result was at break-even.

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**TPL Ships (sea and inland water vessels)**

The sector continued to be of little importance and showed no significant features.

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**Legal expenses**

The legal expenses class grew strongly thanks to the sales campaign launched in the second half of FY2001 and continued in FY2002, for coverage of motoring-related risks, combined with the motoring TPL policy.

As regards risks not relating to motoring, there was once again a significant increase in premiums.

The underwriting result was positive.

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**Personal line**

“Personal Line” products cut across the various classes, combining different types of coverage.

Combined coverage relates to classes in “Other damage to property” including theft, fire and natural forces, general TPL, legal expenses, assistance, accidents & injury, and health.

The personal line featured an increase in premiums in all products and was an important contributor to overall premium growth. There was also improvement in the underwriting result thanks to a reduction in claim frequency, limitation of average per-claim costs, and use of customised tariffs.

The products for home insurance, private life and condominiums – revamped at the end of 2001 – enabled us to be more competitive in technically “good” risks and therefore to achieve a greater increase in our portfolio whilst also improving its quality. This was the result of the introduction of new types of...
coverage and of adoption of tariffs featuring customisations not yet used by the market as a whole.

Person policies (i.e. accident & injury and health) are also constructed according to risk customisation criteria. This enables us to increase our portfolio more than the market and achieve better risks from the technical standpoint.

Religious and non-profit organisations

Our attention to religious organisations’ insurance needs took the form of a quest for and development of types of coverage meeting the increasingly complex and specific requirements of this special sector. This also involved major institutions in the ecclesiastic world such as the Archdiocese of Milan, with which we signed an agreement to strengthen our collaboration, the Italian branch of Caritas, Istituto Centrale per il Sostentamento del Clero (central institute for sustenance of the clergy), Università Cattolica (Catholic University), and other major entities.

We continued work on reorganisation and consequent underwriting turnaround of the most critical insurance positions, headed by policies for religious orders and congregations.

CLAIMS ADJUSTMENT

During the year we took action designed to improve claims handling efficiency. Non-life business claims increased by 8.7%, in line with the growth in policies.

More specifically, 294,122 claims were filed in the year vs. 270,459 in FY2001.

Claims adjustment speed remained virtually stable at around 60%.

During the year the Group’s call centre became definitively operational in the motoring segment, covering the whole of Italy.

A Credit Recovery department was set up within the Claims function to recover credits relating to motoring TPL claims. During the year the department recovered €1.5 mn for various types of credits.

In the fourth quarter we redefined some specific tasks of HQ offices in the Claims function. This further adjustment was made in order to align the organisation more closely with the new needs arising due to regulatory changes in the motoring segment – and in particular to meet the requirements of Law 57/2001, since failure to do so leads to heavy fines.

During the year the claims handling IT system was replaced. The new system will help to provide greater support to the adjuster network in its tasks relating
to settlement of claims. The database now available will permit creation of major synergies with the underwriting/actuarial side in terms of better management and economic dynamics of claims and reserves.

We implemented a training programme specifically dedicated to the heads of claims adjustment centres with special reference to management and organisation of their respective human resources.

The entire adjuster network was involved in a “claims marketing” programme. The latter was started in 2001 and is the key element of the 2001-2003 training plan for the claims area. We also continued technical refresher seminars involving the entire field network.

The adjuster network did not undergo any significant changes. In 2001 dedicated resources numbered 83, whilst at 2002 year-end they totalled 79.

There was 16 claims adjustment centres in 2002, the same as in the previous year.

Decentralised branches totalled 8 vs. 7 in 2001.

As usual, we held two group conventions dedicated to the claims adjustment area, involving the two Cattolica and Il Duomo networks. On these occasions the discussion and analysis centred round the adjustment organisation’s group mission and objectives – with the organisation continuing to move towards increasingly synergic action and helping to achieve major cost recovery.

In the sector of damage to property, we did further work on programme for direct repair of the damaged asset as opposed to a monetary indemnity. This experimental programme, initiated in 2001, developed considerably in the provinces of Verona and Milan. The service is meeting with great satisfaction of the customers who have opted for this possibility – provided without any charge for the policyholder and totally organised by the company. In the immediate future – given the results achieved – we believe that this service can be extended. We are working on other solutions, including the possibility of going beyond building repairs and achieving repair, instead of an indemnity, of other goods and assets belonging to policyholders.

Once again in the property sector, we further extended fast-adjustment procedures, using outside professionals specialised in this particular sector.

The Claims Audit unit, which audits adjusted claims using sample methods and inspections of the field claims adjustment facilities of both Cattolica and Il Duomo, continued to monitor accurate application of all regulations concerning the sector. The unit ascertains that all procedural and technical requirements are met for the purposes of the company’s economic protection.
Anti-Fraud Dept.

The department continued its activities in the areas of both claims and underwriting.

Following denunciations made in previous years, during 2002 14 prison sentences were imposed whilst 12 sentences featured finds.

In the underwriting area, and specifically in the motoring TPL segment, we avoided tariff elusions amounting to some € 480,000 whilst, in the claims area, we avoided outlays totalling € 2,540,000.

LIFE BUSINESS

Direct life premiums went from € 512 mn to € 369 mn with a decrease of –27.87%, which was ascribable to changes in the bancassurance sales network.

Premiums by sales channel featured a decrease in the bancassurance channel where premiums went down from € 338 mn to € 223 mn.

In the agency channel premiums amounted to € 126 mn, remaining virtually unchanged versus the previous year.

In the same period premiums collected via financial advisors amounted to € 4 mn.

The underwriting results of individual life classes and the overall underwriting result are summarised in Attachments 27 and 28.

Whole-life insurance

Premium collection for traditional classes, which showed a slight decrease in the year, featured “maintenance” and renewal of in-force policies.

During 2002 we started the activity relating to payment of annuities to members of Fondene (the pension fund for ENEL managers) who have opted for receipt of periodical payments. Premiums paid in 2002 amounted to some € 1.9 mn.

The underwriting balance showed a profit.

Whole-life insurance linked to investment funds

In the market scenario described in the initial part of this report, index-linked products played a pre-eminent role due to their key characteristic of assuring recovering of capital invested when the policy matures even in the presence of adverse trends in financial markets.
Of total Class III premiums – which totalled € 177 mn – € 125 mn came from index-linked policies and € 52 million from unit-linked policies, with a decrease of -36.36%.

The trend in financial markets penalised premium collection for unit-linked products.

The portion of new business generated in the year via index- and unit-linked products amounted to € 175.8 mn, accounting for 84.4% of the company’s life premiums vs. 90% in FY2001.

**Insurance covering loss of self-sufficiency (long-term care)**

The company started operating in Class IV towards the end of FY2001, primarily offering this coverage combined with the pension investment plans envisaged by the tax reform law.

The type of coverage and supporting operational processes were considered to be suitable also for the banking channel, by virtue of underwriting simplification and standardisation of the offering.

For the agency channel we developed a specific product, which had already been made available to network at the end of the previous year.

**Capital redemption plans**

This class is structurally very secondary within our commercial policy and therefore also in terms of premiums.

**Pension Funds**

Efforts to collect subscriptions to Cattolica’s open pension fund (“Fondo Pensione Aperto Cattolica Gestione Previdenza”) – which is of the defined contribution type – did not result in a significant outright increase in the number of subscribers or, consequently, in the assets managed.

During 2002 the amendments made to the fund’s regulation following the resolution passed on November 20th 2001 by the Pension Fund Surveillance Commission became operational. Among these the most important are introduction of the equity line and of auxiliary coverage (premature death and permanent disability).

Net assets earmarked for benefits, in the 5 investment lines in which the fund is structured, amount to € 1.15 mn.

**NEW PRODUCTS**

**Non-life business**

We have continued analysis and study for the launch of new products and renewal of those already present in our catalogue.
In the general TPL we totally renewed the range dedicated to professionals and companies.

We developed a new accident & injury policy for children and youngsters (Operazione Cerotto – Operation Sticking Plaster) that will be sold as from the first quarter of 2003.

We also devised an accident & injury policy for shareholders (EssereSoci Salute) and a multirisk product to cover the risks of retail businesses (Sistema Azienda – Area Commercio).

Development of a line dedicated to religious organisations and officially recognised, socially useful non-profit organisations (Italian acronym = ONLUS) is now at an advanced stage. Three policies are involved. The first two are multirisk products for coverage, respectively, of the risks of religious orders & congregations (Piano Assicurativo Enti Religiosi) and of parishes (Piano Assicurativo Parrocchia). The third policy is designed for voluntary organisations.

During the year we reviewed the needs of the farming industry, for which we will launch innovative products specific to the various types of farms and also for the agritourism sector.

**Life business**

The year featured adaptation of the product range to regulatory changes and development of diversified lines.

During the year we created 19 new series of index-linked policies distributed via our various sales channels (agents, banks, and financial advisors).

In addition, in the secure-capital category, we also developed some secure-capital unit-linked policies. These enabled us to meet customers’ strong demand for low-risk investment products.

The unit-linked category underwent complex revision following the issue by ISVAP of circular 474/D. This has radically changed existing regulation particularly as regards the structure of contractual terms and of the prospectus, as well as pricing mechanisms.

**REINSURANCE**

**Outward Reinsurance**

Our reinsurance programme is designed and used to balance and improve the various risk portfolios’ underwriting equilibrium.

In order to protect ourselves against negative variations in claims frequency, we have based our approach on a programme of proportional outward reinsurance plus optional cessions when deemed necessary.
The structure was based on a series of proportional, quota-share deals, with average cession of 30% in fire, theft, and transport, 20% in land vehicle hulls, and of 70% in the credit and suretyship classes. We reinsured net retention in the above classes with treaties of excess of loss and stop loss, plus specific catastrophe coverage to prevent individual major claims for specific risks or catastrophic events from disrupting results.

Based on the same logic, in the motoring TPL and general TPL classes, we used just non-proportion excess-of-loss coverage.

The non-proportional structure demonstrated its effectiveness well on occasion of the bad weather that hit Northern Italy, and in particular the area between Brescia and Verona, in the first week of August 2002, substantially reducing the Group’s retention of this particular catastrophe.

In view of the difficult economic situation, we consolidated our relationships with reinsurers operating in a professional manner in the global reinsurance market and offering the best prospects primarily in the medium and long term. (GE Frankona, Mapfre Re, Münchener Rück, Partner Re, and Swiss Re).

Special attention was given to selection of reinsurers in terms of soundness and reliability and our choice in fact went to those featuring the best ratings. The leader of our reinsurance treaties was Mapfre Re.

This strategy was consistent with the concentrations or closures occurring in the reinsurance market and that do not yet seem to have ended.

In effect the impact of the damage stemming from the September-11th terrorist attacks fully emerged in the 2001 accounts of companies active in professional reinsurance, making them even more rigid in terms of granting capacity.

Renewal terms have necessarily had to adapt – as regards capacity and economic terms – to reinsurers’ demands. Reinsurers are seeking more precise vision of the cumulative risks taken on via the various treaties, particularly of a catastrophic nature, and to achieve a margin of underwriting profit able to remunerate capital.

This phase of the reinsurance cycle has triggered a mechanism of price increases and coverage limitation in the direct insurance market.

During the latter months of the year we renewed reinsurance treaties for 2003, basically maintaining the same structure as at present, with the adjustments and optimisation necessary based on premium growth – and to contain the impact of the higher costs and limitations requested by reinsurers.

**Inward Reinsurance**

**Non-Life - Indirect business**

We continued the policy of underwriting risks via exchanges with direct companies possessing similar features to those of the company. Reinsurance coverage was renewed for these risks. Most of these deals still came from the CIAR (Compagnie Internationale d’Assurance et de Réassurance) system.
Here, special care was taken to select risks with little probability of being involved in cumulative events in a catastrophe scenario.

**Outward Reinsurance**

**Life - Direct business**

As in the recent past, the main focus of reinsurance was the risk of death.

In addition we concluded a risk premium treaty for reinsurance of the new long-term care coverage.

The fact that reinsurance treaties were not subject to any particularly large claims meant that the underwriting performance of outward reinsurance was good.

**Inward Reinsurance**

**Life - Indirect business**

As planned, inward life reinsurance business decreased significantly and now plays a totally marginal role in the dynamics of our life business.

**Business under EU “freedom of services” regime**

The operating unit in Vatican City, which is the key point of reference for realities pertaining to papal territory, continued to deliver positive business generation results.

Development of Personal Line policies further strengthened, whilst collection of premiums from public administrations also grew.

In response to the needs of its international customers, the company has continued collection of premiums under EU “freedom of services” regulations in Luxembourg, France, Ireland and the UK and has received authorisation to operate in Greece and Finland.

On December 13th the company also received authorisation to operate under “freedom of services” regulations in Spain.

**COMMERCIAL ACTIVITY**

During the year the company continued its commercial strategies – aiming to increase premiums – via wider territorial and market coverage achieved thanks to the inauguration of new agencies and conclusion of new agreements with banking partners.

There was intensive training activity – focusing on both new products featuring high financial content and on pension-planning products – for all the Group’s sales networks. We also
developed a remote-training initiative (e-learning) in collaboration with one of our banking partners.

**Agency network**

As stated, development of the agency network continued, implementing the company’s programme of reinforcement of its presence in zones offering prospects of profitable growth. 28 new agencies were opened, of which 25 in Northern Italy and 3 in Central Italy. 5 agencies were closed and 19 were reorganised.

Given this, as at December 31st 2002 active agencies totalled 545.

The dedicated agency sales force (agents, subagents and promoters) totals 2,188 people (-5 vs. 2001), of which 609 agents (+45) and featured a slight decrease vs. 2001.

There was an increase in the number of agencies selling – in conjunction with partner companies – financial and banking products.

A major technical/commercial training programme (780 man-days) was undertaken for our Gamma Famiglia and Salute Più Card products.

In the last quarter of the year we organised field meetings with all agencies to learn of any problems being experienced by the sales network. Many of the problems were promptly solved, whilst others have been included in the work plan for next year.

We have devised a system for customising the agency network’s business generation objectives. As from next year this will enable us to set targets according to individual agencies’ potential and the zones where they operate.

As regards the Commercial Division’s field inspection network, the key focuses of the latter’s efforts are territorial growth, profitability, management, control, coverage and reorganisation.

**Bank network**

As already highlight, during the year the number of bank branches selling life assurance products rose from 2,717 to 2,748. According to an analysis performed by IAMA, this figure takes the Cattolica Group to top position in Italy in terms of the number of bank branches operating under bancassurance agreements.

The branches selling products under the Cattolica brand rose from 1,155 to 1,296.
Efforts continued to increase the bank sales network available to the Group. As mentioned earlier, towards the end of the year we signed a commercial agreement with Cassa di Risparmio di Chieti (51 branches), which was rendered immediately operational in the last two months of the year.

**Financial advisor network**

At market level, the financial-advisor channel generated major results in insurance premium collections in terms of growth rate. The advisors selling the company’s products increased from 344 to 457, reflecting the growth strategies of our main partners.

**HUMAN RESOURCES**

**Staffing levels**

The company continued to invest in the human factor, promoting the process of accumulation of know-how and culture with technical and managerial training initiatives for its employees.

As at December 31st 2002, the company’s workforce consisted of 542 employees (of which 37 part-time) as opposed to 526 in the previous year (of which 32 part-time).

The headcount breakdown featured: 13 managers (-5); 72 supervisors (+3), and 457 white-collars (+18).

Office-based employees totalled 416 (+14) and field employees 126 (+2).

Average employee age was 40 years, whilst average company tenure was 12 years 2 months.
Training

Training activity increased for office-based staff and decreased as regards the sales network, with the group total going from 3,500 man-days in the previous year to 2,600 man-days in 2002.

As specifically regards Cattolica, training for office-based staff increased by some 3.5% from 1,420 to 1,470 man-days.

Among the most important initiatives we highlight: completion of the training cycle for claims adjusters (228 man-days); start of the first part of a management development plan for supervisors, department heads and deputy department heads with 80 man-days thus far and that will continue in 2003; training for new hires (92 man-days); technical/professional training in use of PC applications; and the start of a training plan for the Information Systems function (222 man-days).

To be highlighted is the collaboration with the firms Mapfre of Madrid and Münchener Re, Milan branch, which have results in technical/professional courses in the non-life area concerning property and asset risks, and on-the-job training periods c/o the two organisations.

A group of HQ staff also spent brief periods with a sample of agencies in order to identify process elements offering opportunities for improvement. The heads of the Adjustment Units spent time at the HQ Customer Service unit to review areas of improvement of the service offered to our customers in the claims adjustment area.

Training activities concerning anti-money laundering continued. The team in charge of training in anti-money laundering techniques held three meetings and provided courses totalling 30 man-days.

Verona University Agreement

Our collaboration with Verona University continued constructively, based on the agreement signed towards the end of 2001.

During the year the company took on 15 interns with an average internship of 6 months. Based on renewal of the agreement for 2003, Verona University and Cattolica will offer 20 internships for undergraduates and young graduates.

Among the various initiatives, we highlight the meeting called “Let’s try out a job interview together”, when our Human Resources function was present at the university to let a number of students experience a “live” job interview.
We signed an agreement with trade union representatives concerning staff involved in spin-off of the property division.

As regards work relations, there are currently 10 legal work disputes underway, mainly concerning staff no longer in our employ and against which prudent provision has been made for the presumed cost.

**INFORMATION SYSTEMS**

During the year information systems management was involved in major organisational change.

Important short-, medium-, and long-term projects were launched, the benefits of which – as regards support for business strategies and those concerning enhancement of process effectiveness and efficiency – are set to affect the entire corporate organisation.

During the year we undertook a plan to upgrade the organisation and mechanisms for management of Information & Communication Technology (ICT), introducing new professional skills, strengthening the ability to manage complex projects, and reviewing strategies and sourcing criteria.

Implementation of the data warehouse and of numerous associated data marts continued. This will enable all company area to have a single and integrated vision of all business information.

A telecommunications infrastructure was completed and brought on-stream for all Cattolica agencies. This, in permitting full on-line interaction between entities spread around Italy is an enabling preparatory move for rationalisation of selling and operational processes. Thanks to this infrastructure it is now possible to provide agencies with new business-support information services.

An information system has been created that – using the new network infrastructure, enables every agency to access the claims databank directly from agency computers, with benefits in terms of efficiency and customer service.

The company messaging system has been expanded. Every agency can now be reached via several channels of communication, usable as needed and appropriate. These include e-mail, fax, and modem messages. Work is underway to active a system base on mobile telephone SMS.

Roll-out continued in 2002 in the sales networks of the new IT solution based on Internet technology for management of insurance products and services. This has led to significant improvements in the quality of services offered and of the degree of integration with the agency network and partner banks.
In the quest for continuous improvement of productivity and of our customer service capability, work started on creation of a document management system permitting increasing independence of decision-making and operational activities from physical availability of the original paper-based document, reduction of costs associated with paper-based handling and filing, and improvement of service to customers and sales networks.

The components concerning the agency front-end will be completed by the end of 2003. These, together with the new telecommunications infrastructure, will lead to radical process innovation that, over time, will significantly reduce operating costs and markedly improve customer service.

An enterprise portal will be created using Web-based approaches and technologies. All-the front-end components both of the various channels (agencies, banks, brokers, affinity groups, etc.) and of HQ units will flow into this, thus creating a controlled point of access to information to all internal and external users of our information systems.

The enterprise portal will be the element of integration and transition from the old to the new systems. It will enable us to automate and simplify corporate operating processes, integrate existing services and applications, and make information retrieval and circulation more efficient.

An agency application system will be created, integrated in the enterprise portal, and connected on-line with the corporate system.

The new claims handling management system adopted by the parent company has been made available, complete with all its functionalities.

Attention to IT security issues has heightened. In this respect, work is underway to create a new disaster recovery system for Cattolica’s entire IT system.

Work is underway to group together all Group companies’ mainframe computers and operating management system in just one facility. This unification will generate significant cost savings during the 3-year period.

As regards the non-life area, the master plan has been defined and partners identified for renewal of the primary application systems crucial for operations.

Project work will be performed bearing in mind the impact on facilities and safeguarding investments already made as much as possible.

In the life area, decisive progress has been made towards integration of the various companies’ operating structures.

More specifically, during March the Cattolica facilities handling life IT systems were concentrated in the Pension-Planning Unit, as part of overall integration
Evolution of the life insurance system also featured gradual, ongoing improvements designed to (a) provide adequate support for business development, (b) constantly enhance the quality of services offered to customers and to the sales network, and (c) achieve, via automation, significant improvements in operating efficiency.

Similarly to the non-life area, as part of definition of the development thrusts of the life IT area, a series of actions have been identified and planned that will permit achievement of further major improvements in operating efficiency in future years – mainly via gradual integration of the various life insurance systems existing in Group companies plus insourcing of some currently outsourced services.

**PRIVACY AND DATA SECURITY**

During 2002 activities concerning privacy and data security mainly concerned creation of a data-protection system, with the aim of complying with legally mandatory requirements and, at the same time, of increasing the security of the entire set of corporate information assets.

Special attention was given to defining an efficient data-protection organisation. Key points in this effort were (a) identification of the individual who has been vested with powers of corporate representation for activities concerning privacy and data security matters, with consequent official delegation of such powers., (b) division of the entire company has been divided into specific Data Handling Areas and identification of the respective Data Handling Managers. The objective is to assure coverage of all handling of private data and management of consequent mandatory obligations in a rational manner.

Another important activity among those performed is preparation of the annual edition of the Information Security Policy Document, containing the rules and standards concerning information security adopted by the company, also in the light of the new know-how and technologies introduced within the company.

Among the obligations met, we particularly highlight those directed towards the Privacy Authority, such as updating of notification and the request for approval to handle sensitive shareholder data, and those directed towards our policyholders, with more effective preparation of explanatory notes and documents to collect consent for handling of private data. At the same time, considerable consulting activity was performed for other company functions, particularly as regards more appropriate formalisation of privacy aspects in contracts and the responses due, as required by law, for requests for access to their data by policyholders and/or claimants.
PLANNING AND CONTROL

A procedure was developed for multidimensional analysis of expenses, costs and investments. The data generated by the procedure are used not only for the production of cost reports but also for debiting of intercompany costs and for their appropriate allocation to relevant centres.

We also started inputting data into the management accounting system.

During the second half of the year the Planning & Control function worked on preparation of the Group’s 2003-2005 business plan.

The actions planned for achievement of the Group’s strategic objectives will be the guidelines for control activity during the next three years.

CUSTOMER SERVICE

During the year the Customer Service unit monitored and solved 3,429 problematical positions. Contacts increased by 5.6% over the previous year.

During the year periodical meetings were organised with the heads of our adjustment centres both to optimise timing and the approach to responses to be sent to the surveillance organism (ISVAP) and to improve the standard of service provided.

The company accepted ISVAP’s proposal to use the Customer Service function as an “area test” for ISVAP’s new IT system.

The consumer association Adiconsum published an article ranking the best companies as regards customer management, assigning Cattolica the outright third position in the insurance market.
FINANCIAL AND INCOME PERFORMANCE

For further details on the capital and operational events summarised in this section and contributing to the year’s performance, reference should be made to the Notes to Accounts.

Financial performance

The following table (Table 8) summarises key asset categories.

Table 8 - Investments - Breakdown

<table>
<thead>
<tr>
<th>Investments</th>
<th>2002</th>
<th>% of total</th>
<th>2001</th>
<th>% of total</th>
<th>Amount</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land &amp; buildings (1)</td>
<td>58,441,545</td>
<td>1.11</td>
<td>164,996,706</td>
<td>3.41</td>
<td>-106,555,161</td>
<td>-64.58</td>
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<tr>
<td>Affiliated Companies and other shareholdings</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Shares &amp; holdings</td>
<td>1,202,668,682</td>
<td>22.94</td>
<td>749,863,201</td>
<td>15.48</td>
<td>452,805,481</td>
<td>60.39</td>
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<tr>
<td>Bonds</td>
<td>64,296,872</td>
<td>1.23</td>
<td>83,854,328</td>
<td>1.73</td>
<td>-19,557,456</td>
<td>-23.32</td>
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<tr>
<td>Loans</td>
<td>7,922,662</td>
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<td>40,389,172</td>
<td>0.83</td>
<td>-32,466,510</td>
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<td>Other financial investments</td>
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<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shares &amp; holdings</td>
<td>44,480,105</td>
<td>0.85</td>
<td>67,153,448</td>
<td>1.39</td>
<td>-22,673,343</td>
<td>-33.76</td>
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<td>Quotas of mutual investment funds</td>
<td>218,618,602</td>
<td>4.17</td>
<td>111,950,918</td>
<td>2.31</td>
<td>106,667,684</td>
<td>95.28</td>
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<tr>
<td>Bonds &amp; other fixed-income securities</td>
<td>2,029,712,111</td>
<td>38.72</td>
<td>2,078,316,731</td>
<td>42.91</td>
<td>-48,604,620</td>
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<td>Loans</td>
<td>8,686,487</td>
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<td>6,953,221</td>
<td>0.14</td>
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<td>Sundry investments</td>
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<td>13,973,307</td>
<td>0.29</td>
<td>687,467</td>
<td>4.92</td>
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<tr>
<td>Deposits with reinsuring companies</td>
<td>15,619,588</td>
<td>0.30</td>
<td>15,850,526</td>
<td>0.33</td>
<td>-230,938</td>
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<tr>
<td>Class D investments (2)</td>
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<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Investment funds &amp; indexes (1)</td>
<td>1,504,972,881</td>
<td>28.71</td>
<td>1,445,666,049</td>
<td>29.85</td>
<td>59,306,832</td>
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<td>Pension funds</td>
<td>1,150,105</td>
<td>0.02</td>
<td>761,835</td>
<td>0.02</td>
<td>388,270</td>
<td>50.97</td>
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<td>Others</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash at bank and in hand</td>
<td>70,287,907</td>
<td>1.34</td>
<td>63,205,483</td>
<td>1.31</td>
<td>7,082,424</td>
<td>11.21</td>
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<tr>
<td>Own shares or holdings</td>
<td>66,407</td>
<td>0.00</td>
<td>68,736</td>
<td>0.00</td>
<td>-2,329</td>
<td>-3.39</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>5,241,584,728</td>
<td>100.00</td>
<td>4,843,003,661</td>
<td>100.00</td>
<td>398,581,067</td>
<td>8.23</td>
</tr>
</tbody>
</table>

1) Net of cumulative depreciation provision - inclusive of properties for direct operational use
2) Investments for benefit of life policyholders whereby they bear the risks and investments relating to pension-fund management
3) For unit- and index-linked policies
Buildings

The property (residential, service and office use) market confirmed the positive cycle that in the last four years has caused an increase in property transactions and in prices, without feeling the effects of the structural crisis impacting other sectors of the economy.

Rents have risen as well, particularly for retail locations.

In view of the favourable market phase, the real-estate organisation operations – already highlighted earlier – concluded on December 19th, were preceded by the sale of some buildings and condominium portions.

As a result of the extraordinary operations, Cattolica’s property assets underwent the following changes:

- an increase due to merger by incorporation of Cattolica Partecipazioni in the company, which involved incorporation of the properties held by the non-surviving company as at the merger’s date of effect, for a total book value of € 50 mn, and allocation of the merger loss of € 1.711 mn against these buildings’ value;

- a decrease due to spin-off to Cattolica Immobiliare of the company’s property division, for a book value of € 139 mn, permitting a gross capital gain of € 142 mn. The property assets forming part of the division spun off consist of 41 buildings and 149 condominium portions (with the latter used as agencies) for a total usable area exceeding 154,000 sqm. 69% of the total area of the buildings included in the spun-off division relates to buildings located in the Veneto and Lombardy regions in Northern Italy. These building, in terms of market value, account for some 73% of the total value spun-off.

Buildings used for company operations

Book value increased due to internal upgrading work.

Buildings used by third parties

The value of these buildings changed during the year not only because of the aforementioned reorganisation operations, but also due to increases in value ascribable to enhancement of the building located in Via Rovello 1 in Milan, subsequently sold in July.

Disposals

As already mentioned, during the year it was deemed advantageous to sell some properties. This permitted achievement of capital gains totalling € 38.4 mn.
We sold the condominium portions located in Casalecchio di Reno - Via Porrettana 43, in Cuneo - Corso Garibaldi 7, and in Teramo - Piazza Martiri 24. In addition we sold to our agents, tenants of the premises concerned, agency offices in condominiums in Ascoli Piceno - Via del Trivio 1, Bolzano - Vicolo Parrocchia 13, Trento - Via Brennero 43 and Cesena - Piazza Fabbri 4.

Particularly important disposals were those of the building in Via Rovello 1 in Milan and of the entire skyscraper in Via Fiorentini – Naples.

Rentals

Rent levels benefited from the increase in urban property prices and for prime locations, whilst interest in the mid-range segment waned.

More specifically, in the case of retail rentals, there was no significant change in requests. Values and yields remained substantially stable, except in the most attractive areas of the main cities.

Income improvement following contract renewals or contracts with new tenants drove a 4% YoY increase in total rent revenues.

Financial investments

The company’s capital and financial management once again confirmed the principles of prudence that have always guided our investment policy.

The constant increase of assets managed – the result of constant growth of both non-life and life insurance business – has imposed even tighter control of the performance, and at the same of the balance and stabilisation, of the financial assets guaranteeing the commitments made to policyholders.

More specifically, during the year we implemented the new ALM (asset & liability management) system permitting integrated short- and medium-term evaluation of trends in segregated fund performance in the light of associated liabilities’ dynamics. This system enables the company to assess the adequacy of its investment policies and to adapt them to scenarios of possible changes in economic and financial variables.

As already highlighted in the section concerning the economy, in 2002 financial markets were repeatedly disrupted by news of corporate bankruptcies and restructuring and by fears concerning the evolution of the “geopolitical” situation, a euphemism used by the US Federal Reserve to define the complex global terrorism situation and the possible Iraqi conflict.

The year confirmed our preference for investments in the euro-zone, since the relative strength shown by the single currency, made currency diversification and the taking on of forex risks inadvisable.
As regards financial investments, during the first quarter of the year the incidence of equity investments in the non-life sector decreased. During the rest of the year we increased the weight of short-term investments or those in floating-rate as opposed to fixed-rate securities.

In the life sector too, we reduced the weight of equity investments. Overall, the duration of fixed-rate securities increased fractionally since liability-matching needs made shortening of the duration of fixed-rate bond investments inadvisable.

**Other Information**

As required by Italian Legislative Decree no. 173 dated May 26th 1997 and by ISVAP orders and circulars concerning classification and valuation of insurers’ securities’ portfolios, we specify the following:

- a framework resolution concerning financial matters was approved by the Board of Directors on December 9th 1998 and thereafter subsequently amended. The resolution contains the company’s statutory financial guidelines and the characteristics according to which investments are identified that meet the needs for strategic long-term investment, consistently with the company’s current and future economic, financial and operational status;

- during the year – as better detailed in the Notes to Accounts – securities in the permanent segment were divested ahead of due dates and transferred to the current or non-permanent segment in compliance with the guidelines contained in the resolution;

- for the purposes of application of Article 16, paragraph 3 of Legislative Decree 173/97, the company has made a prudent valuation taking into account:
  - for equities, besides intrinsic value, also clauses envisaging buy-back agreements based on pre-established criteria, or the impact of strategic agreements made;
  - for bonds, absence of counterpart risks ascertaining proper application of amortisation of redemption margin.

Reference should be made to the Notes to Accounts for further information on this aspect.
Latent capital gains and losses

At year end the balance of latent (i.e. unrealised) capital gains and losses on our bond portfolio was positive by €21.41 mn, whilst that of our quotas in mutual investment funds was positive by €0.858 mn.

The balance for the equity portfolio (excluding Class C.II investments in group and investee companies) was negative by €1.578 mn.

As at the same date latent capital gains on our property portfolio totalled €98.8 mn. The properties’ current value, according to the appraisal performed as at December 31st 2002 by independent experts appointed by us amounts to €157.2 mn.

Income performance

Table 9 below summarises the most significant portion of ordinary and extraordinary income items.

<table>
<thead>
<tr>
<th>Capital and financial income</th>
<th>2002</th>
<th>% of total</th>
<th>2001</th>
<th>% of total</th>
<th>Amount</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shares &amp; holdings (1)</td>
<td>28,796,208</td>
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<td>25,672,301</td>
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<td>Land &amp; buildings</td>
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<td>4.14</td>
<td>17,464,530</td>
<td>7.12</td>
<td>1,358,837</td>
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<td>Other investments</td>
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<td>22.87</td>
<td>110,614,092</td>
<td>45.07</td>
<td>-6,611,606</td>
<td>-5.98</td>
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<td>Valve re-adjustments</td>
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<td>1.24</td>
<td>8,279,747</td>
<td>3.37</td>
<td>-2,650,657</td>
<td>-32.01</td>
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<td>Gains on investment disposals</td>
<td>8,899,806</td>
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<td>13,653,672</td>
<td>5.56</td>
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<td>Class D income (2)</td>
<td>95,659,493</td>
<td>21.04</td>
<td>62,755,422</td>
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<td>32,904,071</td>
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<td>Total ordinary</td>
<td>261,810,450</td>
<td>57.58</td>
<td>238,439,764</td>
<td>97.15</td>
<td>23,370,686</td>
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<tr>
<td>Total extraordinary</td>
<td>192,866,395</td>
<td>42.42</td>
<td>7,005,951</td>
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<td>185,860,444</td>
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<td>TOTAL</td>
<td>454,676,845</td>
<td>100.00</td>
<td>245,445,715</td>
<td>100.00</td>
<td>209,231,130</td>
<td>85.25</td>
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</table>

1) Inclusive of tax credits
2) Income and unrealised gains concerning investments made for the benefit of insurers who bear related risks and investments relating to pension-fund management

N.B. Figures exclude changes caused by exchange-rate differences, which form part of underwriting items
Investment income

Our investment policy gave preference to a prudent attitude with use prevalently of government bonds or of prime issuers’ corporate bonds, with adequate ratings. Compared with the previous year, features to note are the stability of trading gains in the equity segment and a slight decrease of bond’s contribution to the interest account due to decrease in floating-rate bonds’ coupon rates.

Solvency margin

The components forming the non life business solvency margin – as per Article 33 of Italian Legislative Decree no. 175 dated March 17th 1995 – total € 671.977 mn, whilst those of the life margin – as per Article 33 of Italian Legislative Decree no. 174 dated March 17th 1995 – total € 252.030 mn.

The mandatory solvency margins for us are € 95.651 mn for non-life classes and € 123.3 mn for life classes.

Our solvency margin is therefore 7.02 times higher than the mandatory level for non-life and 2.04 times higher for life classes.

Liquidity and assets covering technical provisions

The technical provisions of the Italian direct non-life portfolio, gross of the portion borne by reinsurers, are fully covered by assets admitted under Article 27 of Legislative Decree no. 175 dated March 17th 1995 and under the subsequent ISVAP order dated January 30th 1996.

The technical provisions of the Italian direct life portfolio, gross of the portion borne by reinsurers but net of the quotas already ceded to INA, are fully covered by assets admitted under Article 26 of Legislative Decree no. 174 dated March 17th 1995 and under the subsequent ISVAP orders dated January 30th 1996 and September 16th 1998.
Net equity

As at December 31st 2002, equity totalled €1,010 mn, with an increase of €129 mn over the previous year.

The ratio of equity to premiums was 82.59% vs. 71.43% in the previous year.

OTHER INFORMATION

Expected business progress

Operating trends in the early months of the new fiscal year are in line with our programmes in terms of qualitative and quantitative growth.

With the agency network we have started an important project concerning sale of new-generation products with an innovative financial profile to replace previous generations of life contracts, via use of cumulative actuarial provisions.

We have also scheduled the start of the project – approved at year-end – that envisages reorganisation of some group companies’ non-life businesses, channelling them into the parent company.

Major events in the early months of 2003

On January 10th 2003 Lombarda Vita’s extraordinary shareholder meeting approved a capital increase of €15 mn. On the same date our company paid for its relevant portion, paying in €7.515 mn. Lombarda Vita’s share capital those amounts to €25.3 mn.

On March 7th 2003 Cattolica signed an agreement with Cassa di Risparmio di Ferrara to acquire from the bank based in the Emilia region 800,000 ordinary shares of Vegagest SGR, accounting for 8% of the latter’s capital, at a nominal value of €1 each, for a total price of €800,000. By virtue of this deal, Cattolica’s directly owned equity interest in Vegagest SGR will rise from 10% to 18%.

The deal is subject to approval by the relevant authorities.

As regards provisions contained in the 2003 National Budget Law, i.e. agreed settlement of previous years, supplementing of taxable income, automatic settlement of previous years, and settlement of revisions and of pending and potential tax litigation, the company is performing the necessary evaluations as regards possible exploitation of these options.
The Board of Directors has set up, thus applying Borsa Italiana’s Self-Governance Code:

- the Compensation Committee, with the task of elaborating proposals concerning compensation for directors holding particular positions, as well as for determination of general criteria for compensation of the company’s top management. The Committee, which met three times in the last 12 months, has agreed on the desirability of elaborating some proposals for revision of the present system, which are now being developed;

- the Internal Audit Committee, which has consultative and propositive functions concerning our internal auditing system. The Committee met six times during FY2002 and another two times in 2003 prior to completion of the present report. Among other things it:
  - examined the activity undertaken by the Internal Auditing unit;
  - developed a template for planning activities, identifying the mean areas to be monitored and the role of the various subjects involved;
  - reviewed regulatory novelties – in the widest sense – that have an impact on the company’s corporate governance;
  - examined proposals from independent auditing firms for renewal of assignments;
  - exchanged opinions with the auditing firms on the main topics concerning preparation of year-end financial statements.

The Committee also advised the Board of Directors of the amendments to be made to its operational regulation consistently with the revision of the Self-Governance Code approved by Borsa Italiana in July.

We recall the fact that last year we announced that a joint commission for the study and development of a regulation for shareholders’ meetings had started work – recalling, among other things, the different approaches existing to this matter and the specific nature of a shareholders’ meeting in a co-operative company with a large shareholder base, such as Cattolica.

Before issuing a draft proposal for a regulation, it was felt necessary to have a sufficiently stable juridical framework, in the light of the delegate law reforming company law.

The recent issue of Legislative Decree no. 6 dated January 17th 2003, implementing the delegate law mentioned above, now permits work to proceed on the basis of a definite regulatory framework.

As regards shareholdings in the company owned by directors and statutory auditors, the Borsa Italiana shareholders’ meeting, held on April 29th 2002, in approving some amendments to the Regulation for Markets Organised and Managed by Borsa Italiana – also approved by CONSOB with its resolution no. 13655 dated July 9th 2002 – established that listed companies must adopt a code of conduct designed to regulate, with compulsory efficacy, notification obligations and any constraints concerning transactions undertaken for any
reason by “important persons” – meaning directors, statutory auditors, the
general manager and other persons who, by virtue of the position held in the
company or in its main subsidiaries, are of strategic importance – and relating
to the listed financial instruments of the issuer or of its subsidiaries.

In December the Board of Directors therefore officially adopted a code of
conduct, specifically identifying as important persons, to whom the market, in
relation to the position held, attributes particular signalling value, as being the
directors, permanent statutory auditors, and members of general management of
Cattolica, as well as the chairmen, CEOs and members of general management
of subsidiaries classified as major.

Having identified these persons, the company will disclose transactions
executed by them according to the following approach: within the 10th business
day following each monitoring period, if the transactions hit the first threshold
of € 50 thousand; and immediately and in any case within the first business day
following receipt of notification if the transaction caused the threshold of € 250
thousand to be exceeded.

Closed periods are envisaged, ranging from 15 to 30 days depending on the type
of accounting reports due to be examined by the Board. The code came into

The Board of Directors has ascertained the requisite of independence for all
directors according to the criteria contemplated by Borsa Italiana’s Self-
Governance Code.

In the early months of the year the mandate of members of the Consultation
Board came to an end. The shareholder meeting made the new designations.

As from the second quarter the Consultation Board’s quarterly meetings once
again started on a regular basis (as per Article 48 et seq. of the company by-
laws), during which the following topics were discussed:

- “Economic and financial capitalisation of listed companies: convergences and
divergences”;
- “Reform of company law in Italy”;
- “Social Report and Code of Ethics”.

University lecturers and experts introduced the topics discussed.

The Board of Directors was informed of the results of meeting proceedings.
Shareholdings owned by Directors and Statutory Auditors

As per the requirements of Article 79 of CONSOB resolution no. 11971 dated May 14th 1999, below we list the shareholdings owned in the company and in the latter’s subsidiaries by directors, statutory auditors, and the general manager, as well as by their respective, not officially separated spouses and by their under-age children, directly or via controlled or trustee companies, or interposed persons.

### Chart 1 - Shareholdings owned by directors and statutory auditors

<table>
<thead>
<tr>
<th>Full name</th>
<th>Company</th>
<th>Office held</th>
<th>Term of office</th>
<th>No. shares owned as at 31/12/2001</th>
<th>No. shares acquired/subscribed during 2002</th>
<th>No. shares sold during 2002</th>
<th>No. shares owned as at 31/12/2002</th>
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<tr>
<td>Giuseppe Camadini</td>
<td>Cattolica</td>
<td>Chairman BoD &amp; EC member</td>
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<td>Senior Vice President &amp; EC member</td>
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<tr>
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<tr>
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<tr>
<td>Ezio Paolo Reggia</td>
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<td>General Manager</td>
<td></td>
<td>424</td>
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<td></td>
<td>424</td>
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</tbody>
</table>
Borsa Italiana’s Self-Governance Code also establishes that the Board must ascertain and disclose, in its annual management report, offices held by directors – as directors or statutory auditors – in other companies listed in Italian or non-Italian regulated markets, in financial/insurance/banking companies, or in companies of a significant size.

The Board of Directors has set the following criteria to be used, on an alternative basis, to define a company as being “of a significant size”, regardless of the nature of company control and of the type of business conducted:

- more than 500 employees;
- share capital in excess of €25 mn;
- annual sales in excess of €75 mn.

<table>
<thead>
<tr>
<th>Full name</th>
<th>Company</th>
<th>Offices held as at 31/12/2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Giuseppe Camadini</td>
<td>Banca Lombarda e Piemontese s.p.a.</td>
<td>Director &amp; EC member</td>
</tr>
<tr>
<td></td>
<td>Banco di Brescia s.p.a.</td>
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</tr>
<tr>
<td></td>
<td>Banca di Valle Camonica s.p.a.</td>
<td>Director</td>
</tr>
<tr>
<td></td>
<td>Banca Regionale Europea s.p.a.</td>
<td>Director</td>
</tr>
<tr>
<td></td>
<td>Istituto Atesino di Sviluppo s.p.a.</td>
<td>Director</td>
</tr>
<tr>
<td></td>
<td>Cattolica Immobiliare s.p.a. *</td>
<td>Chairman</td>
</tr>
<tr>
<td>Ermanno Rho</td>
<td>Credito Bergamasco s.p.a.</td>
<td>Director</td>
</tr>
<tr>
<td></td>
<td>Capitalgest SGR s.p.a.</td>
<td>Director</td>
</tr>
<tr>
<td></td>
<td>Il Duomo Assicurazioni e Riassicurazioni s.p.a. *</td>
<td>Vice President</td>
</tr>
<tr>
<td></td>
<td>Cattolica Aziende s.p.a. *</td>
<td>Vice President</td>
</tr>
<tr>
<td></td>
<td>Cattolica On Line s.p.a. *</td>
<td>Vice President</td>
</tr>
<tr>
<td></td>
<td>Risparmio &amp; Previdenza s.p.a. *</td>
<td>Director</td>
</tr>
<tr>
<td></td>
<td>Cattolica Immobiliare s.p.a. *</td>
<td>Vice President</td>
</tr>
<tr>
<td>Danilo Andrioli</td>
<td>Duomo Previdenza s.p.a. *</td>
<td>Chairman</td>
</tr>
<tr>
<td></td>
<td>Banca di Cividale s.p.a.</td>
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</tr>
<tr>
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<td>Cattolica Immobiliare s.p.a. *</td>
<td>Director</td>
</tr>
<tr>
<td>Pierluigi Angeli</td>
<td>Mediacredito Trentino Alto Adige s.p.a.</td>
<td>Director</td>
</tr>
<tr>
<td></td>
<td>ICCREA Holding s.p.a.</td>
<td>Director</td>
</tr>
<tr>
<td>Luigi Baraggia</td>
<td>Risparmio &amp; Previdenza s.p.a. *</td>
<td>Vice President</td>
</tr>
<tr>
<td></td>
<td>Verona Assicurazioni s.p.a. *</td>
<td>Vice President</td>
</tr>
<tr>
<td></td>
<td>Cattolica Aziende s.p.a. *</td>
<td>Director</td>
</tr>
<tr>
<td></td>
<td>Duomo Previdenza s.p.a. *</td>
<td>Director</td>
</tr>
<tr>
<td></td>
<td>BPV Vita s.p.a. *</td>
<td>Director</td>
</tr>
<tr>
<td></td>
<td>Europe Assistance s.p.a.</td>
<td>Director</td>
</tr>
<tr>
<td></td>
<td>Cattolica Immobiliare s.p.a. *</td>
<td>Director</td>
</tr>
<tr>
<td>Full name</td>
<td>Company</td>
<td>Offices held as at 31/12/2002</td>
</tr>
<tr>
<td>----------------------</td>
<td>---------------------------------------------------</td>
<td>-------------------------------</td>
</tr>
<tr>
<td>Paolo Bedoni</td>
<td>Consorzio Sistema Servizi Coldiretti</td>
<td>Chairman</td>
</tr>
<tr>
<td></td>
<td>Confederazione Nazionale Coldiretti</td>
<td>Chairman</td>
</tr>
<tr>
<td></td>
<td>Banca Agricola di Cerea s.p.a.</td>
<td>Director</td>
</tr>
<tr>
<td></td>
<td>Cattolica Immobiliare s.p.a. *</td>
<td>Director</td>
</tr>
<tr>
<td>Carlo Casini</td>
<td>Cassa di Risparmio di San Miniato s.p.a.</td>
<td>Director</td>
</tr>
<tr>
<td></td>
<td>San Miniato Previdenza s.p.a. *</td>
<td>Chairman</td>
</tr>
<tr>
<td>Angelo Ferro</td>
<td>RCS Editori s.p.a.</td>
<td>Director</td>
</tr>
<tr>
<td></td>
<td>Pavan s.p.a.</td>
<td>Chairman</td>
</tr>
<tr>
<td>Stefano Gneccchi Ruscone</td>
<td>Cattolica Aziende s.p.a. *</td>
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<tr>
<td></td>
<td>Lombarda Vita s.p.a. *</td>
<td>Director</td>
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<tr>
<td></td>
<td>Tradition Italia SIM s.p.a.</td>
<td>Permanent Statutory Auditors</td>
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<td>Felice Martinelli</td>
<td>Banca Lombarda e Piemontese s.p.a.</td>
<td>Director</td>
</tr>
<tr>
<td></td>
<td>Lombarda Vita s.p.a. *</td>
<td>Chairman</td>
</tr>
<tr>
<td></td>
<td>Credito Artigiano s.p.a.</td>
<td>Director</td>
</tr>
<tr>
<td></td>
<td>Aedes s.p.a.</td>
<td>Permanent Statutory Auditors</td>
</tr>
<tr>
<td></td>
<td>Mittel s.p.a.</td>
<td>President Statutory Auditors</td>
</tr>
<tr>
<td>Giuseppe Martinengo</td>
<td>/</td>
<td>/</td>
</tr>
<tr>
<td>Gaetano Migliarini</td>
<td>Cattolica On Line s.p.a. *</td>
<td>Director</td>
</tr>
<tr>
<td>Giuseppe Nicòlo</td>
<td>Banco Popolare di Verona e Novara S.c. a r.l.</td>
<td>Director</td>
</tr>
<tr>
<td></td>
<td>Leasimpressa s.p.a.</td>
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</tr>
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<td></td>
<td>Duomo Previdenza s.p.a. *</td>
<td>Director</td>
</tr>
<tr>
<td></td>
<td>diCA s.p.a. *</td>
<td>Chairman</td>
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<tr>
<td></td>
<td>AGSM Verona s.p.a.</td>
<td>Chairman</td>
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<td></td>
<td>Cattolica Immobiliare s.p.a. *</td>
<td>Director</td>
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<tr>
<td>Carlo Alberto Pelliciardi</td>
<td>Saeco International Group s.p.a.</td>
<td>President Statutory Auditors</td>
</tr>
<tr>
<td></td>
<td>Cattolica On Line s.p.a. *</td>
<td>Director</td>
</tr>
<tr>
<td></td>
<td>COGAS s.p.a.</td>
<td>President Statutory Auditors</td>
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<td>CPL Concordia s.c.a r.l.</td>
<td>President Statutory Auditors</td>
</tr>
<tr>
<td>Giorgio Petroni</td>
<td>Lombarda Vita s.p.a. *</td>
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<td>Luigi Righetti</td>
<td>Banco Popolare di Verona e Novara s.c. a r.l.</td>
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<td></td>
<td>Società Athesis s.p.a.</td>
<td>Chairman</td>
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<tr>
<td>Nicola Rotolo</td>
<td>Nuova Banca Mediterranea s.p.a.</td>
<td>Director</td>
</tr>
<tr>
<td>Giordano Veronesi</td>
<td>Azienda Agricola La Pellegrina s.p.a.</td>
<td>Chairman</td>
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<td></td>
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<td>Director</td>
</tr>
<tr>
<td></td>
<td>Pietro Negroni s.r.l.</td>
<td>Director</td>
</tr>
<tr>
<td></td>
<td>Veronesi Finanziaria s.p.a.</td>
<td>Director</td>
</tr>
<tr>
<td></td>
<td>Veronesi Verona s.p.a.</td>
<td>Chairman</td>
</tr>
</tbody>
</table>

* A Cattolica Group company
**Shareholders**

As at December 31st 2002, there were 29,465 shareholders entered in the Shareholders’ Register.

**Reserve for purchase of own shares**

As at January 1st 2002 the company held 2,876 own shares. There was no sale or purchase of own shares during the year and no requests in this respect were received from the co-operative’s shareholders.

Therefore, as at December 31st 2002, the company held 2,876 own shares for a total value of €66,407 and a nominal value of €8,628, accounting for some 0.006% of share capital. These amounts are offset in liabilities via posting of a similar amount in a specific net equity reserve.

It is recalled that the shareholders’ resolution passed on April 21st 2001, gave a mandate to the Board of Directors – confirmed by the shareholders’ meeting held on April 27th 2002 – to sell the 2,876 own shares held in our portfolio. Given the market trend, to date the Board has not yet undertaken this sale.

**Issue of new shares**

No new shares were issued during the year.

**Abnormal or unusual transactions**

During the year the company did not execute abnormal and/or unusual transactions either with third parties, or with Group companies, or with related parties, as specified below.

**Transactions with related parties**

With its resolution no. 13616 dated June 12th 2002, CONSOB – the Italian listed company & stock market surveillance commission – amended the Regulation 11971/99, comprising regulations for issuers, introducing, in Article 71/2, new disclosure obligations concerning transactions with related parties.

For the application of the provision, with its circular 2064231 dated September 30th 2002, CONSOB specified that “related parties” are considered to be group companies, company officers, and the latter’s immediate family members. Immediate family members in any case include blood relations and relations by marriage up to the second degree, plus companies controlled by the same or subject to considerable influence by them as per Article 2359, paragraph 3, of the Italian Civil Code.

As per the combination of rules and provisions issued by CONSOB (CONSOB circulars 97001574 of 1997, 98015375 of 1998, and 1025564 of 2001; CONSOB resolution 13616 and subsequent circular 2064231 of 2002)
Management report

concerning intercompany transactions and those with related parties, we therefore make it known that:

• during 2002 the Cattolica Group undertook a series of extraordinary – not abnormal and/or unusual – transactions designed to rationalise and reorganise its legal-entity structure. An ample report is provided on these transactions – in which Cattolica was directly involved – in the earlier section concerning “Major Events in the Year”;
• balance-sheet and business links with controlled (subsidiary) and associated companies are summarised in the following tables and detailed in Appendices 16 and 30 to the Notes to Accounts;
• transactions with other related parties concerned normal company operations and had no significant effect on the company’s business, balance sheet and financial status.

We also specify that transactions with related parties took place at rates within the limits of those practised in the market.

Operational transactions with subsidiaries and associated companies

With Verona Assicurazioni, Risparmio & Previdenza, Cattolica Aziende, Cattolica On Line, Duomo Previdenza, Il Duomo Assicurazioni, BPV Vita, Lombarda Vita, and diCA agreements are in place for charging back costs and services. Depending on the various cases these concern use of centralised services, seconding of staff and insurance/reinsurance transactions. The latter are limited to management of residual commitments for reinsurance treaties, not renewed, with Verona Assicurazioni.

The terms established for such agreements are as per those practised in the market and comply with the resolutions of the Board of Directors of Cattolica and of the Board of all group companies concerning criteria for allocating costs common to several companies.

Following the Group’s reorganisation in the last year, contracts have been aligned with the new legal-entity configuration and those for charging back costs and services to the Group’s new companies have been stipulated.

In the following table, besides the capital and business transactions stemming from the said agreements, the “Other debtors” heading shows the loan granted to Duomo Previdenza whilst the “Other payables” heading shows the residual debt for subscription of share capital the newly founded companies Axa-Cattolica Previdenza in Azienda and San Miniato Previdenza.

As regards business transactions, we show the dividends collected from subsidiaries and associated companies and, under the heading “Other revenues”, the capital gain made on spin-off of the property division and interest earned on loans granted.

We point out that the figures concerning capital transactions refer to December
31st. Changes in balance-sheet items are described in the section on “Major Events in the Year”.
All transactions – as already highlighted in the previous paragraph – took place at rates within the limits of those practiced in the open market.

Whilst reference should be made to the Consolidated Annual Report for further information, we follow Table 10 below with brief summary notes on Group companies’ performance.

Table 10 - Intercompany transactions

### Balance sheet

<table>
<thead>
<tr>
<th></th>
<th>Subsidiaries</th>
<th>Associates</th>
<th>Total</th>
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</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
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<tr>
<td>Other debtors</td>
<td>9,317</td>
<td>2,512</td>
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<tr>
<td>Technical provisions - reinsurance amount</td>
<td>28</td>
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<td>28</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>9,345</td>
<td>2,512</td>
<td>11,857</td>
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<tr>
<td><strong>Liabilities</strong></td>
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<tr>
<td>Payables deriving from reinsurance operations</td>
<td>365</td>
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<td>365</td>
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<tr>
<td>Other payables</td>
<td>7,622</td>
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<td>7,622</td>
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<tr>
<td>Technical provisions</td>
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<td>1,156</td>
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<tr>
<td><strong>Total</strong></td>
<td>9,143</td>
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</tbody>
</table>

### Income statement

<table>
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<th></th>
<th>Subsidiaries</th>
<th>Associates</th>
<th>Total</th>
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</thead>
<tbody>
<tr>
<td><strong>Profits and income</strong></td>
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<td></td>
</tr>
<tr>
<td>Revenues for reinsurance transactions</td>
<td>1,417</td>
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<tr>
<td>Investment revenues</td>
<td>968</td>
<td>12</td>
<td>980</td>
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<tr>
<td>Dividends and other income</td>
<td>6,800</td>
<td>301</td>
<td>7,101</td>
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<tr>
<td>Other revenues</td>
<td>150,240</td>
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<tr>
<td><strong>Total</strong></td>
<td>159,425</td>
<td>313</td>
<td>159,738</td>
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<tr>
<td><strong>Losses and expenses</strong></td>
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<tr>
<td>Costs for reinsurance transactions</td>
<td>1,322</td>
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<td>1,322</td>
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<tr>
<td>Other costs</td>
<td>6,001</td>
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<tr>
<td><strong>Total</strong></td>
<td>7,323</td>
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<td>7,323</td>
</tr>
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</table>
EQUITY INVESTMENTS IN COMPANIES DIRECTLY CONTROLLED BY PARENT COMPANY (SUBSIDIARIES)

Non-life business

Il Duomo Assicurazioni e Riassicurazioni SpA
The company, which is active in non-life insurance, has started action designed to reorganise and develop its agency sales network and to market new products.

The subsidiary collected premiums totalling € 289 mn (+29.29%) with net income of € 2.9 mn.

Verona Assicurazioni SpA
The efforts of this non-life subsidiary focused on consolidation and strengthening of agencies, orienting them towards diversification of business generation via implementation of commercial growth plans customised according to the local territorial environment.

The positive effects of such efforts were reflected in total premiums of € 80 mn (+26.06%) and in net income of € 0.7 mn (+20%).

Cattolica Aziende SpA
The company, which is a non-life insurer, widened its target within the corporate sector to take in the middle market.

During the year it reformed and repositioned its portfolio.

The subsidiary boosted its direct risk underwriting giving preference to a limited number of brokers selected for their operational efficiency and portfolio quality.

At year-end premiums collected totalled € 24 mn. The net result showed a loss.
Cattolica On Line SpA
This subsidiary is the Group’s legal vehicle dedicated to the sale of personal-line non-life insurance products via bancassurance agreements and direct agreements with affinity groups, also using Internet as a means of sale and of customer relationship management.

During the year in-force agreements were reviewed. This led to termination of some contracts.

In the early months of the year, as already highlighted in the 2001 Annual Report, acquisition was completed from diCA of the division promoting and selling motoring products with the objective of integrating the company’s sales area.

The company ended the year with premiums of € 19 mn, up by +111% over the previous year, and a net loss of € 1.1 mn.

Life insurance/ Bancassurance

Duomo Previdenza SpA
During the year the company, which is a life insurer, started marketing innovative products able to meet the specific needs of agency and bank customers.

During the year the company stipulated its first bancassurance agreements – with Banca di Salerno Credito Cooperativo and Banca di Credito Cooperativo Reggiano, marking the start of sales via bank branches.

It ended the year with premiums totalling € 124 mn (+51.54%) and net income of some € 1.7 mn

Risparmio & Previdenza SpA
The company, which is actively mainly in life assurance, continued its business in the bancassurance segment.

At year-end the sales network consisted of 1,342 bank branches.

The year ended with premiums totalling € 105 mn and net income of € 5.3 mn.
BPV Vita SpA
The second year of business of the company – active in life bancassurance – featured a significant increase in premiums plus actions designed to address the slowdown in the life market with innovative and flexible products.

The professionalism of distributor banks’ staff and the company’s high speed of response permitted achievement of year-end premiums of €848 mn (+12.85%) and net income of €5 mn (+427.59%).

Lombarda Vita SpA
The company’s life bancassurance business, in its second year of operation, continued according to the operational orientations developed in the previous year.

Development continued of new products specifically designed for the distributor bank, as did definition of specific products and operating processes for the financial advisor channel.

Year-end premiums totalled €966 mn (+32.75%), with achievement of net income of €4.6 mn (+55.6%).

San Miniato Previdenza SpA
The company, 66% owned by Cattolica was founded in December is awaiting authorisation from the surveillance body to become operational in life insurance. It will close its first set of annual accounts on December 31st 2003.
The following table (Table 11) highlights the key figures of the insurance companies in which Cattolica owns equity interests.

**Table 11 - Key data of Group insurance companies**

<table>
<thead>
<tr>
<th>Company</th>
<th>Location</th>
<th>Total gross premiums written (Amounts in € '000)</th>
<th>Net income/(loss)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Non-life insurance</strong></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Il Duomo Assicurazioni e Riassicurazioni s.p.a.</td>
<td>Milan</td>
<td>288,728</td>
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<td>Verona</td>
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<td>Cattolica On Line s.p.a.</td>
<td>Verona</td>
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<tr>
<td><strong>Life insurance/bancassurance</strong></td>
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<tr>
<td>Duomo Previdenza s.p.a.</td>
<td>Milan</td>
<td>123,849</td>
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<td>Risparmio &amp; Previdenza s.p.a.</td>
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<tr>
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<td>966,330</td>
<td>4,573</td>
</tr>
<tr>
<td>Eurosav s.p.a.</td>
<td>Milan</td>
<td>265,229</td>
<td>434</td>
</tr>
<tr>
<td>AXA-Cattolica Previdenza in Azienda s.p.a.</td>
<td>Milan</td>
<td>-</td>
<td>nmf</td>
</tr>
<tr>
<td>S. Miniato Previdenza s.p.a. (1)</td>
<td>San Miniato</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

(1) The company will close its first set of annual accounts on 31/12/2003

**Other subsidiaries**

**Cattolica Immobiliare SpA**

The company, founded in December, has objectives that include exploitation of property assets’ value, also via disposal of buildings included in the spun-off division and reinvestment of proceeds in properties featuring high income potential.

The company ended the year with net income of € 183 thousand.

**diCA SpA**

Founded in 1998, the company is the Group’s call centre and performs activities concerning the opening of all motoring claims and adjustment of simple motoring claims.

The subsidiary ended the year with net income of € 1.5 mn.

**Verona Gestioni SGR SpA**

The company, operational since 1999 and acquired during the year, provides investment services solely to institutional investors.

It ended the year with a net loss of € 412 thousand, mainly accrued prior to acquisition.
VP Servizi Assicurativi Srl
The company is active as an insurance agency in the Verona area and ended the year with a slight loss.

Sopass Srl
As from December the company – originally founded as an insurance broker – is 98% owned by Cattolica.

In June it ceased doing business and the agency was handed back.

Its annual accounts were approved after the date of approval of Cattolica annual financial statements.

Creberg SIM SpA
In July we sold our entire equity interest, making a capital gain of €5,791 thousand.

EQUITY INVESTMENTS IN ASSOCIATED COMPANIES

Eurosav SpA
Eurosav, a joint venture with the Banca Popolare di Bari and active in life insurance via a diversified sales network, jointed the Cattolica Group during the year.

The company totalled premiums in the year of €265 mn, with net income of €434 thousand.

AXA-Cattolica Previdenza in Azienda SpA
The company, founded in September by Cattolica and Axa and specialised in corporate welfare, is awaiting authorisation to start business from the surveillance body. It closed its first annual set of accounts with net income of €8,519.

Banks

Nuova Banca Mediterranea SpA
During the year a resolution was passed approved the merger by incorporation of Nuova Banca Mediterranea in Nuova Finanziaria Mediterranea – a legal vehicle set up in 2001 to acquire Nuova Banca Mediterranea from Banca di Roma (now Capitalia) and that has changed its name to that of the non-surviving company.

Banca Mediterranea was born in 1992 from the merger of two historical local banks, i.e. Banca di Lucania and Banca Popolare Cooperativa di Pescopagano e Brindisi. In 2002 it took on the name of Nuova Banca Mediterranea, becoming the leading bank in the Basilicata region (in terms of number of bank branches and market shares), with significant presences also in the Apulia and Campania regions.

It ended the year with net income of €2.3 mn.
Cassa di Risparmio di San Miniato SpA
Founded in 1830, this is one of the oldest Italian savings banks.

As at December 31st 2002 it reported net income of € 9.5 mn. It continued its business and capital development, showing good progress in both deposits and loans.

Other associated companies

Prisma Srl
The company, which is active as an insurance agency, is active in the Milan and Brescia areas, in synergy with some banking partners and with the Milan Diocese.

It ended the year with good premium collections and with a bottom-line result featuring modest net income.

OTHER SIGNIFICANT EQUITY INVESTMENTS

Banks

Banca Lombarda e Piemontese SpA
The bank, created following merger by incorporation, on December 31st 1998, of Banca San Paolo di Brescia in Credito Agrario Bresciano, with the surviving bank taking the name of Banca Lombarda, is one of the largest Northern Italian banking groups.

The company ended the year with net income of € 114.2 mn.

Banca Regionale Europea SpA
The bank, in which Cattolica owns a 6.62% stake, was created in 1995, following merger of the Cassa di Risparmio di Cuneo and Banca del Monte di Lombardia and, in December 1999, joined the Banca Lombarda e Piemontese Group.

It is active in Piedmont, Valle d’Aosta, Lombardy and Emilia-Romagna, with a network of 258 branches.

The bank ended the year with net income of € 80 mn.

Banca di Valle Camonica SpA
The bank, originally founded in 1872 and with Banca San Paolo di Brescia as its key shareholder, entered the Banca Lombarda e Piemontese Group in 1998 following merger of its parent company by incorporation in Credito Agrario Bresciano.

It ended the year with net income of € 9 mn.
Credito Bergamasco SpA
Due to sale to the parent bank (Banco Popolare di Verona e Novara – BPVN) of a 4.06% interest – highlighted earlier and completed on July 19th 2002 – Cattolica’s stake in the bank decreased from 11.44% to 7.38%.

The bank ended the year with a profit.

Cassa di Risparmio di Fabriano e Cupramontana SpA
The bank – with over 150 years of history, founded in 1845 in Fabriano and merged in 1940 with Cassa di Risparmio di Cupramontana – conducts its business in support of the local economy. Initially, it was concerned primarily with the farming and craft sectors, then entering – in step with the extraordinary business development of the Marches hinterland – the industrial sector.

Banca di Cividale SpA
This bank, active mainly in the Friuli-Venezia-Giulia region in Northeast Italy, was set up during 2000 via demerger of the banking business of its parent company Banca Popolare di Cividale Scarl.

Banca Carige SpA
Parent company of one of the most important banking groups, it is ranked among the leading Italian banks in terms of size. Its sales network impact comprises over 390 branches in 12 regions.

It ended the year with net income of € 105 mn.

Other equity investments

Vegagest SGR SpA
Vegagest, in which Cattolica owns a 10% interest, is an asset management company and a partner of independent placers. It aims to set and achieve the highest possible standards of service – i.e. end-user customer satisfaction – to build loyalty to placers, via support in the form of training and financial, commercial, and administrative support and using the most modern means of electronic communication.

The company ended the year with a loss.

Mapfre Re SA
The company ended its fiscal year with a profit and with sales growth.

Serenissima Infracom SpA
The stake owned by Cattolica is part of wider strategic design concerning the quest for new sales channels for insurance products.

The company, which is active in the ICT (information & communication technology sector) provides telecommunication services to users who subscribe to its services including assistance, banking services, and insurance services.
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<tr>
<th>Other subsidiaries</th>
<th>Sulda S. Cons. r.l.</th>
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<tr>
<td>The company – set up for consortium settlement of claims concerning Group companies in the Milan area – is now being wound up.</td>
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<table>
<thead>
<tr>
<th>Other associated companies</th>
<th>Cosmi Srl</th>
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<tbody>
<tr>
<td>The company, 50% owned by Il Duomo, is active in the real estate business. Its investee company Arena ’90 is scheduled to cease doing business during the year.</td>
<td></td>
</tr>
<tr>
<td>Its annual accounts were approved after the date of approval of those of Cattolica.</td>
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</tbody>
</table>
Fellow Shareholders,

We herewith submit the 2001 year-end financial statements, in all their component parts, for your approval.

The Board of Directors also makes the following proposal to you for allocation of the year’s earnings, not without recalling beforehand – as regards payments for purposes of economic/social utility and of a charitable nature – the system applied in the new statutory regulation.

Besides the limits specified in Article 26 of the company by-laws, the Board can in fact avail itself of the faculty envisaged in Article 42, paragraph 2, letter g) to supplement the liberalities mentioned above.

The allocation proposed of the year’s earnings of €173,107,162 is as follows:

- To the Legal Reserve 20% €34,621,432
- To eligible shares, outstanding as at December 31st 2002, excluding own shares held (for assignment of a dividend of €1.00 per share, gross of legally mandatory deductions) €43,080,220
- To the extraordinary spin-off reserve €90,888,812
- To the Board of Directors and Executive Committee €500,000
- For purposes envisaged by Article 26 of the Company By-Laws €550,000
- To the Dividend Reserve €3,466,698

If you approve these proposals, the dividend of €1.00 per share (inclusive of the portion pertaining to own shares as per Article 2357/3 of the Italian Civil Code) gross of legally mandatory deductions, can be paid out, according to current regulations, as from May 8th.
Fellow Shareholders,

The year-end sees us encouraged by positive business results, which are also reflected in our Social & Ethical Report, presented to the shareholders’ meeting for the first time in our history.

Business volume has increased, profitability has grown. We have completed internal restructuring efforts designed to rationalise the Group, which has achieved a good position in the Italian insurance panorama.

Our large shareholder base reflects the breadth of support surrounding the company. Headline operating and profit indicators are still growing.

But we cannot relax our vigilance as regards attention to the trend suffered by commercial and financial markets, particularly after the tragic date of September 11th 2001.

Our own stock has not been immune to such trends, albeit holding firm in the face of sharp oscillations by an unstable stock market that, in certain respects, has become anomalous, and despite the presence of our constant capital soundness and functional efficiency.

But in this long-awaited spring, which we had hoped would have been one of recovery, storm clouds of conflicts are gathering – we know where they come from but not how and where they will go.

The reasons for serious concern do not appear, at least initially, to regard so much the economic side, as they do the ethical and social prospects also concerning the very future of some peoples and nations.

It is up to us, first and foremost, to renew our commitment to consistent and competent daily dedication to our jobs. By working well, each of us in our respective spheres, we help to build the common good and are thus peacemakers.

We certainly do not claim to know or to be able to speak exhaustively on the serious problems just mentioned. Nor is the place to address topics that certainly go beyond not only our sphere of institutional operation, but also beyond the walls of our cities and the frontiers of our homeland.

But no occasion or place can be considered to be extraneous to the possible events feared that, if they were to materialise, would in any case interfere with our individual and corporate action. And therefore it remains appropriate to hope that, in the end, reason will win through, so that human relations and also commercial, business and financial relations can take place in a situation of orderly competition for the growth of human values in the life of society.
We know that these desires are in harmony with the many voices raised – in a vision transcending life and history – inviting humanity to seek aid from above, so that humanity itself recovers its dignity, and so that in the end, by virtue of responsible action, in this particular phase of history, the desire and conditions for dialogue, good, and peace prevail.

THE BOARD OF DIRECTORS

Verona, March 15th 2003