



CONSOLIDATED ANNUAL REPORT 2016

CONTENTS

Corporate officers

Group structure

DIRECTORS' REPORT ON OPERATIONS

Executive Summary

Economic and market environment

Operating review

Financial position

Organisation of the Poste Vita Group

Relations with the parent and other Poste Italiane Group companies

Other information

Events after 31 December 2016

Outlook

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated financial statements

Notes

Annexes

REPORT OF THE INDEPENDENT AUDITORS

ATTESTATION OF THE MANAGER RESPONSIBLE FOR FINANCIAL REPORTING

Corporate officers

BOARD OF DIRECTORS (1)

Chairman	Luigi Calabria
Chief Executive Officer	Maria Bianca Farina
Director	Antonio Nervi
Director	Pasquale Marchese
Director	Bianca Maria Martinelli
Director	Dario Frigerio
Director	Salvatore Militello

BOARD OF STATUTORY AUDITORS (1)

Chairman	Stefano Dell'Atti
Auditor	Marco De Iapinis
Auditor	Simona Arduini
Alternate	Franco Pichiorri
Alternate	Teresa Naddeo

INDEPENDENT AUDITORS (2) BDO Italia SpA

1. The Board of Directors and the Board of Statutory Auditors were appointed by the shareholders at the General Meeting held on 4 August 2014 and will serve for three-year terms of office, until approval of the financial statements for 2016. The Board of Directors appointed the Chief Executive Officer at their meeting of 5 August 2014.
2. Appointment approved by the shareholders at the General Meeting of 29 April 2014.

EXECUTIVE SUMMARY

In 2016, the Poste Vita Insurance Group proceeded to pursue the following strategic and business priorities, in continuity with the approach followed in 2015:

- to strengthen our leadership in the life market and consolidate our position with regard to other players;
- to boost our position in the protection and welfare segment, investing in the health insurance sector, partly through the activities of the subsidiary, Poste Welfare Servizi Srl.

The reclassified income statement, broken down by category of insurance, is shown below:

RECLASSIFIED INCOME STATEMENT				€m		
for the year ended 31 December	2016			2015		
	Non-life business	Life business	Total	Non-life business	Life business	Total
Net premium revenue	80.5	19,803.4	19,883.9	67.1	18,130.6	18,197.8
<i>Gross premium revenue</i>	108.5	19,820.2	19,928.7	93.3	18,145.4	18,238.7
<i>Outward reinsurance premiums</i>	(28.0)	(16.8)	(44.7)	(26.2)	(14.8)	(41.0)
Fee and commission income		5.9	5.9		3.3	3.3
Net financial income from assets related to traditional products	3.5	3,271.6	3,275.1	3.6	2,348.0	2,351.6
<i>Income</i>	3.2	2,545.9	2,549.1	3.2	2,472.8	2,476.0
<i>Realised gains and losses</i>	0.3	251.2	251.5	0.4	310.2	310.6
<i>Unrealised gains and losses</i>		474.4	474.4		(435.0)	(435.0)
Net financial income from assets related to index- and unit-linked products		28.9	28.9		189.7	189.7
Net change in technical provisions	(33.0)	(21,938.0)	(21,971.0)	(29.3)	(19,665.6)	(19,694.9)
<i>Claims paid</i>	(21.8)	(7,462.3)	(7,484.1)	(19.1)	(8,030.6)	(8,049.7)
<i>Change in technical provisions</i>	(20.7)	(14,485.7)	(14,506.4)	(22.8)	(11,637.4)	(11,660.2)
<i>Share attributable to reinsurers</i>	9.5	10.1	19.6	12.6	2.4	15.0
Investment management expenses	(0.4)	(44.0)	(44.4)	(0.6)	(37.1)	(37.7)
Acquisition and administration costs	(33.6)	(524.3)	(558.0)	(24.5)	(477.6)	(502.1)
<i>Net commissions and other acquisition costs</i>	(7.3)	(440.7)	(448.1)	(6.0)	(404.2)	(410.2)
<i>Operating costs</i>	(26.3)	(83.6)	(109.9)	(18.6)	(73.4)	(91.9)
Other revenues/(costs), net	7.9	(18.8)	(10.9)	0.2	(17.2)	(17.0)
EBITDA	24.8	584.8	609.6	16.5	474.2	490.7
Net financial income attributable to free capital		75.0	75.0		112.2	112.2
Interest expense on subordinated loans		(36.4)	(36.4)		(38.9)	(38.9)
PROFIT BEFORE TAX	24.8	623.3	648.2	16.5	547.5	564.0
Income tax expense	(7.4)	(244.5)	(252.0)	(5.4)	(210.7)	(216.0)
PROFIT FOR THE PERIOD	17.4	378.8	396.2	11.1	336.8	347.9

In the life business, in a market environment marked by low interest rates and high volatility, and in keeping with the strategic guidelines in the business plan, the Group's **operations** focused on achieving a progressive rebalancing of the offering towards products with a significant investment component without guarantees ("multi-line" and "unit-linked" products), but providing a moderate risk-return profile. This is in line with the type of customer served by the Group, whilst potentially providing more attractive returns on investment. At the same time, the Group is committed to developing new tools and support strategies and to training network staff (to cover the three phases of pre-sales, sales and post-sales) with the aim of improving and consolidating long-term customer relationships.

Total premium revenue amounted to €19.8 billion (€18.1 billion in 2015), including approximately €19.1 billion from sales of Class I and V investment and savings products (traditional separately managed accounts), compared with €17.8 billion in 2015. Premium revenue from Class III policies

(multi-line products and unit-linked products launched in April) amounts to approximately €722 million, compared with €342 million in the previous year.

Sales of regular premium products also performed well (*Multiutile Ricorrente*, *Long Term Care*, *Posta Futuro Da Grande*), with over 117 thousand policies sold in 2016, as did sales of the *PostaPrevidenzaValore* product which, with over 96 thousand policies sold during the year and a total number of members amounting to 874 thousand, has enabled Poste Vita to consolidate its role in the pensions market. Sales of pure risk policies (term life insurance) also performed well. These are sold in stand-alone versions (not bundled together with products of a financial nature), with over 23 thousand new policies sold during 2016, whilst almost 90 thousand were new policies, again of a pure risk nature, sold bundled together with financial obligations deriving from mortgages and loans sold through Poste Italiane's network.

While the contribution of the non-life business to the Group's results is still limited, sales in this area have also performed well, with total gross premium revenue for the period (earned on the sale of approximately 375 thousand new policies) of €108.5 million, up 16% on 2015. Management of the non-life business was also along the lines set out in the business plan and in continuity with the approach followed in 2015, seeking to meet the new needs of customers in the areas of welfare and health insurance, expanding the offering and fine-tuning the model for network support. Above all, during the year the Group identified specific marketing and commercial initiatives aimed at developing a health and protection product offering (e.g., *PosteProtezione Innova Salute* and *PosteProtezione Innova Infortuni*), capable of meeting the different needs of a very large customer base.

In terms of **investments** during the period, the investment policy continues to be marked by the utmost prudence, based on the guidelines in the above-mentioned business plan. The portfolio is primarily invested in Italian government securities and highly-rated corporate bonds, with an overall exposure that represents over 85% of the entire class C portfolio. Against a backdrop of falling interest rates, whilst maintaining a moderate risk appetite, the gradual process of diversifying investments continued by increasing the exposure to equities, above all multi-asset, harmonised open-end funds of the UCITS (Undertakings for Collective Investment in Transferable Securities) type. In line with its strategic asset allocation policy, moreover, the Group continued to invest in real estate funds (targeting retail and office properties). Returns on investments linked to separately managed accounts and on investment of the Company's free capital both registered good performances. The cumulative returns on separately managed accounts at the end of 2016 were 4.04% for *PostaPrevidenza* accounts and 3.03% for *PostaValorePiù* accounts.

As a result of the above operating and financial performance, **technical provisions for the direct Italian portfolio** amount to €104.3 billion (€90.5 billion at the end of 2015), including €95.9 billion for Class I and V products (€81.7 billion at the end of 2015). Provisions for Class III products amount to €6.9 billion (€7.2 billion at 31 December 2015).

Deferred Policyholder Liability (DPL) provisions, linked to the change in the fair value of the financial instruments covering the provisions, are down from €9.7 billion at the end of 2015 to €9.3 billion, reflecting a decrease in fair values as a result of the less positive performance of financial markets compared with the end of the previous year. Technical provisions for the non-life business, before the portion ceded to reinsurers, amount to €143 million at the end of the period, up 28% compared with the end of 2015.

With regard to **organisational aspects**, during the first half of 2016, work continued on a large number of projects in pursuit of growth and designed to achieve continuing functional/infrastructural improvements in key business support systems. The Company's organisational structure was further strengthened to keep pace with its ongoing expansion in terms of size, business volumes and new initiatives. The Group also spent approximately €6 million on advertising to support its growth strategy. As a result of the above, operating costs (after the portion directly attributable to the settlement of claims and investment management) total €110 million, up compared with the €92 million of 2015. It should be noted, finally, that the figure for 2016 includes the operating costs incurred by the subsidiary, Poste Welfare Servizi (approximately €6 million) which, in 2015, contributed only during a period of 2 months, following completion of the subsidiary's acquisition in November of last year. Despite the increase in costs, operating costs remained at around 0.6% of earned premiums and 0.1% of provisions, figures broadly in line with 31 December 2015 and well below market levels.

The investment of **"free capital"** generated net finance income of €75.0 million, although this is down approximately €37 million compared with 2015, primarily due to: i) a reduction in ordinary income as a result of lower interest rates, ii) lower net realised gains (down approximately €15 million compared with 2015) and iii) the impairment loss on the investment in the "Atlante fund".

The above operating and financial performance has resulted in **EBITDA** of €648.2 million (€564.0 million for 2015). After-tax **profit for the period** amounts to €396.2 million, up 14% on the €347.9 million of 2015.

Life business

RECLASSIFIED INCOME STATEMENT				
Life business				
for the year ended 31 December	2016	2015	Increase/(decrease)	
Net premium revenue	19,803.4	18,130.6	1,672.8	9%
Gross premium revenue	19,820.2	18,145.4	1,674.8	9%
Outward reinsurance premiums	(16.8)	(14.8)	(2.0)	14%
Fee and commission income	5.9	3.3	2.6	77%
Net financial income from assets related to traditional products	3,271.6	2,348.0	923.6	39%
Income	2,545.9	2,472.8	73.1	3%
Realised gains and losses	251.2	310.2	(59.0)	-19%
Unrealised gains and losses	474.4	(435.0)	909.5	-209%
Net financial income from assets related to index- and unit-linked products	28.9	189.7	(160.7)	-85%
Net change in technical provisions	(21,938.0)	(19,665.6)	(2,272.4)	12%
Claims paid	(7,462.3)	(8,030.6)	568.3	-7%
Change in technical provisions	(14,485.7)	(11,637.4)	(2,848.3)	24%
Share attributable to reinsurers	10.1	2.4	7.7	317%
Investment management expenses	(44.0)	(37.1)	(6.9)	18%
Acquisition and administration costs	(524.3)	(477.6)	(46.8)	10%
Net commissions and other acquisition costs	(440.7)	(404.2)	(36.5)	9%
Operating costs	(83.6)	(73.4)	(10.2)	14%
Other revenues/(costs), net	(18.8)	(17.2)	(1.6)	9%
EBITDA	584.8	474.2	110.6	23%
Net financial income attributable to free capital	75.0	112.2	(37.2)	-33%
Interest expense on subordinated loans	(36.4)	(38.9)	2.5	-6%
PROFIT BEFORE TAX	623.3	547.5	75.8	14%
Income tax expense	(244.5)	(210.7)	(33.9)	16%
PROFIT FOR THE PERIOD	378.8	336.8	42.0	12%

As noted above, **net premium revenue** for 2016, net of outward reinsurance premiums, amounts to **€19,803.4 million**, up 9% on the €18,130.6 million of 2015.

In terms of income from investments, **net finance income** from securities related to traditional products in 2016 totals €3,271.6 million, up €923.6 million on the figure for 2015. Compared with 2015, ordinary income is up approximately €73.1 million, which, despite falling interest rates, reflects growth in assets under management. In contrast, net realised gains for 2016 are down approximately €59.0 million compared with the figure for 2015. Finally, net unrealised gains for 2016 amount to €474.4 million, compared with net unrealised losses of €435.0 million in 2015. However, given that these investments are included in the separately managed accounts covering the matching insurance liabilities, the gains have been attributed almost entirely to policyholders under the shadow accounting method.

Finance income from **investments linked to index- and unit-linked products** amounts to €28.9 million. The reduction compared with the figure for the same period of 2015, amounting to €189.7 million, primarily reflects: i) an increase of approximately €121.1 million in net unrealised losses due

to heightened financial market volatility, and ii) the number of Class III products reaching maturity. This amount is almost entirely matched by a corresponding change in technical provisions.

As a result of the above operating performance and the corresponding revaluation of insurance liabilities due to the positive financial performance, the matching **change in technical provisions for the life business**, after the portion ceded to reinsurers, amounts to €14,485.7 million at the end of 2016, compared with €11,637.4 million at the end of 2015.

Claims paid to customers during the period amount to approximately €7,462.3 million (€8,030.6 million in 2015), inclusive of policy expirations of approximately €3,765 million. The reduction compared with 2015 is due to a decrease in expirations of Class III policies. Total surrenders accounted for 2.9% of initial provisions, a reduction compared with the 3.3% recorded at the end of 2015. This figure continues to be far lower than the market average.

Commissions paid for distribution and collection activities amount to approximately €440.7 million (€404.2 million in 2015), accounting for around 2.2% of earned premiums and in line with the previous year.

Operating costs total approximately €83.6 million, up on the figure for 2015, amounting to €73.4 million. This primarily reflects increases in the quality and size of the Group's workforce and the cost of the large number of projects in pursuit of growth and of continuing functional/infrastructural improvements in key business support systems. A total of approximately €3 million was also spent on advertising during the period to support the growth strategy.

The above operating performance, accompanied by positive returns on investments, has resulted in an **increase in EBITDA** from €474.2 million for 2015 to €584.4 million for 2016.

As noted above, the **investment of free capital** also generated net finance income of €75.0 million, although this is down on the figure for 2015 (€112.2 million).

Interest expense on subordinated debt amounts to €36.5 million for 2016 (€38.9 million in 2015), reflecting €13.6 million in interest paid during 2016 on subordinated loan notes subscribed for by the parent, and €22.9 million in interest paid to the subscribers of subordinated bonds issued by the Company in May 2014.

As a result, **pre-tax profit for the period** amounts to €623.3 million, up on the €547.5 million of 2015. After-tax **profit for the period** amounts to €378.8 million (€336.8 million for 2015).

Non-life business

€m

RECLASSIFIED INCOME STATEMENT	Non-life business			
for the year ended 31 December	2016	2015	Increase/(decrease)	
Net premium revenue	80.5	67.1	13.4	20%
<i>Gross premium revenue</i>	108.5	93.3	15.1	16%
<i>Outward reinsurance premiums</i>	(28.0)	(26.2)	(1.8)	7%
Fee and commission income	0.00	0.00		
Net financial income from assets related to traditional products	3.5	3.6	(0.1)	-3%
Net financial income from assets related to index- and unit-linked products	0.0	0.0		
Net change in technical provisions	(33.0)	(29.3)	(3.7)	13%
<i>Claims paid</i>	(21.8)	(19.1)	(2.7)	14%
<i>Change in technical provisions</i>	(20.7)	(22.8)	2.1	-9%
<i>Share attributable to reinsurers</i>	9.5	12.6	(3.1)	-24%
Investment management expenses	(0.4)	(0.6)	0.2	-35%
Acquisition and administration costs	(33.6)	(24.5)	(9.1)	37%
<i>Net commissions and other acquisition costs</i>	(7.3)	(6.0)	(1.4)	23%
<i>Operating costs</i>	(26.3)	(18.6)	(7.7)	42%
Other revenues/(costs), net	7.9	0.2	7.6	3373%
EBITDA	24.8	16.5	8.4	51%
Net financial income attributable to free capital	0.0	0.0		
Interest expense on subordinated loans	0.0	0.0		
PROFIT BEFORE TAX	24.8	16.5	8.4	51%
Income tax expense	(7.4)	(5.4)	(2.1)	39%
PROFIT FOR THE PERIOD	17.4	11.1	6.3	57%

Gross premium revenue in the non-life business, generated by policies sold in the year under review, totals approximately €108.5 million (up 16% on 2015). On an accruals basis, after outward reinsurance premiums, **net premium revenue** amounts to approximately €80.5 million (up 20% on the €67.1 million of 2015).

During 2016, **claims expenses**, inclusive of settlement costs and direct costs, amounted to €21.8 million, compared with €19.1 million in 2015. The **change in technical provisions**, inclusive of provisions for late lodgements, totals €20.7 million for 2016, compared with €22.8 million for 2015.

Considering the reinsurers' share of €9.5 million, the **net change in technical provisions** amounts to €33.0 million at the end of the period, compared with the €29.3 million of 2015.

As a result of the operating performance and the above trends relating to claims, the overall loss ratio¹ is down from 45.3% in 2015 to the current 38.9% (lower than the latest figure for the industry as a whole of 52.6% relating to 2015).

Commissions paid for distribution and collection activities amount to approximately €19.9 million (€15.2 million in 2015). After commissions received from reinsurers and the impact of amortisation for the period, commissions amount to €7.3 million (€6.0 million in 2015).

Operating costs total approximately €26.3 million. The increase compared with the €18.6 million of 2015 primarily reflects advertising expenses of approximately €3 million in 2016, designed to support

¹ This indicator takes into account the reallocation of settlement costs, carried out in accordance with statutory requirements.

the growth strategy. It should also be noted that the figure for 2016 includes the operating costs incurred by the subsidiary, Poste Welfare Servizi (approximately €6 million) which, in 2015, contributed only during a period of 2 months, following completion of the subsidiary's acquisition in November of last year.

Net finance income, resulting from a prudent policy that aims to safeguard the Group's financial strength, amounts to €3.5 million, in line with the figure for 2015 and almost entirely attributable to ordinary income on securities, as opposed to a limited amount of realised gains.

Net other income of €7.9 million in 2016 compares with €0.2 million recognised in 2015. This primarily regards revenue from ordinary activities, totalling €9.6 million, generated by the subsidiary, Poste Welfare Servizi, during the period, after the reversal of premiums ceded in previous years, totalling €1.1 million.

This performance has resulted in **EBITDA** of €24.8 million, compared with €16.5 million for 2015. Account should also be taken of the fact that the figure for 2015 benefitted from non-recurring income generated by the release of provisions for current risks, totalling €4.4 million (€3.7 million after the portion ceded to reinsurers). The non-life business reports an after-tax **profit for the period** of €17.4 million, compared with €11.1 million for 2015.

Key performance indicators

A summary of the principal KPIs is shown below:

(€m)

PRINCIPAL KPIs	2016	2015	Increase/(decrease)	
Gross premium revenue	19,928.7	18,238.7	1,689.9	9.3%
Equity	3,302.0	3,277.0	25.0	0.8%
Profit for the period	396.2	347.9	48.2	13.9%
Technical provisions	113,677.9	100,314.2	13,363.7	13.3%
Financial investments*	117,002.1	104,061.9	12,940.2	12.4%
ROE	12.8%	11.8%		1.1%
No. of outstanding contracts	7,740,969.0	7,300,089.0	440,880.0	6.0%
Workforce	491.0	452.0	39.0	8.6%

* including cash

ECONOMIC AND MARKET ENVIRONMENT

During 2016, major international bodies lowered their estimates for global economic growth. At the end of 2016, the world economy had recorded growth of 3.1%, compared with the 3.2% of 2015. The outcome of June's Brexit referendum has so far not had any significant impact on the performance of the global economy, which, however, remains subject to a number of uncertainties: the effects of the presidential election in the United States, the impact of policies within the Euro zone, the new trading arrangements between the UK and the EU and the fallout from a normalisation of US monetary policy. GDP figures point to a slowdown in all the leading advanced economies (the USA, the Euro zone, the UK and Japan).

In the United States, GDP growth declined from the 2.6% of 2015 to 1.6% in 2016. The economy is at full capacity, with unemployment rate at 4.7%, its lowest level since November 2007.

GDP growth in the Euro zone has continued to gradually strengthen. Confidence surveys point to an ongoing economic recovery, although progress remains subject to political risks: the UK parliament has yet to decide on the country's approach to its exit from the EU, whilst there are upcoming elections in a number of countries (the Netherlands, France, Germany and perhaps Italy), which could result in victories for populist parties. Italy continues to see moderate growth.

Finally, whilst the UK's GDP growth is down from 2.2% in 2015 to 2.0% in 2016, dissipating fears of an immediate slowdown following the Brexit referendum, there is continuing uncertainty over the impact of the vote over the medium term.

The leading emerging economies (Brazil, Russia, India and China) recorded varying performances in 2016, with China slowing to 6.7%, India continuing to grow at a rate of over 7.3% and Brazil remaining in recession. Russia, thanks to the rise in oil prices, has seen the rate of decline in GDP ease and a strengthening of prospects for a return to positive economic growth.

Although still low, inflation has begun to rise in the principal advanced economies, driven higher by the rising price of oil. The risk of deflation in the Euro zone, which marked the first half of the year, has subsided. Inflation remains low in Japan (0.5%), but is on the rise, whilst the UK saw inflation increase to 1.6% at year end.

The monetary policies adopted by advanced-country central banks remain "easy". The Federal Reserve raised the range for the fed funds rate from 0.25-0.50% to 0.50%-0.75%, adopting a prudent approach over the year in response to international tensions. In the Euro zone, on the other hand, the European Central Bank heightened the "expansionary" nature of its monetary policy. This involved cutting official interest rates in March, expanding its Quantitative Easing programme and launching new Longer-Term Refinancing Operations, on particularly favourable terms, to boost the supply of credit to households and businesses. Finally, in December, the ECB reduced the monthly volume of asset purchases (from €80 to €60 billion), but extended the duration of its Quantitative Easing programme (from March to December 2017 or beyond, if necessary in order to re-establish price stability). The Bank also indicated the potential for an increase in the monthly volume of asset purchases, should financial conditions tighten.

Financial market trends

In the first two months of the year, renewed concerns over Chinese economic growth led to sharp falls in global financial markets, above all in the value of the riskier stocks. The "flight" to safer assets

was later reversed, but the financial markets continued to be affected by a series of uncertainties, such as: i) reduced estimates for global economic growth; ii) doubts about the effectiveness of monetary policies based around “negative” deposit rates; iii) US monetary policy; iv) the geopolitical situation; v) the financial position of Europe’s banks; vi) oil price trends.

On 23 June, the UK voted for Brexit, with 52% of voters in favour. The initial reaction on the financial markets was, as expected, extremely negative. In Europe, uncertainty over the economic and political impact of Brexit drove equity markets into negative territory, whilst medium to long-term yields on core government securities declined, benefitting from investors’ preference for less risky assets. In the meantime, the spreads on peripheral sovereigns benefitted from both the ECB’s asset purchase programme and expectations of an even more expansionary monetary policy in response to Brexit. The only UK asset to decline in value was sterling, as expectations of intervention from the Bank of England weakened the British currency, but drove gilt yields down and supported the FTSE 100. The financial shock caused by Brexit only lasted for a few days, however, as the outcome of the referendum was quickly absorbed and financial market conditions progressively improved.

On 10 November, Donald Trump became the forty-fifth President of the United States. Having shrugged off the uncertainty seen prior to the election and immediately afterwards, the financial markets began to gain in confidence, supported by the possibility of expansionary fiscal policy and the potential inflationary effects. This led to rising equity prices, a stronger US dollar and an increase in the yields on US government bonds.

On 4 December, Italians voted to reject the constitutional reform proposed by the government. The financial markets took the result in their stride, mainly because the result of the referendum was already reflected in the prices of Italian assets. In the days prior to the referendum, the sovereign spread had already widened and the yield on 10-year Treasury Notes (BTPs) risen above 2.1%. Attention subsequently shifted to managing the crisis in the government and the recapitalisation of Banca Monte dei Paschi di Siena. At the end of December, the government issued its “Salva-Risparmio” Decree, designed to ensure that the country’s banks had access to adequate liquidity and capital. The end of the year was marked by rising equity markets in both Europe and the US and a slight fall in government bond yields.

European equity markets substantially reversed earlier losses during the second half of the year, helped by a weaker euro and a recovery in bank and oil stocks. After the temporary rise witnessed immediately after the presidential election, US equity market volatility returned to more moderate levels.

Despite the increase in swap rates in the second half of the year, yields on European investment grade corporate bonds fell to below the levels registered at the end of 2015. This reflected the possibility that the ECB may also start purchasing this asset class. Yields on high-yield corporate bonds also declined.

Life insurance market

The estimated figure for gross premium revenue in 2016 is approximately €103 billion, down 10% on the figure for 2015. This primarily reflects a significant reduction in sales of Class III policies (down 28% on 2015), and a reduction of over €2 billion (3%) in Class I policies, which as a proportion of total premium revenue have, however, increased from 68% in 2015 to 74%.

In terms of new business for individual and collective policies sold by Italian and non-EU-registered insurers, including additional single premiums, premium revenue was approximately €87 billion, marking a reduction of around 12% compared with the previous year. New business for individual policies alone amounts to €84.2 billion, down almost 13% on 2015.

An analysis of the performance in terms of class and type of product shows that Class I continued to be the best-selling form of insurance in 2016, despite registering a reduction compared with 2015. Premium revenue from this Class accounts for over 70% of new life business. In contrast, new business for Class III individual policies, which are exclusively of the unit-linked type, is down 30% compared with 2015 to €21 billion. Class V policies also declined, with premium revenue of €2.3 billion accounting for just 3% of total new business. New business in terms of Class VI products amounts to €729 million, marking a slight increase of around 4% on the previous year. The contribution from new inflows into individual pension plans was also positive, with inflows of €1.5 billion registering an improvement of 10.7% on 2015.

Nuova Produzione annua per ramo/prodotto

Imprese italiane ed extra-U.E. (milioni di euro)

RAMO/PRODOTTO	2014*		2015		2016	
	Premi	Var. (%) 14/13	Premi	Var. (%) 15/14	Premi	Var. (%) 16/15
Vita - ramo I	69.058	41,5%	65.382	-5,3%	62.873	-3,8%
Capitalizzazioni - ramo V	4.231	66,8%	3.016	-28,7%	2.300	-23,8%
Linked - ramo III	20.178	59,5%	30.032	48,8%	21.028	-30,0%
Malattia - ramo IV	14	10,7%	17	17,5%	22	31,1%
Fondi pensione - ramo VI	736	-3,3%	701	-4,6%	729	3,9%
Imprese italiane-extra UE	94.217	45,5%	99.149	5,2%	86.951	-12,3%

N.B.: le variazioni % sono calcolate con riferimento ai dati espressi in migliaia di euro

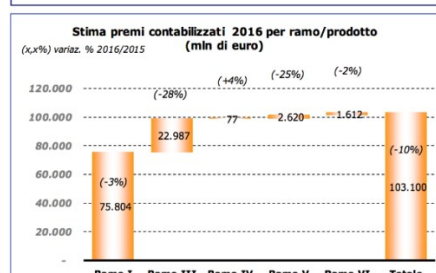
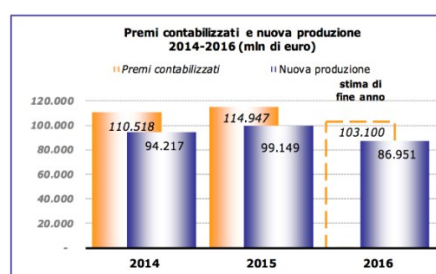
Nuova Produzione annua per canale distributivo

Imprese italiane ed extra-U.E. (milioni di euro)

CANALE DISTRIBUTIVO	2014*		2015		2016	
	Premi	Var. (%) 14/13	Premi	Var. (%) 15/14	Premi	Var. (%) 16/15
Sportelli bancari e postali	65.446	47,9%	68.262	4,3%	60.167	-11,9%
Agenti	9.661	20,3%	9.712	0,5%	9.593	-1,2%
Agenzie in Economia	4.732	33,2%	3.786	-20,0%	3.844	1,5%
Promotori finanziari	13.790	65,6%	16.813	21,9%	12.667	-24,7%
Altre forme (inclusi Broker)	588	-3,6%	576	-2,2%	679	18,1%
Imprese italiane-extra UE	94.217	45,5%	99.149	5,2%	86.951	-12,3%

N.B.: le variazioni % sono calcolate con riferimento ai dati espressi in migliaia di euro

(*) I dati relativi all'anno 2014 sono stati stimati sulla base di un campione di imprese rappresentativo dell'80% del totale premi; quelli del 2015 e del 2016 sono invece relativi alla totalità del mercato.



Analysing the composition and performance of premium revenue from new business by class shows that, in 2016, new Class I business amounted to €61.3 billion (73% of total new business), registering a decline of 4.5% compared with 2015, when the annual rate of reduction was practically the same. New Class V business amounts to €1.7 billion, down almost 26% on the previous year. The remaining new life business regards Class III policies, which are exclusively of the unit-linked type. This form of insurance is also down, with new business of approximately €21.0 billion down 30.0% compared with 2015. The contribution from new inflows into individual pension plans was, however, up 10.7% on the previous year to €1.5 billion. Sales of pure risk policies amounted to €669 million from January on, recording an increase of 39.1% compared with the previous year. It should be noted that 28% of this amount regards stand-alone policies, not sold bundled together with financial obligations deriving from mortgages and consumer credit. This form of insurance is up almost 16% compared with 2015. Again in terms of the policies sold by Italian and non-EU-registered insurers, single premium policies continued to be the form of payment preferred by policyholders, according for 93% of the total in terms of premium revenue and 58% in terms of the number of policies.

In terms of distribution channel and type of premium, banks, post offices and financial promoters accounted for a majority of new business (around 86%), above all in the form of single premium policies, whilst agents also accounted for a significant amount of regular premiums during the year. Calculating premiums based on the annual premium equivalent (APE), the proportion of premium revenue earned through the different distribution channels falls from 86% to 80% for banks, post offices and financial promoters and rises from 14% to 19% for agents.

Non-life insurance market

Direct premiums in the Italian market, thus including the business generated in Italy by both Italian insurers and the subsidiaries of overseas companies, amounted to approximately €25.5 billion in the third quarter of 2016, down 1.6% on the same period of the previous year (source: ANIA).

The overall reduction is due to a fall in vehicle insurance premiums (third-party land vehicle and land vehicle hull policies), which are down 4.2%, whilst other non-life premium revenue recorded a slight increase of 1.1%.

As the following table shows, third-party land vehicle insurance registered premiums of €10.5 billion, down 5.9% on the third quarter of 2015, whilst premium revenue from land vehicle hull policies amounts to €2.0 billion, up 5.5% on the same period of the previous year. As previously noted, other non-life classes registered slight growth, with the related premium revenue totalling approximately €13.0 billion. In terms of volumes and growth rate, the best-performing classes were medical, with premiums of €1.7 billion up 8.3%, and accident, with premiums of €2.3 billion up 0.5% on the same period of the previous year.

PREMI LAVORO DIRETTO AL III TRIMESTRE 2016
Valori in milioni di euro

Rami	PREMI I TA ed EXTRA UE**	QUOTA MERCATO I TA ed EXTRA UE	PREMI UE***	QUOTA MERCATO UE	PREMI TOTALI	VAR.* % PREMI I TA ed EXTRA UE	VAR.* % PREMI UE	VAR.* % PREMI TOTALI
	al III trim. 2016	al III trim. 2016	al III trim. 2016	al III trim. 2016	al III trim. 2016	2016/2015	2016/2015	2016/2015
R.C. Autoveicoli terrestri	10.019	95,8%	439	4,2%	10.458	-6,0%	-3,9%	-5,9%
Corpi di veicoli terrestri	1.895	92,5%	154	7,5%	2.049	5,9%	1,0%	5,5%
Totale settore Auto	11.914	95,3%	594	4,7%	12.507	-4,3%	-2,7%	-4,2%
Infortuni	2.023	87,4%	293	12,6%	2.316	0,8%	-1,4%	0,5%
Malattia	1.591	94,8%	86	5,2%	1.678	9,6%	-10,9%	8,3%
Corpi di veicoli ferroviari	7	96,8%	0	3,2%	7	123,7%	-11,3%	113,5%
Corpi di veicoli aerei	15	54,9%	13	45,1%	28	1,1%	40,0%	15,6%
Corpi veicoli marittimi	182	79,0%	48	21,0%	231	8,1%	-25,2%	-1,1%
Merici trasportate	118	54,4%	99	45,6%	218	-9,6%	2,6%	-4,4%
Incendio ed elementi naturali	1.456	88,9%	181	11,1%	1.637	1,0%	-1,0%	0,8%
Altri danni ai beni	1.875	90,1%	205	9,9%	2.080	0,3%	1,1%	0,4%
R.C. Aeromobili	7	52,2%	6	47,8%	13	-14,6%	11,2%	-3,9%
R.C. Veicoli marittimi	29	95,3%	1	4,7%	30	0,9%	-4,6%	0,6%
R.C. Generale	1.866	69,2%	829	30,8%	2.695	-0,2%	-5,1%	-1,7%
Credito	53	14,1%	324	85,9%	377	7,9%	-0,2%	0,9%
Cauzione	276	72,6%	104	27,4%	380	4,7%	15,8%	7,5%
Perdite pecuniarie	359	72,5%	136	27,5%	495	-7,4%	-9,9%	-8,1%
Tutela Legale	236	86,8%	36	13,2%	271	3,1%	5,3%	3,4%
Assistenza	468	91,4%	44	8,6%	512	7,1%	12,9%	7,5%
Totale altri rami danni	10.562	81,4%	2.406	18,6%	12.968	1,9%	-2,5%	1,1%
Totale rami danni	22.476	88,2%	3.000	11,8%	25.475	-1,5%	-2,6%	-1,6%

* The % changes are calculated on a like-for-like basis.

** Italian and non-EU companies are Italian insurers and the Italian subsidiaries of companies that are not part of the European Economic Area and operating under the right of establishment.

*** EU companies are the Italian subsidiaries of companies registered in countries forming part of the European Economic Area and operating under the right of establishment; the figures only refer to companies participating in the survey.

In terms of distribution channels, with regard to the business generated by both Italian insurers and the subsidiaries of non-EU companies, agents again accounted for the largest market share with 77.5%, despite this being down on the figure for previous years (79.5% in the third quarter of 2015). Brokers had a market share of 8.2%, representing the second most important distribution channel for non-life insurance. Banks and post offices also registered growth, with a combined share of 5.7%

(4.8% in the third quarter of 2015). Direct sales are practically unchanged compared with the third quarter of 2015, with in-house agents accounting for 3.7% (3.4% in the same period of 2015) and online sales for 3.3% (3.4% in 2015). Finally, telephone sales accounted for 1.4% of the total (slightly down on the third quarter of 2015).

DISTRIBUZIONE % PREMI LAVORO DIRETTO AL III TRIMESTRE 2016 (imprese italiane e rappresentanze imprese extra-UE)

Rami	Agenti	Broker	Sportelli bancari	Promotori finanziari	Vendita diretta			Totale
					Direzione-Agenzie in economia	Vendita telefonica	Internet	
R.C. Autoveicoli terrestri	86,0	2,9	2,6	0,0	0,6	2,1	5,7	100,0
Corpi veicoli terrestri	76,1	11,6	2,8	0,1	2,7	2,1	4,7	100,0
Totale settore Auto	84,5	4,3	2,7	0,0	0,9	2,1	5,5	100,0
Infortuni	76,5	5,4	10,2	0,7	4,1	1,3	1,7	100,0
Malattia	39,1	19,8	13,8	1,4	25,5	0,2	0,1	100,0
Corpi veicoli ferroviari	21,0	20,3	0,0	0,0	58,7	0,0	0,0	100,0
Corpi veicoli aerei	3,0	96,3	0,0	0,0	0,8	0,0	0,0	100,0
Corpi veicoli marittimi	14,3	85,2	0,0	0,0	0,4	0,0	0,0	100,0
Merci trasportate	47,4	47,6	0,7	0,0	4,2	0,0	0,0	100,0
Incendio ed elementi naturali	76,9	9,7	9,9	0,4	2,8	0,1	0,2	100,0
Altri danni ai beni	81,3	12,1	3,8	0,2	2,3	0,1	0,1	100,0
R.C. Aeromobili	14,8	90,3	0,0	0,0	-5,1	0,0	0,0	100,0
R.C. Veicoli marittimi	93,9	3,9	0,4	0,0	0,2	0,9	0,8	100,0
R.C. Generale	81,8	9,1	4,3	0,2	4,3	0,1	0,1	100,0
Credito	28,7	18,2	38,0	0,0	15,1	0,0	0,0	100,0
Cauzione	79,2	16,1	0,1	0,0	4,6	0,0	0,0	100,0
Perdite pecuniarie	39,6	11,8	40,5	0,5	5,7	0,9	1,1	100,0
Tutela legale	74,7	6,7	9,6	0,1	1,4	2,5	4,9	100,0
Assistenza	76,0	4,7	8,8	0,3	1,8	2,8	5,7	100,0
Totale altri rami danni	69,7	12,6	9,0	0,5	6,8	0,6	0,8	100,0
Totale danni	77,5	8,2	5,7	0,3	3,7	1,4	3,3	100,0

Valori percentuali

Finally, the principal distribution channels for EU companies were agents, with a share of 39.1%, and brokers, with a share of 43.1%.

DISTRIBUZIONE % PREMI LAVORO DIRETTO AL III TRIMESTRE 2016 (rappresentanze imprese UE)

Rami	Agenti	Broker	Sportelli bancari	Promotori finanziari	Vendita diretta			Totale
					Direzione-Agenzie in economia	Vendita telefonica	Internet	
Totale settore Auto	64,6	11,9	4,3	3,8	0,2	8,7	6,5	100,0
Totale altri rami danni	32,8	50,8	7,7	-	7,0	0,1	1,5	100,0
Totale danni	39,1	43,1	7,1	0,8	5,6	1,8	2,5	100,0

Valori percentuali

OPERATING REVIEW

Total premiums continued to grow in 2016, with total premium revenue, net of outward reinsurance premiums, totalling €19,884.0 million, up 9.3% compared with the €18,197.8 million of the previous year. These results have enabled the Company to consolidate its position with respect its competitors. The table below breaks down premiums by life and non-life businesses:

	(€m)			
December	2016	2015	Increase/(decrease)	
Class I	19,265.6	17,910.4	1,355.1	7.6%
Class III	474.6	163.3	311.4	190.7%
Class IV	11.3	5.6	5.6	100%
Class V	68.8	66.1	2.7	4.1%
Gross "Life" premium revenue	19,820.2	18,145.4	1,674.8	9.2%
Outward reinsurance premiums	(16.8)	(14.8)	(2.0)	13.6%
Net "Life" premium revenue	19,803.5	18,130.6	1,672.8	9.2%
Non-life premiums	118.8	93.1	25.7	27.7%
Outward reinsurance premiums	(30.0)	(25.2)	(4.9)	19.3%
Change in premium reserve	(10.4)	0.3	(10.6)	(4087.0%)
Change in share of premium reserve attributable	2.0	(1.1)	3.1	(294.3%)
Net "Non-life" premium revenue	80.5	67.1	13.4	19.9%
Total net premium revenue for the period	19,884.0	18,197.8	1,686.2	9.3%

Life business

As noted above, in a market environment marked by low interest rates and high volatility, and in keeping with the strategic guidelines in the business plan, the Group's operations focused on achieving a progressive rebalancing of the offering towards products with a significant investment component without guarantees ("multi-line" and "unit-linked" products), but providing a moderate risk-return profile. This is in line with the type of customer served by the Group, whilst potentially providing more attractive returns on investment. At the same time, the Group is committed to developing new tools and support strategies and to training network staff (to cover the three phases of pre-sales, sales and post-sales) with the aim of improving and consolidating long-term customer relationships.

Total premium revenue amounted to €19.8 billion (€18.1 billion in 2015), including approximately €19.1 billion from sales of Class I and V investment and savings products (traditional separately managed accounts), compared with €17.8 billion in 2015. Premium revenue from Class III policies (multi-line products and unit-linked products launched in April) amounts to approximately €722 million, compared with €342 million in the previous year.

The following table confirms the Group's commitment to growing regular premium products, which are up approximately 24% on the figure for 2015.

(€m)

Breakdown of gross premium revenue for the life business for the year ended 31 December	2016	2015	Increase/(decrease)	
Regular premiums	2,162.7	1,745.2	417.5	23.9%
- of which first year	724.34	688.5	35.8	5.2%
- of which subsequent years	1,438.40	1,056.7	381.7	36.1%
Single premiums	17,657.5	16,400.2	1,257.3	7.7%
Total	19,820.2	18,145.4	1,674.8	9.2%

The following tables show a breakdown of new business, which totals €18,937.1 million, up 8.8% on the €17,408.0 million of 2015.

(€m)

New business for the year ended 31 December	2016	2015	Increase/(decrease)	
Class I	18,393.3	17,174.7	1,218.6	7.1%
Class III	474.6	163.3	311.4	190.7%
Class IV	0.4	3.9	(3.5)	-89.5%
Class V	68.8	66.1	2.7	4.1%
Total	18,937.1	17,408.0	1,529.1	8.8%

The positive operating performance has resulted in a 5.3% increase in the number of policies sold, after taking into account claims paid during the period, which amount to €6.6 million at the end of the year.

Portfolio of contracts	At 1 January 2015	New contracts	Claims paid and lapses	At 31 December 2015
Traditional investment products	4,186,342	650,814	(404,804)	4,432,352
Bundled investment products	35,391	34,234	(797)	68,828
Unit-linked products	64,012	30,825	(33,933)	60,904
Index-linked products	573,613		(56,210)	517,403
Pension products	784,910	97,522	(8,426)	874,006
Protection products	582,728	119,866	(101,139)	601,455
Total	6,226,996	933,261	(605,309)	6,554,948

Non-life business

During 2016, the Group identified specific marketing and commercial initiatives aimed at: i) developing a health and protection product offering (e.g., *PosteProtezione Innova Salute* and *PosteProtezione Innova Infortuni*), ii) the restyling of products sold bundled with loans (*Posteprotezione Prestito* and *Posteprotezione Mutuo*) and iii) the commercial launch of collective employee benefit products.

The above commercial initiatives have enabled the Group to generate **total premium revenue** of approximately €118.8 million, up 28% on 2015 (€93.1 million). A total of 375 thousand new non-life policies were sold during 2016 (up 31% on the previous year), with an average of approximately 1,353 policies sold each day (1,031 in 2015). The increase compared with 2015 is primarily due to growth in new business for Goods and Property insurance (up 75%) and Personal insurance (Accident, Medical and Assistance products), which registered growth of 35% compared with 2015.

Total policies for the year ended 31 December	2016	% share	2015	% share	% inc./(dec.)
Goods and property	68,789	18%	39,262	14%	75%
Personal insurance	212,764	57%	157,058	55%	35%
Credit protection	93,902	25%	90,885	32%	3%
Total	375,455	100%	287,205	100%	31%

The following table shows the distribution of gross non-life premium revenue by line of business, showing: i) the pre-eminence of Accident insurance, accounting for 44% of total premium revenue; ii) growth in Medical insurance (up from €7.5 million in 2015 to €17.5 million in 2016); and iii) a reduction in the share of the total attributable to Financial Loss products, accompanied by a decrease of around 20% in the volume of premiums compared with 2015.

(€m)						
Gross premium revenue for the year ended 31 December	2016	% share	2015	% share	inc./(dec.)	% inc./(dec.)
Accident	52.3	44%	38.7	42%	13.6	35%
Medical	17.5	15%	7.5	8%	10.0	135%
Fire and Natural Disaster	5.0	4%	4.5	5%	0.5	11%
Other Damage to Property	7.3	6%	6.7	7%	0.6	9%
General Liability	13.4	11%	11.5	12%	1.9	16%
Financial Loss	12.6	11%	15.8	17%	-3.2	-20%
Legal Expenses	2.6	2%	2.4	3%	0.2	9%
Assistance	8.2	7%	6.1	7%	2.1	35%
Total	118.8	100%	93.1	100%	25.7	28%

Payments and change in technical provisions

Claims paid during the period amount to a total of €7,484.1 million, compared with €8,049.5 million in the previous year, as shown below:

(€m)				
Payments in the year ended 31 December	2016	2015	Increase/(decrease)	
Non-life business				
Claims paid	19.3	16.5	2.7	16.6%
Costs of settling claims	2.5	2.6	(0.0)	-1.2%
Total non-life claims paid	21.8	19.1	2.7	14.2%
Life business				
Amounts paid	7,451.9	8,021.4	(569.5)	-7.1%
<i>of which:</i>				
Surrenders	2,618.0	2,557.8	60.2	2.4%
Maturities	3,765.0	4,474.6	(709.6)	-15.9%
Claims	1,069.0	989.1	79.9	8.1%
Costs of settling claims	10.4	9.2	1.2	12.9%
Total life claims paid	7,462.3	8,030.6	(568.3)	-7.1%
Total	7,484.1	8,049.7	(565.6)	-7.0%

Total claims paid during 2016 on non-life policies amount to €21.8 million, up 14.2 % on the figure for 2015.

Total claims paid on life policies amount to €7,462.3 million at the end of 2016, down compared with the €8,030.6 million of 2015. This primarily reflects a reduction of approximately €709.6 million in the number of policies maturing in relation to both separately managed accounts and Class III products.

Surrender costs amount to approximately €2,618.0 million, in line with the €2,557 million of 2015. This represents a 2.9% share of initial provisions, down from 3.3% at the end of 2015. This continues to be much lower than the industry average.

The change in technical provisions, totalling €14,506.4 million (€11,660.2 million in 2015), as the following table shows, primarily refers to a matching increase in insurance liabilities, reflecting the above-mentioned operating performance and the performance of net finance income. The figure also includes the change in Deferred Policyholder Liability (DPL) provisions, linked to the measurement of securities included in separately managed accounts and classified as FVTPL.

The increase in mathematical provisions for Class III policies with respect to 2015 is primarily due to a reduction in maturities during the period, compared with the previous year.

(€m)				
Change in technical provisions in the year ended 31 December	2016	2015	Increase/(decrease)	
Non-life technical provisions	20.7	22.8	-2.09	-9.2%
Mathematical provisions for Class I, IV and V	14,327.1	13,381.3	945.8	7%
Mathematical provisions Class III	(318.7)	(1,285.0)	966.3	-75%
DPL provisions	477.2	(454.0)	931.3	-205%
Other technical provisions	0.1	(4.9)	4.9	-101%
Total life technical provisions	14,485.7	11,637.4	2,848.3	24.5%
Total	14,506.4	11,660.2	2,846.2	24.4%

With reference to policies ceded to reinsurers, claims paid in the period under review, inclusive of the change in technical provisions, amount to €19.6 million. The increase with respect to the €15.0 million of the previous year reflects the growth of the business, as shown below:

(€m)				
Claims expenses attributable to reinsurers in the year ended 31 December	2016	2015	Increase/(decrease)	
Non-life business				
Claims paid	5.8	5.9	(0.1)	-1.2%
Costs of settling claims	0.2	0.3	(0.1)	-38.5%
Total non-life insurance claims paid	6.0	6.2	(0.2)	-3.2%
Change in technical provisions	3.5	6.4	(2.9)	-44.9%
Total non-life insurance	9.5	12.6	(3.1)	-24.3%
Life business				
Claims paid	6.7	4.1	2.6	62.2%
Costs of settling claims	0.0	0.0	0.0	0.0%
Total life insurance claims paid	6.7	4.1	2.5	61.9%
Change in technical provisions	3.4	(1.7)	5.1	-301.3%
Total life insurance	10.1	2.4	7.7	316.9%
Total	19.6	15.0	4.6	30.7%

Technical provisions

As a result of the above operating and financial performance, technical provisions amount to €113,678.0 million, up approximately 13.3% on the €100,314.3 million of 2015. The provisions are allocated as follows:

(€m)				
Technical provisions at 31 December	2016	2015	Increase/(decrease)	
Non-life classes:				
Premium reserve	54.1	43.7	10.4	23.8%
Outstanding claims provisions	89.1	68.3	20.8	30.5%
Other technical provisions	0.2	0.3	- 0.1	(30.0%)
Total non-life classes	143.4	112.3	31.1	27.7%
Life classes:		-		
Mathematical provisions	96,332.2	82,012.8	14,319.4	17.5%
Technical provisions where risk is borne by policyholders	6,899.8	7,218.5	(318.7)	(4.4%)
Outstanding claims provisions	941.7	1,178.8	(237.1)	(20.1%)
DPL provisions	9,280.8	9,711.8	(431.0)	(4.4%)
Other technical provisions	80.1	80.0	0.0	0.1%
Total life classes	113,534.6	100,202.0	13,332.6	13.3%
Total	113,678.0	100,314.3	13,363.7	13.3%

Provisions for the life classes amount to €113,534.6 million. These provisions are made to meet all of the Company's obligations and include mathematical provisions (€96,332.2 million), provisions for unit- and index-linked products (€6,899 million), outstanding claims provisions (€941.7 million), deferred policyholder liability (DPL) provisions (€9,280.8 million) and other technical provisions (€80.1 million). The latter includes provisions for future expenses, totalling €78.9 million, provisions for supplementary insurance premiums, totalling €1.0 million, and provisions for with-profits policies, amounting to €0.2 million.

Deferred Policyholder Liability (DPL) provisions, amounting to €9,280.8 million at 31 December 2016, are down on the figure for the beginning of the year (€9,711.8 million). This reflects a reduction in the fair value of the financial instruments covering the insurance liabilities linked to separately managed accounts, as a result of the less positive performance of financial markets compared with the end of the previous year.

In this regard, it should be noted that for products whose revaluation is linked to the returns on separately managed accounts, the financial component of technical provisions is determined on the basis of realized income and expenses, as established by the applicable Italian accounting standards, without considering unrealized gains and losses. This generates a timing mismatch between liabilities and the assets designed to back them, which are recognized at fair value, in accordance with IAS 39. In order, therefore, to report assets and liabilities intended to match each other in a consistent manner, the Company has, as in previous years, adopted the "shadow accounting" method introduced by IFRS 4. The criteria used for shadow accounting purposes are described in the notes.

Contracts classified as "insurance contracts" and those classified as "financial instruments with a discretionary participation feature", for which use is made of the same recognition and measurement criteria as in Italian GAAP, were subjected to a LAT - Liability Adequacy Test established by paragraph 15 of IFRS 4. The test was conducted by taking into account the present value of future

cash flows, obtained by projecting the expected cash flows generated by the existing portfolio as of period end, based on adequate assumptions underlying expiration causes (death, termination, surrender, reduction) and expense trends.

Non-life technical provisions, before provisions ceded to reinsurers, amount to €143.4 million at the end of the period (€112.3 million in 2015), and consist of: the premium reserve of €54.1 million, outstanding claims provisions of €89.1 million and other provisions of €0.2 million, relating solely to the ageing reserve. Outstanding claims provisions for claims incurred but not reported (IBNR) amount to €18.0 million. Changes in the premium reserve and outstanding claims provisions reflect the growth in premium revenue.

Distribution

The Group distributes its products through the post offices of the parent, Poste Italiane SpA, a sole shareholder company – BancoPosta RFC, duly registered under letter D in the single register of insurance intermediaries as per ISVAP Regulation 5 of October 16, 2006. Poste Italiane SpA's sales network consists of over 12,500 post offices throughout the country. Insurance contracts are signed in the post offices by qualified and suitably trained personnel.

Training activity for personnel in charge of product sales is conducted according to regulatory guidelines.

Professional training programmes focused both on new products and on general technical-insurance aspects (classroom or eLearning). These courses were accompanied by training in asset management (specific behavioural training), savings protection and training in provision of the guided consultancy service.

Reinsurance strategy

Life business

The effects of existing treaties relating to Term Life Insurance policies and reinsurance coverage with regard to LTC (Long-Term Care) insurance continued to be felt in 2016.

Premiums ceded to reinsurers amount to €16.8 million (€14.8 million in 2015). The share of claims expenses attributable to reinsurers, after technical provisions, amounts to €10.1 million (€5.9 million in 2015) and commissions received from reinsurers total €2.3 million (€2.1 million in 2015). As a result of this, ceded life policies showed a negative result of €4.4 million, an improvement with respect to the negative result for 2015, amounting to €10.2 million.

Non-life business

The assessment conducted, in terms of both gains or losses on reinsurance and underwriting stability and profitability during the period 2013–2015, has led to the decision to continue with the reinsurance strategy for the three-year period 2013-2015.

Against this backdrop, the Group also dealt with the natural expiries of a number of agreements, leading Poste Assicura to enter into talks with its reinsurance partners in order to further improve profitability, focusing above all on reinsurance commissions, and conclude agreements relating to new business and/or the revision of existing agreements.

Based on the above, at its meeting of 18 February 2016, the Board of Directors approved Guidelines covering outward reinsurance contracts and the Reinsurance Plan for 2016, prepared in accordance existing regulations.

Briefly, the reinsurance structure applied in 2016 is based on the following:

- retention of 100% of gross premium revenue in the Accident class for retail products, with reference to new business, in addition to the adoption of excess-of-loss treaties for personal (Accident) insurance due to risk and/or event to hedge against large losses. Quota share treaties continue to be valid in relation to the principal risks insured prior to 2013. These arrangements provide risk attaching coverage, with 50% of any losses covered. In this latter case, the excess-of-loss treaty for Accident policies covers the retained share;
- retention of 50% of the risk exposure for retail Medical products. The reinsurance strategy, applicable to the risks underlying policies in run-off, continues in the form of a quota share treaty with the ceded percentage based on pure premiums and providing risk attaching coverage. The same quota share reinsurance structure applies to all the risks attaching to new business and underlying the other products sold, but with retrocession of a flat commission and on a loss occurring basis;
- confirmation of the preference given to “bouquet, multi-line” reinsurance for Property and Liability products: proportional treaty bases on reinsurance cession in the Fire, Other Damage to Property and General Liability classes, maintaining the commissions paid by reinsurers based on underwriting results, in addition to the adoption of excess-of-loss treaties per risk and/or event to protect against large losses;
- a reduction of the proportion of risks ceded in the Fire and Other Damage to Property classes to 40%;
- confirmation of 25% as the proportion of risks ceded in General Third Party Liability, excluding professional liability, which is maintained at 90%;
- retention of the pure premium rates established in 2013 for credit protection insurance for all policies written prior to 20 February 2016;
- adoption of new pure premium rates for credit protection insurance for all policies written after 20 February 2016, in application of all the recommendations contained in the letter from IVASS – Bank of Italy, dated 26 August 2015, relating to “PPI - Payment Protection Insurance. Customer protection measures”;
- a reduction of the proportion of risks ceded in the Legal Expenses and Assistance classes to 80% and a further increase in reinsurance commissions (fixed commission + profit-sharing) for all policies written at 31 December 2015 and new policies in 2016;
- the retention, by Poste Assicura, of the risk exposure associated with corporate (non-retail) and/or public sector customers, which has continued to be minimal and never in excess of 10%, with the exception of Accident and Medical policies (50%);
- confirmation, in view of the high degree of the segment’s specificity, of minimum risk retention for the corporate (non-retail) and/or public sectors, to be attained mainly via optional reinsurance agreements, supplemented, where possible, with reinsurance treaties;
- adoption of a treaty covering the main collective, closed-group corporate accident risks for policies sold from 1 October 2016. This reinsurance structure has a loss occurring basis and is based on a quota share treaty with commercial premiums, with a cession rate of 70% and sliding-scale reinsurance commissions depending on the loss ratio, and an excess-of-loss treaty covering the retained share;

- confirmation of an 80% quota share treaty for corporate medical risks and regarding the Open Medical Scheme, with a cession rate based on gross premium revenue, a flat reinsurance commission and with coverage provided on a risk attaching basis.

In view of changes in the EU regulatory framework, the degree of maturity of the Group's core business and the performance of Poste Assicura's portfolio, at the end of the year it was decided to review the Guidelines applicable to existing passive reinsurance arrangements. At the meeting of 14 December 2016, the Board of Directors approved the new guidelines.

In view of the above reinsurance strategy and the operating performance, the degree of retained risk, in relation to the company's remaining exposure to claims following cessions to reinsurers, is equal to 78% (70% at the end of 2015).

The ratio of ceded premiums at the end of the period to gross premiums written is 25%, compared with the figure of 27% for the previous year.

Complaints

The Parent Company, Poste Vita, received 2,056 new complaints in 2016, compared with 1,703 in 2015. The ratio of complaints to the total number of outstanding contracts at 31 December 2016 (6,557,431) is 0.031% (0.028% in 2015). The average time taken to respond to complaints during the period was around 16 days (6 days in 2015).

The Company received 468 new complaints regarding its Personal Injury Protection (PIP) product in 2016 (451 in 2015). The ratio of complaints to the total number of outstanding contracts at 31 December 2016 (6,557,431) is 0.007% (0.007% in 2015). The average time taken to respond to complaints during the period was around 14 days (6 days in 2015).

The subsidiary, Poste Assicura, received 1,134 new complaints in the same period (1,258 in 2015). The ratio of complaints to the total number of outstanding contracts at 31 December 2016 (1,186,021) is 0.10% (0.12% in 2015). The average time taken to respond to complaints during the period was around 17 days (8 days in 2015), well within the 45-day time limit set by IVASS.

FINANCIAL POSITION

Financial investments

In terms of **investments**, during the period, against a backdrop marked by falling interest rates and lower yields on government securities, the investment policy continues to be marked by the utmost prudence, based on the guidelines in the above-mentioned business plan. The portfolio is primarily invested in Italian government securities and corporate bonds, with an overall exposure that, whilst lower than in 2015, represents over 85% of the entire portfolio. In addition, in 2016, whilst maintaining a moderate risk appetite, the company continued with the gradual process of diversifying investments by increasing its exposure to equities (up from 10.6% to 14.2%), above all multi-asset, harmonised open-end funds of the UCITS (Undertakings for Collective Investment in Transferable Securities) type. In line with its strategic asset allocation policy, moreover, the company continued to invest in real estate funds (targeting retail and office properties) primarily in Europe.

At 31 December 2016, total investments amount to €115,677.5 million, up 12.9% on the €102,453.8 million of 2015, reflecting the operating performance and financial market trends.

			(€m)	
At 31 December (€000)	2016	2015	Increase/(decrease)	
Investments in associates	105.9	105.2	0.7	0.7%
Loans and receivables	29.8	101.4	(71.6)	-70.6%
Available-for-sale financial assets	90,405.4	83,871.3	6,534.1	7.8%
Financial assets at fair value through profit or loss	25,136.4	18,375.9	6,760.4	36.8%
Total financial investments	115,677.5	102,453.8	13,223.6	12.9%

Investments refer to the shareholding in the associate, EGI, which is accounted for using the equity method. The company, which is owned by Poste Vita SpA and Poste Italiane SpA with 45% and 55% equity interests, respectively, operates primarily in real estate and is tasked with the management and development of the parent's non-operating properties. Following its merger with Poste Energia, from 2015 the company has also begun to operate in the electricity market as a specifically authorised wholesale purchaser, having taken on the role of electricity supplier to the Poste Italiane Group previously carried out by the above merged company. The figures for 2016 show that the company's equity amounts to €235.2 million and that it reported a profit for the year of approximately €1.6 million.

Loans and receivables solely regard subscriptions and the related capital calls on mutual funds for which the corresponding units have not yet been issued. The reduction compared with the end of 2015 reflects use of all the liquidity in the intercompany current account.

Available-for-sale (AFS) financial assets amount to over €90.4 billion and primarily relate to securities allocated to separately managed accounts (approximately €86.9 billion) and a residual portion attributable to the Company's free capital (approximately €3.5 billion).

	(€m)			
At 31 December (€000)	2016	2015	Increase/(decrease)	
Equity instruments	15.8	8.5	7.3	86.5%
Debt securities	88,377.1	82,246.7	6,130.3	7.5%
of which: government bonds	73,101.0	69,357.3	3,743.7	5.4%
corporate bonds	15,276.0	12,889.4	2,386.6	18.5%
UCITS units	2,012.5	1,616.1	396.4	24.5%
Total	90,405.4	83,871.3	6,534.1	7.8%

This item also includes the investment in the closed-end alternative investment fund called “Atlante”, managed by Quaestio Capital Management. As more fully described in the section, “Other information”, in this report on operations, at 31 December 2016, the fund has called up €211.0 million, including €186.6 million allocated to the separately managed account, *PostaValorePiù*, and €24.4 million allocated to the Parent Company’s free capital, compared with a total commitment of €260 million (including €30 million attributable to free capital and the remainder to the separately managed account). In view of the valuation provided by an independent appraiser, the Company has proceeded to recognise a prudent impairment loss on the investment of 50%. The impairment resulted in a total loss of approximately €106 million, including €94 million attributable to policyholders under the shadow accounting method and €12 million recognised in the Company’s profit or loss.

The fair value reserve for these instruments thus amounts to €9,380.3 million represented by potential gains, including €9,110.0 million attributable to policyholders through the shadow accounting mechanism, as they relate to financial instruments included in separately managed accounts. The remaining €270.3 million (€315.1 million in 2015) refers to net gains on AFS securities included in the Company’s free capital and therefore attributable to a specific equity reserve (equal to €187.8 million), net of the related taxation.

Financial assets at fair value through profit or loss (FVTPL) amount to approximately €25.1 billion (€18.4 billion at 31 December 2015) and primarily regard:

- financial instruments backing unit and index-linked policies, totalling €7.0 billion;
- investments included in the Company’s separately managed accounts, amounting to €18.1 billion, of which: i) approximately €4.0 billion are callable bonds, and ii) approximately €13.3 billion invested in multi-asset, harmonised open-end funds of the UCITS (Undertakings for Collective Investment in Transferable Securities) type;
- warrants backing index-linked products, totalling €0.2 million

	(€m)			
At 31 December (€m)	2016	2015	Increase/(decrease)	
Debt securities	9,566.5	7,558.6	2,007.9	26.6%
of which: government bonds	5,450.9	5,664.9	(214.0)	-3.8%
corporate bonds	4,115.6	1,893.7	2,221.9	117.3%
Structured bonds	992.0	1,345.8	(353.7)	-26.3%
UCITS units	14,345.2	9,227.3	5,117.9	55.5%
Derivatives	232.7	244.2	(11.6)	-4.7%
Total	25,136.4	18,375.9	6,760.5	36.8%

The increase in the period primarily reflects new investments in multi-asset, harmonised open-end funds of the UCITS type and in corporate bonds. Further disclosures regarding these investments

are provided in the section, "IFRS 12 - Disclosures about interests in non-consolidated structured entities".

The only derivative instruments held at 31 December 2016 regard the warrants backing index-linked products.

Warrants at 31 December				
Policy	2016		2015	
	Nominal value	Fair value	Nominal value	Fair value
Alba	712,242	17,471	712,242	17,856
Terra	1,355,039	27,209	1,355,039	34,675
Quarzo	1,253,802	35,357	1,253,802	36,348
Titanium	655,615	33,771	655,615	36,000
Arco	174,032	29,608	174,032	29,535
Prisma	174,550	25,257	174,550	25,191
6Speciale	200,000	0	200,000	0
6Avanti	200,000	0	200,000	0
6Serenio	181,482	15,257	181,482	15,411
Primula	184,119	14,658	184,119	14,621
Top5	232,962	15,608	232,962	15,422
Top5 edizione II	234,214	18,761	234,214	19,182
Total	5,558,057	232,958	5,558,057	244,242

The composition of the portfolio according to issuing country is in line with the situation in 2015, being marked by a strong prevalence of Italian government bonds, as shown in the following table.

Country	(€m)		
	AFS	FVTPL	TOTAL
AUSTRALIA	377	72	450
AUSTRIA	64	32	96
BELGIUM	253	156	408
CANADA	87	-	87
DENMARK	76	61	137
FINLAND	112	-	112
FRANCE	2,786	945	3,731
GERMANY	997	202	1,199
JAPAN	10	13	23
IRELAND	357	292	648
ITALY	74,867	6,554	81,421
LUXEMBOURG	697	14,008	14,705
MEXICO	72	35	106
NORWAY	45	2	48
NEW ZEALAND	30	-	30
NETHERLANDS	2,039	636	2,675
PORTUGAL	40	-	40
UK	1,655	870	2,525
SLOVENIA	104	-	104
SPAIN	3,005	122	3,127
SWEDEN	288	73	361
SWITZERLAND	309	-	309
USA	2,134	1,066	3,200
Total	90,405	25,136	115,542

The distribution of the securities portfolio at 31 December 2016 by duration class is shown below:

Duration (in years)	(€m)	
	AFS	FVTPL
up to 1	3,013	4,622
from 1 to 3	11,654	2,435
from 3 to 5	16,713	494
from 5 to 7	21,118	1,490
from 7 to 10	13,198	1,176
from 10 to 15	11,353	712
from 15 to 20	5,632	216
from 20 to 30	5,612	352
over 30	2,111	13,638
Total	90,405	25,136

Returns on Poste Vita's separately managed accounts, in the specific period under review (from 1 January 2016 to 31 December 2016), are as follows:

Separately managed accounts	Gross return	Average invested capital
	% rate	€m
Posta Valore Più	3.03%	85,089.0
Posta Pensione	4.04%	4,112.0

Equity and solvency margin

Equity amounts to €3,302.0 million at 31 December 2016, up €25 million on the figure for the beginning of the year. Changes during the period primarily reflect: i) profit for the period of €396.2 million, iii) the reduction in the valuation reserve for available-for-sale financial assets included in the Parent Company's free capital (€31.1 million), and iii) the payment of dividends of €340 million to the shareholder, Poste Italiane, as approved by the General Meeting of 14 December 2016.

(€m)	At 31 December 2015	destination profit 2015	reserves distribution	Increase/(decrease) AFS	At 31 December 2016
Share capital	1,216.6				1,216.6
Revenue reserves and other equity reserves:	1,493.6				1,501.5
Legal reserve	87.0	15.0			102.0
Extraordinary reserve	0.6				0.6
Organisation fund	2.6				2.6
Negative goodwill	0.4				0.4
Retained earnings	1,403.0	332.9	(340.0)		1,395.9
Valuation reserve for AFS financial assets	218.9			(31.1)	187.8
Other gains or losses recognised through equity	(0.1)				(0.1)
Profit for the period	347.9	(347.9)		396.2	396.2
Totale	3,277.0	-	340.0		3,302.0

In addition, the subordinated debt issued by the Company at 31 December 2016 amounts to €1,000.0 million (€1,200.0 million at the end of 2015), including:

- €250 million in loan notes placed with the parent and having an undefined maturity;
- €750 million in subordinated bonds issued by the Company in May 2014 and placed in their entirety with institutional investors.

The reduction since the beginning of the year reflects repayment, during the period, of a tranche with a defined maturity, amounting to €50 million, and of a tranche with an undefined maturity, totalling €150 million, following the Company's receipt of authorisation from IVASS on 22 November 2016.

All the debt pays a market rate of return and is governed by article 45, section IV, sub-section III of Legislative Decree 209 of 7 September 2005, as amended. The debt qualifies in full for inclusion in the solvency margin.

In terms of the new prudential Solvency II requirements, which came into effect from 1 January 2016, an early indication of Poste Vita's solvency position at 31 December 2016 shows that it has a solvency ratio of between 250-300%, which, whilst down on the figure for 2015, continues, in any event, to be well above the regulatory requirement and the market average.

The expected reduction with respect to 2015 is primarily due to the greater amount of capital needed to cover market risk. This is linked to interest rate trends and the spread on Italian government bonds in the last quarter of 2016, to the greater degree of diversification of investments (a lower proportion invested in government securities) and to growth of the business.

ORGANISATION OF THE POSTE VITA GROUP

Corporate governance

This paragraph also represents the Report on Corporate Governance required by art. 123-bis of Legislative Decree 58/1998 (the Consolidated Law on Finance), as for as it extends to information required under paragraph 2, sub-paragraph b. The governance model adopted by Parent Company, Poste Vita, is “traditional”, i.e. characterized by the traditional dichotomy between the Board of Directors and the Board of Statutory Auditors.

The Board of Directors of the Parent Company, Poste Vita, which has 7 members (2 of whom, following re-election of the Board in August 2014, are independent), meets periodically to review and adopt resolutions on strategy, operations, results, and proposals regarding the operational structure, strategic transactions and any other obligations under current industry legislation. This body thus has a central role in defining the Company’s strategic objectives and the policies needed to achieve them. The Board of Directors is responsible for managing corporate risks and approves the strategic plans and policies to be pursued. It promotes the culture of control and ensures its dissemination to the various levels within the Company.

The Chairman is vested with the powers provided for by the Company’s articles of association and those conferred by the Board of Directors at the meeting of 5 August 2014. On that date, the Board of Directors granted the Chief Executive Officer the authority to manage the Parent Company, Poste Vita, with the exception of the powers reserved to the Board of Directors.

The Board of Directors has established a Remuneration Committee, the composition of which changed following the re-election of Directors in August 2014. The Committee has an advisory role and makes recommendations to the Board regarding remuneration policies and the remuneration of executive Directors. The Committee also assesses whether or not the remuneration paid to each executive Director is proportionate to that paid to other executive Directors and the Group’s other personnel.

On 27 January 2015, the Parent Company established an Internal Audit and Related Party Transactions Committee, with the role of assisting the Board of Directors in determining internal control system guidelines, in assessing the system’s adequacy and effective functionality, and in identifying and managing the principal business risks.

The Board of Statutory Auditors is made up of 3 standing members and 2 alternates appointed by the shareholders. Pursuant to art. 2403 of the Italian Civil Code, the Board of Statutory Auditors monitors compliance with the law and the articles of association and with good practices and, in particular, the adequacy of the organizational, administrative and accounting structure adopted by the Company and its functionality.

The audit activities required by articles 14 and 16 of Legislative Decree 39/2010 are carried out by BDO SpA, an auditing firm entered in the register of auditors held by the Ministry of the Economy and Finance.

The Company also has a system of procedural and technical rules that ensure consistent corporate governance through the coordinated management of the decision-making process regarding aspects, issues and activities of interest and/or of strategic importance, or that might give rise to significant risks for its assets.

The governance system is further enhanced by a series of Company Committees chaired by the CEO, aimed at addressing and controlling corporate policies on strategic issues. In particular, the following committees have been established: (i) an Executive Committee, with responsibility for overseeing the operating performances of the life and non-life companies with respect to their budgets, implementing the Group's plans and the master plan for its strategic projects, assessing and discussing key, Group-wide issues in order to support decision-making by the Chief Executive Officer of Poste Vita and Poste Assicura, and provide guidance for the functions responsible for achieving the companies' objectives; (ii) an Insurance Products Committee, which analyses, *ex ante*, proposals regarding insurance product offerings, with the related technical and financial characteristics, and verifies, *ex post*, the technical and profit performance and limits on risk taking for product portfolios; (iii) a Crisis Management Committee, responsible for managing crisis situations arising in connection with the Company's information system, to ensure business continuity on the occurrence of unexpected, exceptional events. The Committee operates in accordance with the policies established for the areas of interest by the parent, Poste Italiane; (iv) an Investment Committee, which plays a role in defining the investment policy, the strategic and tactical asset allocation policy and its monitoring over time; and (v) a Procurement Committee to advise the Chief Executive Officer and with responsibility – for both companies – for selecting suppliers for the provision of key goods and services with a value of over €100,000 per individual contract.

Lastly, to increase compliance with the more advanced governance models, the Company's articles of association require the appointment of a manager responsible for financial reporting. At its meeting of 11 September 2014, the Board of Directors confirmed the Chief Financial Officer in this role.

Internal control system

Within the Poste Vita Group, risk management is part of a wider internal control system that is divided into three levels:

- Line, or first level, controls, carried out during operational processes managed by individual operating units (this also includes hierarchical controls and controls "embedded" in procedures); the system of proxies and of powers of attorney; the operating units therefore represent a "first line of defence" and are responsible for effectively and efficiently managing the risks that fall within their purview.
- Risk management controls (second level), carried out by the Risk Management function, which is separate and independent from other operating units and identifies the various types of risk, contributes to establishing methods for evaluation/measurement and verifies that the operating units comply with the assigned limits; it also identifies and recommends, where necessary, risk corrective and/or mitigation actions, checking consistency between the Company's operations and the risk objectives established by the competent corporate bodies.
- Controls on the risk of non-compliance with rules (second level), carried out by the Compliance department, which is separate and independent from operating units and has responsibility for preventing the risk of incurring legal or administrative sanctions, financial losses or reputational damage arising from non-compliance with the relevant regulations. In this context, the Compliance unit is responsible for assessing the adequacy of internal processes to prevent the risk of non-compliance.
- Third Level Controls, assigned to Internal Auditing, Ethics and Internal Control Models unit, which is separate and independent from operating units. This department, based on an analysis

of areas of risk affecting the Company's business, plans annual audits to check the effectiveness and efficiency of the Internal Control System with respect to operations/business processes.

The Board of Directors and senior management also participate in the above system ("the fourth line of defence"), having been included in the model as a result of the role assigned to them by ISVAP Regulation 20 with regard to determination, implementation, maintenance and monitoring of the internal control and risk management system. In particular:

- the Board of Directors guarantees and has ultimate responsibility for the system, drawing up the related guidelines, monitoring the results and ensuring its ongoing completeness, functionality and efficacy;
- senior management is responsible for implementing, maintaining and monitoring the system in accordance with the guidelines drawn up by the Board of Directors.

This organisational model aims to ensure, at each company, the presence of effective and efficient business processes, the control of current and future risks, procedures for reporting between the different lines of defence, reliable and complete information and protection of the Group's assets over the medium and long term.

The model also includes, with specific regard to the Parent Company, Poste Vita, the Board Committees (the Remuneration Committee and the Internal Audit and Related Party Transactions Committee), in addition to other entities tasked with the conduct of controls such as, for example, the manager responsible for financial reporting, appointed in accordance with Law 262/2005.

Regarding the organisation of control functions, controls for the subsidiary, Poste Assicura, are conducted on a centralised basis by the Parent Company, Poste Vita, pursuant to art. 36 of ISVAP Regulation 20, dated 26 March 2008.

The internal control system also consists of a set of rules, procedures and organisational units designed to prevent or minimize the impact of unexpected events and to enable the achievement of strategic and operational objectives (effectiveness and efficiency of operations and protection of corporate assets), compliance with laws and regulations, and accurate and transparent internal information. It is a widespread system within the Company and is constantly upgraded.

In this context, the Internal Auditing function assists the Group in achieving its goals, providing independent and objective assurance with the aim of assessing and improving the control, risk management and corporate governance systems. This function, using a systematic, risk-based approach, monitors and assesses the effectiveness and efficiency of the internal control system and, more generally, the governance system as a whole. This involves coordinating audit activities at Group level, in accordance with the requirements set out in the revised Internal Audit Policy document approved by the Board of Directors in December 2016.

Internal Auditing also promotes initiatives designed to achieve ongoing improvements to control, risk management and corporate governance systems, including through the provision of support, and contributes to the dissemination of ethical values and principles throughout the Group, without assuming management responsibilities.

A Risk Management function has also been established to develop risk measurement methods and propose action plans to mitigate the financial, technical and process risks to which the Company is exposed. Risk Management is also responsible for developing a risk assessment system and a system to measure regulatory capital according to specifications under definition at EU level (Solvency II). Risk Management also supports the Board in assessing, through stress tests, the

consistency between the risks undertaken by the firm, the risk appetite defined by the Board of Directors and its current and prospective capital.

The Compliance unit guarantees organisational and procedural adequacy to prevent the risk of non-compliance with regulations, as per the Compliance Policy approved by the Board of Directors on 21 December 2016.

As to the matters governed by Legislative Decree 231/01, Poste Vita has adopted a Compliance Programme with the objective of preventing the perpetration of the different types of offence contemplated by the law, and has appointed a Supervisory Board.

Adoption of the 231 Compliance Programme and the rules of conduct contained therein combine with the “Poste Italiane Group’s Code of Ethics” and the “Poste Italiane Group’s Code of Conduct for Suppliers and Partners” adopted by the companies, in keeping with similar codes in place for the parent, Poste Italiane.

Organizational structure and personnel

The Poste Vita Group continued to strengthen its organisational structure during the year, in order to meet the requirements associated with its growing size, the increase in business and plans for the future. The centralisation of a number of non-specialist functions for the subsidiary, Poste Assicura (human resources, administration, legal affairs, etc.) during the year has improved the Insurance Group’s organisation.

The number of direct employees at 31 December 2016 totals 494, compared with 452 at 31 December 2015.

Workforce breakdown at 31 December	2016	2015	Increase/ (decrease)
Executives	42	40	2
Middle managers	199	175	24
Operational staff	249	227	22
Personnel on fixed-term contracts	4	10	-6
Direct employees	494	452	42

Additional staff were recruited during 2016 in connection with the growth of the business. The staff hired during the year were primarily recruited to provide support for the business and for new and ongoing projects, partly with a view to strengthening technical and specialist expertise, as well as governance and control.

In this connection, and in order to boost its human capital, the Company carried out specific development courses focusing on matters relating to insurance (insurance regulations, Solvency II, etc.).

The development of management skills within the Group was also a priority during the period.

In terms of management training, a number of specific training initiatives and scenario workshops were organised by the Poste Italiane Group’s Corporate University, with the aim of developing expertise at Group level. The related courses were attended by employees and managers from the Company.

Finally, as part of the corporate training initiatives organised by the Poste Italiane Group – in collaboration with the Corporate University – a project called “**InPoste**” was launched in the second half of 2016. This is an induction system for new recruits, which aims to ensure that they are aware of and understand the Group’s organisational culture and its businesses.

RELATIONS WITH THE PARENT AND OTHER POSTE ITALIANE GROUP COMPANIES

The Parent Company, Poste Vita, is wholly owned by Poste Italiane SpA, which directs and coordinates the Group.

Transactions with the parent, Poste Italiane SpA, which owns all the shares outstanding, are governed by written agreements and conducted on an arm's length basis. They regard mainly:

- the sale and distribution of insurance products at post offices and related activities;
- post office current accounts;
- partial secondment of personnel used by the Company;
- support in organising the business and in the recruitment and management of personnel;
- the pick-up, packaging and shipping of ordinary mail;
- call centre services;
- Term Life Insurance policies.

A service contract relating to the provision of Information Technology services by the Parent, Poste Italiane, is currently being finalised.

Furthermore, at 31 December 2016, subordinated loan notes, totalling €250 million (€450 million at 31 December 2015), issued by the Parent Company, Poste Vita, have been subscribed for by Poste Italiane SpA. The notes provide a market rate of return reflecting the Company's creditworthiness.

The reduction since the beginning of the year is entirely due to repayment, during the period, of a tranche with a defined maturity, amounting to €50 million, and of a tranche with an undefined maturity, totalling €150 million, following the Company's receipt of authorisation from IVASS on 22 November 2016.

The Parent Company, Poste Vita, also provides services to its subsidiary, Poste Assicura SpA. The transactions are conducted on an arm's length basis, are governed by service agreements and regard:

- the secondment of personnel from and to the subsidiary;
- activities involved in operational organisation and use of the equipment necessary to carry out the activities;
- operational procedures relating to compliance with occupational health and safety regulations;
- operation and management of data protection procedures;
- operational marketing and communication, the development and operation of IT systems and accounting;
- the centralisation of internal control, actuarial procedures, human resources and organisation, legal and corporate affairs, procurement and general services, management planning and control, investment and treasury, tax, training and network support and programme management for strategic projects.

Poste Vita conducts transactions with the subsidiary, Poste Welfare Servizi, primarily in relation to the secondment of personnel.

In addition to the relationship with the parent and the subsidiary, Poste Assicura, Poste Vita also maintains operational relations with other Poste Italiane Group companies, with regard to:

- management of the Company's free capital and of a part of the portfolio investments attributable to separately managed accounts (Bancoposta Fondi SGR, Anima SGR);

- printing, enveloping and mail delivery through information systems; management of incoming mail, the dematerialization and filing of printed documentation (Postel);
- services related to network connections with Poste Italiane's post offices (Postecom);
- mobile telephone services (Poste Mobile);
- advice on obligations pertaining to occupational health and safety (Poste Tutela);
- Term Life Insurance policies (Postel, EGI, PosteCom, Poste Mobile, Poste Assicura, Mistral Air, Poste Tributi and Bancoposta Fondi SGR).

In addition, Poste Assicura engages in transactions with Poste Welfare Servizi regarding claims management for certain products. These transactions are also conducted on an arm's length basis.

OTHER INFORMATION

Information on own shares and/or the parent's shares held, purchased or sold during the period

Poste Vita Insurance Group companies do not own and have not traded in their own or the parent's shares.

Related party transactions

In addition to other companies in the Poste Italiane Group, whose relationships have already been described in the previous paragraph, according to the provisions of IAS 24.9, related parties include the MEF (the Ministry of the Economy and Finance), Cassa Depositi e Prestiti SpA, entities controlled by the MEF and key management personnel. The Government and public bodies different from the MEF and from the bodies controlled by the Ministry are not considered related parties; furthermore, transactions involving financial assets and liabilities represented by financial instruments are not considered related party transactions, with the exception of those issued by companies in the Cassa Depositi e Prestiti Group.

At 31 December 2016, Poste Vita and Poste Assicura hold bonds issued by Cassa Depositi e Prestiti, acquired under market conditions, whilst during the fourth quarter of 2016, the Company acquired a 9.9% interest in FSI SGR from Cassa Depositi e Prestiti. The Company does not exercise either *de iure* or *de facto* control, whether on an individual or joint basis, with CDP and/or other shareholders of FSI SGR.

The Insurance Group's Directors and key management personnel have not conducted any related party transactions.

Research and development activities

During the period, the Group did not incur any research and development expenses, except for costs related to new products. These outlays were expensed as incurred.

Legal disputes

Approximately 400 proceedings have been initiated against the Parent Company, Poste Vita, mainly relating to "dormant policies" and the payment of claims. There was also an increase in enforcement procedures, involving the Company as garnishee in around 300 proceedings.

Approximately 50% of the disputes involving Poste Vita regard issues surrounding so-called "dormant policies", whilst the remaining disputes generally regard problems relating to the settlement of claims due to a lack of documentation, disputes between life policy beneficiaries, or problems regarding payments and index-linked products in general.

The Company has initiated approximately 100 bankruptcy proceedings against the same number of employers, who have failed to make voluntary and mandatory payments of contributions (for *TFR*, or post-employment benefits) for members of the *PostaPrevidenza Valore* individual pension plan. The proceedings have been brought by Poste Vita in order to recover the amounts due.

Approximately 160 proceedings have been filed against Poste Vita, mostly regarding alleged offences relating in general to the falsification of insurance documents, embezzlement and the

exploitation of people who are mentally incapable. The offences concerned have been committed by third parties or employees of Poste Italiane.

Poste Assicura, on the other hand, is involved in approximately 212 disputes primarily regarding contested claims on Home, Accident and Condominium policies. The likely outcome of these disputes was taken into account in calculating outstanding claims provisions. A further 60 proceedings have been filed against Poste Assicura by customers with regard, primarily, to insurance documents.

Principal proceedings pending and relations with the authorities

a) IVASS - *Istituto per la Vigilanza sulle Assicurazioni* (the insurance regulator)

Following the inspection that took place between 1 April and 14 July 2014, for the purposes of assessing the governance, management and control of investments and financial risk, and compliance with anti-money laundering regulations, on 17 September 2014, IVASS notified Poste Vita SpA of its recommendations and the start of an administrative procedure regarding the alleged violation of four provisions concerning anti-money laundering regulations. On 12 May 2016, the Authority notified the company of the ruling in which two of the four violations challenged were upheld. Poste Vita SpA paid the fine of €70,000 and, based on the findings of an analysis and assessment carried out, the Board of Directors decided not to challenge the ruling.

Finally, between September 2015 and September 2016, IVASS notified Poste Vita of eight alleged violations of art. 183, paragraph 1.a) of the *Codice delle Assicurazioni Private* (Private Insurance Code or CAP), as a result of delays in the payment of claims. Having ascertained that four of the above violations had been committed, IVASS notified Poste Vita that it was imposing the relevant fines for three of the violations in August 2016 and for a further violation in January 2017. No fine is to be imposed for one of the remaining violations, whilst the other proceedings are still pending.

b) Bank of Italy – Financial Intelligence Unit (UIF)

In December 2015, the Bank of Italy's Financial Intelligence Unit (UIF) launched an investigation of Poste Vita SpA relating to money laundering prevention as per art. 47 and art. 53, paragraph 4, of Legislative Decree 231 of 2007. The above investigation came to an end on 8 April 2016, with receipt of the final document from the Company, containing the clarifications and information requested by the UIF.

On 8 July 2016, the UIF sent Poste Vita a notice of assessment and violation, alleging the Company's failure to promptly report suspect transactions (regarding transactions relating to a single policy) pursuant to art. 41 of Legislative Decree 231/2007. The violation in question (punishable, in accordance with art. 57, paragraph 4 of Legislative Decree 231/2007, with a fine amounting to between 1% and 40% of the value of the transactions) may result in a fine of up to approximately €400,000. Poste Vita sent the Ministry of the Economy and Finance a defence memorandum and requested a hearing. Following the investigations, on 27 July 2016, the Bank of Italy requested the Company to take corrective action to resolve a number of issues emerging during the checks carried out, and asking the Company to report back. The Company first informed the Bank that it was taking the necessary steps, after which it would report on the initiatives and corrective action undertaken. This report was submitted on 20 December 2016, with a description of the steps being taken in order to implement the UIF's recommendations.

c) *Commissione di Vigilanza sui Fondi Pensione* (the pensions regulator)

On 4 October 2016, the pensions regulator launched an inspection focusing on the *PostaPrevidenza Valore* individual pension plan. The inspection is still in progress.

Tax disputes

With regard to the tax authorities' notification to Poste Vita of alleged violations regarding the failure to pay VAT on invoices for service commissions in the tax years 2004 and 2006, the Provincial Tax Tribunal of Rome has found in the company's favour, ruling the tax authorities' allegations to be unfounded. The related sentences have, however, been appealed by the tax authorities. The Regional Tax Tribunal of Rome rejected both appeals and confirmed the lack of grounds of the claims against the Company. On 23 October 2015, the State Attorney's Office challenged these decisions and summoned the company to appear before the Court of Cassation. The counterclaims filed by Poste Vita before the Court of Cassation were served to the tax authorities on 3 December 2015 and subsequently entered in the Cassation's registry on 17 December 2015. The case is currently pending before the Court of Cassation.

Regarding the disputes relating to 2005, the first hearing before the Provincial Tax Tribunal of Rome was held on 13 July 2015. As on that date the Provincial Tax Tribunal's sentences regarding the disputes for the years 2004 and 2006 had not yet been filed, the Tribunal in first instance postponed dealing with the appeal until 9 November 2015 in order to comply with the decisions of the Tribunal in second instance and to avoid making conflicting statements about identical cases. With a ruling filed on 24 December 2015, the Provincial Tax Tribunal of Rome found in favour of the Company. This ruling was then appealed by the tax authorities, as notified to the Company on 26 June 2016. The Company entered an appearance before the tribunal on 27 July 2016 and the hearing before the Regional Tax Tribunal of Rome was held on 17 January 2017. The ruling has yet to be filed. The likely outcome of this tax dispute continues to be taken into account in determining provisions for risks and charges.

Tax inspection

As part of activities relating to so-called "Help with Tax" (*tutoraggio fiscale*) initiative conducted by the Regional Tax Office for Lazio (*Agenzia delle Entrate - Direzione Regionale del Lazio*), in September 2016, the Parent Company, Poste Vita, received a request for documentation pursuant to art. 32 of Presidential Decree 600/1973. This was followed, on 22 November 2016, by a raid on the Company's premises, conducted in accordance with art. 52 of Presidential Decree 633/1972 and art. 33 of Presidential Decree 600/73, with the aim of verifying, for the tax years 2012 and 2013, the correct computation of outstanding claims provisions and the related tax treatment for the purposes of IRES and IRAP.

On 30 November 2016, the Company was notified of a tax assessment notice containing one violation in relation to IRES and IRAP, regarding the alleged non-deductibility of the cost of certain "lapsed" claims that have yet to be paid and that were, therefore, still included in the provisions at 31 December 2012 and 31 December 2013.

The tax authorities' findings, relating to approximately 340 policies, amounting to a total of approximately €2.1 million for 2012 and approximately €207,000 for 2013, solely regards the timing of recognition of the relevant costs. The inspectors' opinion is based on the assumption that the Company, with regard to lapsed policies, should have included the provisions for claims no longer

payable to beneficiaries in taxable income, and then applied a matching reduction in taxable income in future years, when payment of the policies took place. This, according to the tax authorities, because the Company's decision to honour the policies, giving rise therefore to the possibility of deducting the related costs, can only be considered irrevocable and final when effective payment of the policy takes place.

The Company has so far acknowledged the inspectors' findings and, on 23 December 2016, filed a tax settlement proposal in accordance with art. 6, paragraph 1 of Legislative Decree 218 of 19 June 1997, with the aim of obtaining a reduction in the tax due and the related fines.

Programma Dinamico SpA

In December 2016, the process of winding up Programma Dinamico SpA began. This securitisation vehicle was set up in 2001 in accordance with Law 130 of 30 April 1999, and operated until 2012 in connection with six securitisation transactions backing various Class III index-linked products issued by Poste Vita. In particular, the structured securities issued by the vehicle were used as assets to cover the policies themselves, in compliance with the regulations applicable at that time. As a result, as the policies have now all expired, the vehicle has been placed in liquidation.

Atlante and Atlante 2 funds

In April 2016, Poste Vita decided to invest approximately €260 million in an alternative investment fund called "Atlante", and, on 27 July 2016, invested approximately a further €200 million in the alternative investment fund named "Atlante 2". Both funds, which are managed by Quaestio Capital Management, are closed-end funds restricted to institutional investors, investing in financial instruments issued by banks looking to strengthen their capital and non-performing loans held by various Italian banks. At 31 December 2016, the Atlante fund has called up €211.0 million, including €186.6 million allocated to the separately managed account, PostaValorePiù, and €24.4 million allocated to the Company's free capital, whilst the subscribed capital of the Atlante 2 fund, allocated entirely to the separately managed account, PostaValorePiù, has yet to be called up. For the purposes of transparent disclosure of the fund's performances, on 31 January 2017, the management company announced the results of a valuation of the Atlante fund, revealing a potential impairment loss with respect to the initial value of the investment of approximately 24%. The management company also noted that, "as stated by the appraiser, the valuation is subject to significant uncertainty due to the limited availability of objective data and to use of a method of calculation based exclusively on equity market multiples, despite the fact that the companies are unquoted, and to the fact that the sector is currently embarking on a radical process of restructuring and consolidation".

Given the above uncertainty, the Company engaged a leading independent advisor to conduct a further appraisal, the results of which show that the fair value of Poste Vita SpA's investments may reasonably be estimated to fall within a range from €104.7 million to €148.8 million, thereby implying an internal impairment of between 50% and 31%. In the light of the appraisal and the latest available information regarding the investments underlying the fund, the Company has prudently proceeded to align the value of its investment with the lower end of the range indicated by the advisor, amounting to €104.7 million. This has resulted in a total impairment loss of approximately €106 million, with €94 million of the impairment, allocated to cover separately managed accounts, recognised in deferred liabilities due to policyholders, and €12 million recognised in profit or loss, as previously noted.

Regulatory developments

At the date of preparation of this report, regulatory developments affecting, or that might affect, the Insurance Group's businesses are as follows:

- On 19 January 2016, IVASS, the insurance regulator, issued Regulation 17 concerning the calculation of solvency margins for groups, as referred to in Title xv, Chapter i (group supervision) and Chapter iii (supervision over intra-group transactions) of Legislative Decree 209 of 7 September 2005 – the private insurance code – following Italy's implementation of articles 220 to 233 of Directive 2009/138/EC (so-called "Solvency II") and the EIOPA guidelines on the Solvency II requirements (Pillar 1 requirements).
- On 15 March 2016, IVASS issued Regulation 18 concerning the implementing rules for determining technical provisions, as referred to article 36-*bis* of Legislative Decree 209 of 7 September 2005 – the private insurance code – following Italy's implementation of the EIOPA guidelines on the Solvency II requirements (Pillar 1 requirements).
- On 15 March 2016, IVASS issued Regulation 19 governing the procedures for exercising the right to access previously created administrative documents or those held on a long-term basis by IVASS and in existence at the date of the relevant request.
- On 3 May 2016, IVASS issued Regulation 20, containing provisions governing the use of external experts to carry out inspections focusing on the internal models adopted by insurance undertakings, as referred to in Title III, Chapter iv *bis*, Section iii of Legislative Decree 209 of 7 September 2005 – the private insurance code.
- On 10 May 2016, IVASS issued Regulation 21 concerning the quantitative disclosures to be periodically submitted to IVASS for the purposes of financial stability and macroprudential supervision and the related terms and conditions for submission of the data, in accordance with articles 190 and 191 of Legislative Decree 209 of 7 September 2005 – the private insurance code, following Italy's implementation of the EIOPA guidelines on reporting and disclosure requirements (Pillar 3 requirements).
- On 1 June 2016, IVASS issued Regulation 22 concerning group supervision, as referred to in Title xv of Legislative Decree 209 of 7 September 2005 – the private insurance code, as amended by Legislative Decree 74 dated 12 May 2015, and following implementation of the EIOPA guidelines on the method to be used by national supervisory authorities in assessing equivalence in accordance with the Solvency II directive.
- On 6 June 2016, IVASS issued Regulation 24, containing provisions relating to investments and assets covering technical provisions, as referred to in Title iii (pursuit of insurance business), Chapter ii-*bis* (general principles governing investments), article 37-*ter*, and Chapter iii (assets covering technical provisions), article 38 of the private insurance code, as amended by Legislative Decree 74 dated 12 May 2015, following Italy's implementation of the EIOPA guidelines on corporate governance, with particular regard to the prudent person principle provided for under the Solvency II regime in relation to investments.
- On 26 July 2016, IVASS issued Regulation 25, concerning the elements included in basic own funds, as referred to in Title iii (pursuit of insurance business), Title iv (own funds) section i (determination of own funds), article 44-*quarter* of Legislative Decree 209 of 7 September 2005 – the private insurance code, following Italy's implementation of the EIOPA guidelines on the Solvency II requirements (Pillar 1 requirements).

- On 26 July 2016, IVASS issued Regulation 26, concerning application of the measures on long-term guarantees and the transitional measures on risk-free interest rates and technical provisions, as referred to in articles 36-*quinquies*, 36-*septies*, 344-*novies* and 344-*decies* of Legislative Decree 209 of 7 September 2005 – the private insurance code, following Italy's implementation of the EIOPA guidelines on the Solvency II requirements (Pillar 1 requirements).
- On 26 July 2016, IVASS issued Regulation 27, concerning application of the catastrophic risk submodule for health insurance for the purposes of determining the solvency capital requirement using the standard formula, as referred to in Title iii (pursuit of insurance business), Chapter iv-*bis* (solvency capital requirements), section ii (standard formula), article 45-*septies*, paragraphs 6 and 7 of Legislative Decree 209 of 7 September 2005 – the private insurance code, following Italy's implementation of the EIOPA guidelines on the Solvency II requirements (Pillar 1 requirements).
- On 26 July 2016, IVASS issued Regulation 28, concerning application of the look-through method for determining the solvency capital requirement using the standard formula, as referred to in Title iii (pursuit of insurance business), Chapter iv-*bis* (solvency capital requirements), section ii (standard formula), article 45-*quinquies* of Legislative Decree 209 of 7 September 2005 – the private insurance code, following Italy's implementation of the EIOPA guidelines on the Solvency II requirements (Pillar 1 requirements).
- On 6 September 2016, IVASS issued Regulation 29, containing provisions relating to local insurance undertakings pursuant to articles 51-*bis*, 51-*ter*, 51-*quater* of Title iv, Chapters i and ii of Legislative Decree 209 of 7 September 2005 – the private insurance code, as amended by Legislative Decree 74 dated 12 May 2015.
- On 26 October 2016, IVASS issued Regulation 30, concerning provisions relating to the supervision of intra-group transactions and risk concentration, as referred to in Title xv (group supervision), Chapter iii (tools for group supervision) of Legislative Decree 209 of 7 September 2005 – the private insurance code, as amended by Legislative Decree 74 dated 12 May 2015.
- On 9 November 2016, IVASS issued Regulation 31, concerning application of passive reinsurance arrangements to the submodule for non-life underwriting risk, as referred to in articles 45-*bis*, paragraph 2, 45-*quinquies*, paragraph 2, and 45-*septies*, paragraphs 2 and 3, letter b), 191, paragraph 1, letter b) number 2) and letter s), 216-*ter*, paragraph 1 of Legislative Decree 209 of 7 September 2005 – the private insurance code, following Italy's implementation of the EIOPA guidelines on the Solvency II requirements (Pillar 1 requirements).
- On 9 November 2016, IVASS issued Regulation 32, concerning the own risk and solvency assessment referred to in Title iii (pursuit of insurance business), Chapter i (general provisions), section ii (corporate governance system), article 30-*ter*, and Title xv (group supervision), Chapter iii (tools for group supervision), article 215-*ter* of the private insurance code – as amended by Legislative Decree 74 dated 12 May 2015 - following Italy's implementation of the EIOPA guidelines on own risk and solvency assessment.
- On 6 December 2016, IVASS issued Regulation 33, concerning public disclosure and reporting to IVASS, as referred to in Title iii (pursuit of insurance business) and, in particular, Chapter iv-*ter* (disclosure and supervisory review process), articles 47-*quater*, 47-*octies*, 47-*novies*, 47-*decies*, 190, 191, 216-*octies*, 216-*novies* of Legislative Decree 209 of 7 September 2005 – the private insurance code – as amended by Legislative Decree 74 dated 12 May 2015 -

following Italy's implementation of the EIOPA guidelines on public disclosure and supervisory reporting.

- On 7 February 2017, IVASS issued Regulation 34, concerning provisions on corporate governance relating to the valuation of assets and liabilities other than technical provisions and the criteria used for their valuation and the related report on the Regulation.
- On 7 February 2017, IVASS issued Regulation 35, concerning adjustment of the loss-absorbing capacity of technical provisions and deferred taxation in determining the solvency capital requirement using the standard formula.
- On 3 May 2016, IVASS issued Ruling 46, containing amendments to ISVAP Regulation 24 of 19 May 2008, concerning the procedure for submitting complaints to ISVAP and the management of complaints by insurance undertakings.
- On 6 December 2016, IVASS issued Ruling 53, containing amendments and additions to ISVAP Regulation 22 of 4 April 2008, concerning provisions and formats for the preparation of annual financial statements and half-year reports by insurance and reinsurance undertakings, as referred to in Title viii (financial statements and accounting records), Chapter i (general provisions on financial statements), Chapter ii (financial statements) and Chapter v (statutory audits of the accounts) in Legislative Decree 209 of 7 September 2005 – the private insurance code; ISVAP Regulation 7 of 13 July 2007, concerning the formats for the financial statements of insurance and reinsurance undertakings required to adopt international financial reporting standards, as referred to in Title viii (financial statements and accounting records), Chapter i (general provisions on financial statements), Chapter ii (financial statements), Chapter iii (consolidated financial statements) and Chapter v (statutory audits of the accounts) in Legislative Decree 209 of 7 September 2005 – the private insurance code; and to Ruling 3 of 21 May 2013, concerning the procedures and deadlines for regular reporting; to IVASS Ruling 3 of 21 May 2013.
- On 9 February 2017, IVASS issued Ruling 56, concerning the temporary suspension of the payment of premiums for private insurance due to earthquakes.
- On 7 December 2016, IVASS published Consultation Document 12/2016, containing provisions regarding the communication to IVASS of data and information for statistical surveys, studies and analyses of the insurance market, as referred to in Title xiv (supervision of undertakings and intermediaries), Chapter i (general provisions), art. 190-bis (statistical information) of Legislative Decree 209 of 7 September 2005 – the private insurance code. This document is intended to implement the provisions of art. 190-bis of the private insurance code, as part of the process of standardising the implementing regulations regarding accounting and supervisory reporting (Solvency II) and public disclosure and reporting to IVASS.

International accounting standards and interpretations applicable from 1 January 2016

- “Annual Improvement Cycle to IFRSs 2010 – 2012” adopted with Regulation (EU) no. 28/2015 in connection with the annual projects to improve and revise international accounting standards.
- IAS 19 - *Employee benefits – Defined Benefit Plans: Employee Contributions* adopted with Regulation (EU) no. 29/2015. The amendment clarifies the application of IAS 19 to defined benefit plans in connection with contributions linked to service by the employee or a third party. These contributions reduce the entity's service cost in providing benefits and, to the extent that they are

commensurate with the service provided by the employee in a given period, can be deducted fully from the cost for the period, instead of being allocated over the employee's years of remaining service.

- IFRS 11 – *Joint Arrangements* amended by Regulation (EU) no. 2173/2015. The amendment provides that when an entity acquires an interest in a joint operation in which the activity of the joint operation constitutes a business it will apply all the principles contained in IFRS 3. This applies to the acquisition of both the initial interest and additional interests. On the other hand, an interest held prior to the coming into effect of the amendment is not remeasured, in the event that the acquisition of an additional interest allows the entity to retain joint control (i.e. the additional interest acquired does not give the entity a controlling interest).
- IAS 16 – *Property, Plant and Equipment* and IAS 38 – *Intangible Assets* amended by Regulation (EU) no. 2231/2015. The amendment clarifies whether it is appropriate to use revenue-based methods to calculate the depreciation or amortisation of an asset (in addition to those permitted by the pre-existing versions of IAS 16 and IAS 38 for tangible and intangible assets, respectively). The amendment defined this method as inappropriate in the case of tangible assets and as appropriate for intangible assets but only if it can be demonstrated that revenue and the consumption of the economic benefits of the intangible assets are highly correlated. The amendment is founded on the existence of cases where the revenue generated by the activity that includes the use of an asset typically reflects factors that are not directly linked to consumption of the economic benefits embodied in the asset, such as selling activity, a different production process, changes in selling prices.
- Annual improvement cycle in relation to IFRS 2012 – 2014, adopted with Regulation (EU) no. 2343/2015 in connection with the annual projects to improve and revise international accounting standards.
- IAS 1 – *Presentation of Financial Statements* as amended by Regulation (EU) no. 2406/2015. The amendments aim to improve the effectiveness of disclosure and to encourage companies to apply professional judgment in determining the information to be disclosed in their financial statements when applying IAS 1. In particular, the amendments clarify the guidelines contained in IAS 1 on the materiality, the aggregation of items, the presentation of subtotals, the structure of the financial statements and the disclosure on the accounting policies adopted. Amendments concern also the information required for the section on the other components of other comprehensive income, specifically requiring that the share of other comprehensive income pertaining to associates and joint ventures be accounted for using the equity method, indicating which of these amounts will or will not be recycled subsequently to profit and loss.
- IAS 27 – *Separate Financial Statements* amended by Regulation (EU) no. 2441/2015. Regarding entities that prepare separate financial statements, the amendment permits such entities to adopt the equity method to account for investments in subsidiaries, associates and joint ventures. This option is in addition to those permitted by the pre-existing version of IAS 27 (cost method and in accordance with IAS 39).
- Amendments to IFRS 10 and 12 and to IAS 28 adopted with Regulation (EU) no. 1703/2016, with the aim of providing clarification regarding investment entities – applying the consolidation exception.

Accounting standards and interpretations soon to be effective

- IFRS 9 – *Financial Instruments*, adopted with Regulation (EU) no. 2067/2016.

The purpose of the new accounting standard, which will replace a large part of IAS 39 – *Financial Instruments: Recognition and Measurement* from 1 January 2018, is to improve disclosures on financial instruments with the aim of addressing the concerns that arose during the financial crisis. The standard also introduces an accounting model that aims to the timely recognition of expected impairment losses on financial assets. The changes introduced by the standard can be summarised within the following three categories:

- i) Classification and measurement of financial assets, based on the business model, determined by senior management, in which the financial asset is held and the related purposes, and on the expected contractual cash flow characteristics. The new standard envisages three different categories of financial asset (in place of the four envisaged by the existing IAS 39):

Amortised cost; financial assets held to collect the contractual cash flows, represented exclusively by repayments of principal and interest;

Fair value through other comprehensive income (FVTOCI); financial assets held to collect the contractual cash flows, represented exclusively by repayments of principal and interest, and flows resulting from the sale of the assets;

Fair value through profit or loss (FVTPL); a residual category within which financial assets not falling within the previous categories are classified.

- ii) Impairment; under the new model, Expected Losses, credit losses are recognised on an expected basis over the life of the financial instrument, requiring immediate recognition, rather than the occurrence of a trigger event, as under the existing Incurred Losses model. IFRS 9 requires entities to account for 12-month expected credit losses (stage 1) from the moment of initial recognition of the financial instrument. Expected credit losses must, instead, be measured over the remaining life of the asset being measured, when there has been a significant deterioration in the credit quality of the financial instrument since initial recognition (stage 2) or in the case of credit-impaired assets (stage 3).

- iii) General Hedge accounting; partially amended with respect to IAS 39. Key aspects of the main changes introduced regard: an expanded scope of application of hedge accounting; the testing of hedge effectiveness is only prospective; the introduction of the option of rebalancing without interrupting the pre-existing hedge.

There are no substantial changes in the classification and measurement of financial liabilities with respect to IAS 39. The only change is the accounting treatment of own credit risk: in the case of financial liabilities designated at fair value (the so-called fair value option), the standard requires changes in the fair value of financial liabilities resulting from a change in own credit risk to be recognised in equity, unless this treatment were to create or amplify an accounting mismatch in profit for the period, whilst the remaining changes in the fair value of the liabilities must be recognised in profit or loss.

IFRS 9: Transitional provisions and ESMA disclosures

The following information is provided in accordance with the recommendations issued in 2016 by the European Securities and Markets Authority (“ESMA”) in its annual Public Statements. The recommendations aim to facilitate the gradual and transparent application of IFRS 15 and IFRS 9,

and ensure appropriate disclosure in annual and interim financial statements published prior to the effective date for the new standards.

IFRS 9 – Financial Instruments

The Poste Italiane Group has opted to apply IFRS 9 from its effective date (1 January 2018, as required by EU Regulation 2067/2016, which published the standard). The Group has not opted for early application.

The Poste Vita Group is participating in the project, initiated by the Poste Italiane Group in 2017, with the aim of examining the various areas affected by the standard, evaluating its qualitative and quantitative impact, and identifying and implementing the applications and organisational changes necessary in order to ensure consistent, organic and effective adoption within the Group as a whole and across all the companies that belong to it.

EVENTS AFTER 31 DECEMBER 2016

With regard to the tax inspection described in the section, “Other information”, whilst reiterating its view that the tax authorities’ claims are based on an erroneous interpretation of the law, the Parent Company, Poste Vita, opted to accept the authorities’ proposed settlement, resulting in a total charge of approximately €250 thousand.

Finally, on 20 March 2017, the regulator initiated an inspection of the Parent Company, Poste Vita, in relation to application of the Solvency II regulations.

OUTLOOK

In keeping with the business plan, the Insurance Group will continue to pursue growth by providing an innovative and effective response to the insurance needs of consumers and businesses. This will see the Group combine investment and protection products in order to offer simple, but highly professional, solutions to meet growing and socially relevant demand for insurance. In addition to consolidating its leadership in the life market by increasing its customer base, the Group is committed to developing a new “integrated” offering of Savings, Protection and Services, partly by strengthening Poste Vita’s and Poste Welfare Servizi’s offerings and operating models, taking advantage of the Poste Italiane Group’s assets and role in society.

In addition, the Insurance Group will continue to reinforce our business support systems, through initiatives designed to complete the review and upgrade of IT platforms, and will adapt our organisational and operating structure in order to improve decision-making processes and optimise risk management. This will be done with a view to increasing and safeguarding value creation and shareholder returns, whilst complying with Solvency II requirements.



NOTES TO THE
CONSOLIDATED
FINANCIAL
STATEMENTS FOR
THE YEAR ENDED
31 DECEMBER 2016

The financial statements for the year ended 31 December 2016 are provided below:

STATEMENT OF FINANCIAL POSITION - ASSETS

at 31 December

(€000)	2016	2015
1 INTANGIBLE ASSETS	46,474	42,167
1.1 Goodwill	17,823.2	17,823
1.2 Other intangible assets	28,651	24,343
2 TANGIBLE ASSETS	7,943	7,664
2.1 Land and buildings	-	-
2.2 Other tangible assets	7,943	7,664
3 TECHNICAL PROVISIONS CEDED TO REINSURERS	65,969	57,396
4 INVESTMENTS	115,677,487	102,453,845
4.1 Investment property	-	-
4.2 Investments in subsidiaries, associates and joint ventures	105,931	105,225
4.3 Investments held to maturity	-	-
4.4 Loans and receivables	29,843	101,399
4.5 Available-for-sale financial assets	90,405,357	83,871,302
4.6 Financial assets at fair value through profit or loss	25,136,356	18,375,920
5 SUNDRY RECEIVABLES	178,319	81,963
5.1 Receivables arising from direct insurance transactions	43,461	11,964
5.2 Receivables arising from reinsurance transactions	13,187	4,183
5.3 Other receivables	121,670	65,816
6 OTHER ASSETS	1,711,707	1,461,033
6.1 Non-current assets or disposal groups held for sale	-	-
6.2 Deferred acquisition costs	60,789	56,494
6.3 Deferred tax assets	31,475	12,587
6.4 Current tax assets	1,617,532	1,390,533
6.5 Sundry assets	1,911	1,419
7 CASH AND CASH EQUIVALENTS	1,324,657	1,608,061
TOTAL ASSETS	119,012,556	105,712,128

STATEMENT OF FINANCIAL POSITION - EQUITY AND LIABILITIES

at 31 December

(€000)	2016	2015
1 EQUITY	3,301,952	3,276,963
1.1 attributable to the owners of the Parent	3,301,952	3,276,963
1.1.1 Share capital	1,216,608	1,216,608
1.1.2 Other equity instruments	-	-
1.1.3 Capital reserves	-	-
1.1.4 Retained earnings and other reserves	1,501,547	1,493,619
1.1.5 (Treasury shares)	-	-
1.1.6 Reserve for currency translation differences	-	-
1.1.7 Valuation reserve for available-for-sale financial assets	187,770	218,863
1.1.8 Other valuation reserve	(147.9)	(54.3)
1.1.9 Profit/(Loss) for the period attributable to owners of the Parent	396,175	347,927
1.2 attributable to non-controlling interests	-	-
1.2.1 Share capital and reserves attributable to non-controlling interests	-	-
1.2.2 Valuation reserves	-	-
1.2.3 Profit/(Loss) for the period attributable to non-controlling interests	-	-
2 PROVISIONS	11,203	11,187
3 TECHNICAL PROVISIONS	113,677,921	100,314,238
4 FINANCIAL LIABILITIES	1,010,383	1,211,890
4.1 Financial liabilities at fair value through profit or loss	-	-
4.2 Other financial liabilities	1,010,383	1,211,890
5 PAYABLES	207,486	206,832
5.1 Payables arising from direct insurance transactions	136,637	141,262
5.2 Payables arising from reinsurance transactions	17,192	8,067
5.3 Other payables	53,658	57,503
6 OTHER LIABILITIES	803,610	691,018
6.1 Liabilities included in disposal groups held for sale	-	-
6.2 Deferred tax liabilities	191,221	184,308
6.3 Current tax liabilities	603,378	500,068
6.4 Other liabilities	9,011	6,642
TOTAL EQUITY AND LIABILITIES	119,012,556	105,712,128

INCOME STATEMENT

for the year ended 31 December

(€000)	2016	2015
1.1 Net premium revenue	19,883,936	18,197,763
1.1.1 Gross premium revenue	19,928,677	18,238,745
1.1.2 Outward reinsurance premiums	(44,741)	(40,982)
1.2 Fee and commission income	5,873	3,319
1.3 Net income (expenses) from financial assets at fair value through profit or loss	923,000	(48,736)
1.4 Income from investments in subsidiaries, associates and joint ventures	713	425
1.5 Income from other financial instruments and investment property	2,626,562	2,749,043
1.5.1 Interest income	2,278,132	2,311,024
1.5.2 Other income	22,386	61,662
1.5.3 Realised gains	326,045	376,356
1.5.4 Unrealised gains	-	0
1.6 Other income	10,206	2,182
1 TOTAL REVENUE	23,450,291	20,903,995
2.1 Net claims expenses	(21,970,954)	(19,694,895)
2.1.1 Claims paid and change in technical provisions	(21,990,568)	(19,709,907)
2.1.2 Share attributable to reinsurers	19,614	15,012
2.2 Commission expenses	-	0
2.3 Expenses arising from investments in subsidiaries, associates and joint ventures	-	0
2.4 Expenses arising from other financial instruments and investment property	(207,759)	(86,157)
2.4.1 Interest expense	(36,446)	(38,900)
2.4.2 Other expenses	(2,674)	0
2.4.3 Realised losses	(74,626)	(47,256)
2.4.4 Unrealised losses	(94,014)	0
2.5 Operating costs	(569,685)	(516,467)
2.5.1 Commissions and other acquisition costs	(460,731)	(422,847)
2.5.2 Investment management expenses	(44,369)	(37,736)
2.5.3 Other administrative expenses	(64,585)	(55,884)
2.6 Other costs	(53,751)	(42,522)
2 TOTAL COSTS AND EXPENSES	(22,802,148)	(20,340,040)
PROFIT/(LOSS) BEFORE TAX	648,142	563,955
3 Income tax expense	(251,967)	(216,027)
PROFIT/(LOSS) FOR THE PERIOD	396,175	347,927
PROFIT/(LOSS) FROM DISCONTINUED OPERATIONS	-	0
4 CONSOLIDATED PROFIT/(LOSS)	396,175	347,927
of which attributable to owners of the Parent	396,175	347,927
of which attributable to non-controlling interests	-	-

PART A – BASIS OF PREPARATION AND ACCOUNTING POLICIES

Compliance with international financial reporting standards (IFRS)

The financial statements of the Poste Vita Group for the year ended 31 December 2016, consisting of the statement of financial position, the income statement, the statement of changes in equity, the statement of cash flows and the annexes to these notes, have been prepared in accordance with the basis of presentation required by the insurance regulator, IVASS, and set out in Regulation 7 of 13 July 2007¹. The above statements have been compiled in keeping with the instructions contained in the above Regulation.

The financial statements for the year ended 31 December 2016 have been audited by BDO SpA, the independent auditors appointed for 2014-2022.

Financial statements used for consolidation

The consolidated financial statements, insofar as they relate to the consolidated companies, Poste Assicura and Poste Welfare Servizi Srl, have been prepared on the basis of the reporting packages prepared in accordance with IFRS.

Reporting date used for the consolidated financial statements

The reporting date is 31 December, the data on which all the consolidated companies end their financial year.

Consolidation procedures

The consolidated financial statements include the financial statements of the Parent Company and those of its wholly owned subsidiaries, Poste Assicura SpA and Poste Welfare Servizi Srl. These companies meet the above definition provided by IFRS 10 and are consolidated on a line-by-line basis.

Line-by-line consolidation entails netting the carrying amount of investments in consolidated companies against the corresponding share of equity, whilst the subsidiary's assets and liabilities, including contingent liabilities, are accounted for on a line-by-line basis.

¹ Amended by ISVAP determination 2784 of 8 March 2010, IVASS determination 14 of 28 January 2014, IVASS determination 21 of 21 October 2014, IVASS determination 29 of 27 January 2015 and IVASS determination 53 of 6 December 2016.

The criteria used for line-by-line consolidation of subsidiaries are as follows:

- the assets, liabilities, costs and revenue of consolidated entities are accounted for on a line-by-line basis, separating where applicable the equity and profit/(loss) amounts attributable to non-controlling interests in consolidated equity and consolidated profit or loss;
- business combinations, in which control over an entity is acquired, are accounting for using the acquisition method. The cost of acquisition is based on the fair values of the assets given, the liabilities incurred and the equity instruments issued by the acquirer, plus any directly attributable acquisition costs incurred. Any difference between the cost of acquisition and the fair values of the assets and liabilities acquired, following review of their fair value, is recognised as goodwill arising from consolidation (if positive), or recognised in profit or loss (if negative);
- acquisitions of non-controlling interests in entities already controlled by the Group are not accounted for as acquisitions, but as equity transactions; in the absence of a relevant accounting standard, the Group recognises any difference between the cost of acquisition and the related share of net assets of the subsidiary in equity;
- any significant gains and losses (and the related tax effects) on transactions between companies consolidated on a line-by-line basis, to the extent not yet realised with respect to third parties, are eliminated, as are intercompany payables and receivables, costs and revenue, and finance costs and income;
- gains and losses deriving from the disposal of investments in consolidated companies are recognised in profit or loss based on the difference between the sale price and the corresponding share of consolidated equity disposed of.

Investments in entities over which the Group has significant influence (assumed when the Group holds an interest of between 20% and 50%), hereinafter “associates”, are accounted for using the equity method.

The equity method is as follows:

- the Group’s share of an entity’s post-acquisition profits or losses is recognised in profit or loss from the date on which significant influence or control is obtained until the date on which significant influence or control is no longer exerted by the Group; provisions are made to cover a company’s losses that exceed the carrying amount of the investment, to the extent that the Group has legal or constructive obligations to cover such losses; changes in the equity of companies accounted for using the equity method not related to the profit/(loss) for the year are recognised directly in equity;
- unrealised gains and losses on transactions between the Parent Company/subsidiaries and the company accounted for using the equity method are eliminated to the extent of the Group’s interest in the associate; unrealised losses, unless relating to impairment, are eliminated.

The list of subsidiaries consolidated on a line-by-line basis and of associates measured using the equity method, together with key information, is provided in the annexes to the notes (Annex 5, ISVAP Regulation 7).

Goodwill arising on consolidation

Differences between the share of the consolidated company's equity and the carrying amount of the investment recognised in the separate financial statements is allocated directly to the "Consolidation reserve" in consolidated equity, which is included in "Revenue reserves and other equity reserves", and in assets in the statement of financial position under the item "Goodwill".

Accounting policies

The Poste Vita Group's annual financial statements are prepared on a **historical cost basis**, with the exception of certain items for which **fair value measurement** is obligatory.

The principal accounting policies adopted in the preparation of the consolidated financial statements are described below.

Use of estimates

Preparation of the annual accounts requires the application of accounting standards and methods that are at times based on complex subjective judgments and estimates based on historical experience, and assumptions that are considered reasonable and realistic under the circumstances. Use of such estimates and assumptions affects the amounts reported in the financial statements and related disclosures. The actual amounts of items for which the above estimates and assumptions have been applied may differ from those reported in previous financial statements, due to uncertainties regarding the assumptions themselves and the conditions on which estimates are based. Estimates and assumptions are periodically reviewed and the impact of any changes is reflected in the financial statements for the period in which the estimate is revised if the revision only influences the current period, or also in future periods if the revision influences both current and future periods.

Intangible assets

This asset class refers to intangible assets that are identifiable non-monetary assets without physical substance, controllable and capable of generating future economic benefits for the entity, as defined by IAS 38.

Intangible assets are initially recognised at cost. Assets with finite useful lives (software) are amortised on the basis of their remaining useful lives. Amortisation is applied from the date the asset is ready for use, systematically over the remaining useful life of the asset, or its estimated useful life.

Tangible assets

This asset class includes fixtures and fittings, plant, machinery and office equipment, as defined by IAS 16.

These assets are recognised at cost, which includes any directly attributable costs incurred to prepare the asset for its intended use, and the cost of dismantling and removing the asset to be incurred as a result of legal obligations requiring the asset to be restored to its original condition.

Tangible assets are subsequently measured at amortised cost.

Depreciated is charged on a straight-line basis over the asset's estimated useful life.

Assets are accounted for after deducting depreciation and any impairments.

The useful life and residual value of property, plant and equipment are reviewed annually. In the event of a discrepancy compared with earlier estimates, an impairment is recognised and depreciation recalculated.

Non-routine maintenance costs generating future economic benefits are capitalised, whilst routine maintenance costs are recognised directly in profit or loss in the year in which they are incurred.

The Poste Vita Group has estimated the following useful lives for the various categories of tangible asset:

Type of asset	Period of amortisation/depreciation	Rate
Software	3 years	33%
Start-up and expansion costs	5 years	20%
Leasehold improvements	remaining lease term	
Fixtures and fittings, office equipment and internal means of transport	8 years	12%
Motor vehicles	4 years	25%
Plant and machinery	5 years	20%

Technical provisions ceded to reinsurers

These are determined in accordance with the terms and conditions of reinsurance treaties, as this method most accurately reflects the specific revenues and costs typical of the sector.

Investments in associates

This item includes the Group's investment in its associate.

This investment is accounted for using the equity method, in proportion to the Group's interest in the associate.

Financial instruments

Financial instruments include financial assets and liabilities that are classified on initial recognition at fair value based on the business purpose for which they were acquired. The purchase and sale of financial instruments are recognised by category. Any changes in fair value between the transaction date and the settlement date are recognised in the financial statements.

Financial assets

On initial recognition, financial assets are classified in one of the following categories and valued as follows:

Financial assets at fair value through profit or loss

This category includes financial instruments held for trading in the short term, derivatives and securities designated by the Group at fair value through profit or loss. Designated securities include structured financial instruments where the derivative component must be measured separately unless it is embedded in the host contract, assets covering pension fund obligations, unit- and index-linked policies and any surplus instruments held for sale.

On initial recognition, these assets are measured at the settlement date and at cost, determined on the basis of the fair value of the financial instrument. Transaction costs or income directly attributable to the purchase or sale of the instrument are not included on initial recognition and are recognised directly in profit or loss.

The assets are subsequently measured at fair value, with any changes recognised in profit or loss.

Financial assets are derecognised when there is no longer a contractual right to receive cash flows from the investment or when all the related risks and rewards and control have been substantially transferred

Loans and receivables

These assets are measured at amortised cost using the effective interest rate method, less any impairments.

On initial recognition, these assets are measured at the settlement date and at cost, determined on the basis of the fair value of the financial instrument, plus directly attributable transaction costs.

Impairment tests are conducted at the end of each annual or interim reporting period. Impairments are recognised as a reduction in the cost, with a matching entry in profit or loss. If in subsequent periods the conditions which led to the impairment no longer exist, the carrying amount of the asset is reinstated and a reversal recognised in profit or loss. The reversal must not result in a carrying amount that is higher than what the amortised cost of the asset would have been had the impairment not been recognised.

These financial assets are derecognised when there is no longer a contractual right to receive cash flows from the investment or when all the related risks and rewards and control have been substantially transferred.

The fair value of these assets is based on the value of recent or similar transactions or on valuation models.

Available-for-sale financial assets

These assets include non-derivative financial instruments that are either designated in this category or not attributable to any of the other categories described above. These financial instruments are recognised at fair value and any resulting fair value gains or losses are recognised in an equity reserve, with movements in such reserve being accounted for in “Other components of comprehensive income” (the “Fair value reserve”). This reserve is only recycled to profit or loss when the financial asset is effectively disposed of (or settled) or, in the event of accumulated losses, when there is evidence that the impairment recognised in equity cannot be recovered.

On initial recognition, these assets are measured at the settlement date and at cost, determined on the basis of the fair value of the financial instrument, plus directly attributable transaction costs.

In the case of debt securities, the recognition of returns under the amortised cost method takes place through profit or loss, as do the effects of movements in exchange rates, whilst movements in exchange rates relating to available-for-sale equity instruments are recognised in a specific equity reserve, with movements in the reserve accounted for in “Other components of comprehensive income”.

Impairment tests are conducted at the end of each annual or interim reporting period. Impairments are recognised as a reduction in the cost, with a matching entry in profit or loss by recycling accumulated gains or losses recognised in the specific equity reserve. If in subsequent periods the conditions which led to the impairment no longer exist, the carrying amount of the asset is reinstated and a reversal recognised in profit or loss, in the case of debt securities, or in equity, in the case of equity instruments. The reversal must not result in a carrying amount that is higher than what the amortised cost of the asset would have been had the impairment not been recognised.

These financial assets are derecognised when there is no longer a contractual right to receive cash flows from the investment or when all the related risks and rewards and control have been substantially transferred.

Determining the fair value of financial assets – background

Paragraph 2 of IFRS 13 – Fair Value Measurement, endorsed by EU Regulation 1255/2012 of 11 December 2012, states that “Fair value is a market-based measurement, not an entity-specific measurement. For some assets and liabilities, observable market transactions or market information might be available. For other assets and liabilities, observable market transactions and market information might not be available. However, the objective of a fair value measurement in both cases is the same—to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions (i.e. an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability)”.

In accordance with the above standard, a description of the fair value measurement techniques used by the Poste Vita Group is provided below.

It is important to remember that the active market concept refers to a market in which prices are readily and regularly available from an exchange, or quoted regularly on "alternative" trading platforms, as opposed to official platforms, provided that such prices are deemed to be reliable. Prices may also be those available from primary participants in different markets, provided that the prices observed represent potential or actual market transactions on an arm's length basis.

The assets and liabilities concerned are classified with reference to a hierarchy that reflects the materiality of the sources used for their valuation.

The hierarchy consists of the three levels defined by IFRS 13:

- Level 1 – fair value is determined with reference to prices quoted in an active market;
- Level 2 – fair value is based on inputs other than Level 1 quoted market prices that are either directly or indirectly observable for the instrument being measured and based on instruments with a similar risk profile;
- Level 3 – fair value is based on inputs that cannot be directly or indirectly observed and that require the entity to make estimates and assumptions.

Further details of fair value measurement techniques are provided in the section, “Fair value measurement”.

Other receivables

This item primarily regards amounts receivable from policyholders in the form of premiums in the process of collection, from agents and insurance and reinsurance companies. These assets are measured at amortised cost using the effective interest rate method. This method is not used for receivables falling due in the short term, as the effect of discounting to present value is negligible. These receivables are measured at cost, which coincides with their nominal value, and tested for impairment.

Other assets

Deferred acquisition costs

This item refers to deferred acquisition costs, related to the acquisition of new insurance contracts. These costs are accounted for using the local accounting standards applied in the country of residence of each consolidated company, as required by IFRS 4.

Current and deferred tax assets

Current and deferred tax assets are defined and governed by IAS 12. Deferred tax assets are reviewed regularly at the end of each reporting period if there have been changes to the relevant tax regulations.

Other assets

“Other assets” include, among other things:

- deferred commission expenses payable on investment contracts outside the scope of IFRS 4, but of IAS 39, and as such are classified as liabilities at fair value through profit or loss;
- transitional reinsurance accounts;
- other assets relating to employee benefits, as governed by IAS 19, consisting of surpluses resulting from the difference between provisions calculated in accordance with Italian GAAP and those calculated in accordance with IAS 19.

The criteria used to determine provisions for employee benefits are described in the section, “Other payables”:

- accrued income and prepaid expenses.

Cash and cash equivalents

This category includes cash and demand deposits. These are recognised at their nominal value and, in the case of foreign currency items, converted using closing exchange rates.

Impairment testing

The Poste Vita Group tests its assets for impairment at the end of each reporting period. The tests are conducted by comparing the carrying amount of each asset with its estimated recoverable amount and, if the latter is lower than the former, an impairment of the asset is recognised. The recoverable amount is the greater of fair value, less costs to sell, and value in use.

Impairment losses are recognised in profit or loss. Except in the case of goodwill, if the previous indicators of impairment no longer exist, the carrying amount of the asset is increased to reflect the new estimated recoverable amount. The reversal must not, however, exceed the carrying amount that would have been determined had no impairment loss been recognised.

Equity attributable to owners of the Parent

This category consists of equity instruments ("other equity instruments") and capital reserves attributable to owners of the Parent.

"Retained earnings and other capital reserves" include gains and losses resulting from the first-time application of IFRS and the consolidation reserves.

"Gains or losses on available-for-sale financial assets" include the gains or losses resulting from measurement of available-for-sale financial assets, accounted for after both deferred taxation and the portion attributable to policyholders, which is accounted for in insurance liabilities (under the shadow accounting mechanism).

Other gains and losses recognised directly in equity

This item includes actuarial gains and losses and adjustments to defined benefit plans recognised directly in equity (IAS 19.93A).

Provisions for risks and charges

Provisions for risks and charges are recorded to cover losses that are either probable or certain to be incurred, for which, however, there is an uncertainty as to the amount or as to the date on which they will occur.

This item includes the liabilities defined and governed by IAS 37. Provisions for risks and charges are made when the Group has a present (legal or constructive) obligation as a result of a past event, and it is probable that an outflow of resources will be required to settle the obligation. Provisions are measured on the basis of management's best estimate of the use of resources required to settle the obligation at the end of the reporting period. The value of the liability, if significant, is discounted to present value.

Technical provisions

A description of the accounting policy applied to "Technical provisions" is provided in the next section, "Premiums and technical reserves".

Financial liabilities at fair value through profit or loss

This category includes financial liabilities held for trading in the short term, derivative financial instruments and liabilities designated at fair value through profit or loss. This category also includes financial policies for life insurance.

On initial recognition, these liabilities are measured at the settlement date and at cost, determined on the basis of the fair value of the liability. Transaction costs or income directly attributable to the transaction are not included on initial recognition and are recognised directly in profit or loss.

The liabilities are subsequently accounted for at fair value and any difference between fair value and the carrying amount is recognised in profit or loss.

Financial liabilities are derecognised when settled or when all the related risks and rewards have been substantially transferred.

Other financial liabilities

This category includes financial liabilities not held for trading. They regard subordinated loans to the Parent Company, Poste Vita, from the parent, Poste Italiane.

On initial recognition, these liabilities are measured at fair value at the settlement date, plus directly attributable transaction costs.

The liability is subsequently measured at amortised cost using the effective interest rate method.

Payables

Payables arising from direct insurance transactions

This item includes trade payables deriving from direct insurance transactions. These payables are recognised at their nominal value. Discounting is not used as, given the short-term nature of the payables, the impact would not be significant.

Payables arising from reinsurance transactions

This item includes trade payables deriving from reinsurance transactions. These payables are recognised at their nominal value. Discounting is not used as, given the short-term nature of the payables, the impact would not be significant.

Other payables

Other payables refer to items not relating to the insurance business. This item includes provisions for the component of employee benefits calculated under Italian GAAP. Discounting is not used, as these are short-term payables or payables involving the payment of interest in accordance with pre-established contracts. Employee benefits consist of the following categories:

Short-term benefits

Short-term employee benefits are those that will be fully paid within twelve months of the end of the year in which the employee provided his or her services. Such benefits include wages, salaries, social security contributions, holiday pay and sick pay.

The undiscounted value of short-term employee benefits to be paid to employees in consideration of employment services provided over the relevant period is accrued as personnel expenses.

Post-employment benefits

Post-employment benefits are of two types: defined benefit plans and defined contribution plans. Since, for defined benefit plans, the amount of benefits payable can only be determined subsequent to the cessation of employment, the related cost and obligations can only be estimated by actuarial techniques in accordance with IAS 19. Under defined contribution plans, contributions payable are recognised in profit or loss when incurred, based on the nominal value.

Defined benefit plans

Defined benefit plans include the post-employment benefits payable to employees in accordance with article 2120 of the Italian Civil Code:

- For all companies with at least 50 employees, covered by the reform of supplementary pension provision, from 1 January 2007 vesting employee benefits must be paid into a supplementary pension fund or into a Treasury Fund set up by INPS. Accordingly the company's defined benefit liability is applicable only to the provisions made up to 31 December 2006.

- In the case of companies with less than 50 employees, to which the reform of supplementary pension provision does not apply, vested employee benefits continue to represent a defined benefit liability for the company.

The post-employment benefit (“*TFR*”) liability to be paid on cessation of employment is calculated using the projected unit credit method and then discounted to recognise the time value of money prior to the liability being settled. The liability recognised in the financial statements is based on calculations performed by independent actuaries.

The calculation takes account of benefits accrued for the period of service to date and is based on actuarial assumptions. These primarily regard: demographic assumptions (such as employee turnover and mortality) and financial assumptions (such as rate of inflation and a discount rate consistent with that of the liability). In the case of companies with at least 50 employees, as the company is not liable for employee benefits accruing after 31 December 2006, the actuarial calculation of employee benefits no longer takes account of future salary increases. Actuarial gains and losses are recognised directly in other comprehensive income at the end of each reporting period, based on the difference between the carrying amount of the liability and the present value of the Group’s obligations at the end of the period, due to changes in the actuarial assumptions.

Defined benefit plans also include supplementary pension plans guaranteeing members and their surviving spouses pensions in addition to those managed by INPS to the extent of and in accordance with the conditions provided for in specific regulations covered by the collective labour contract and legislation. The initial recognition and subsequent measurement of such plans are consistent with valuation of the *TFR* described above. Measurement of the liability recognised in the financial statements is based on calculations performed by independent actuaries.

Defined contribution plans

Post-employment benefits payable pursuant to art. 2120 of the Italian Civil Code fall within the scope of defined contribution plans provided they vested subsequent to 1 January 2007 and were paid into a Supplementary Pension Fund or a Treasury Fund at INPS. Contributions to defined contribution plans are recognised in profit or loss when incurred, based on their nominal value.

Termination benefits

Termination benefits payable to employees are recognised as a liability when the entity decides to terminate the employment of an employee, or group of employees, prior to the normal retirement date or, alternatively, an employee or group of employees accepts an offer of benefits in consideration of a termination of employment. Termination benefits payable to employees are immediately recognised as personnel expenses.

Other long-term employee benefits

Other long-term employee benefits consist of benefits not payable within twelve months of the end of the reporting period during which the employees provided their services. Generally, there is not the same degree of uncertainty regarding the measurement of other long-term employee benefits as there is in relation to post-employment benefits. As a result, IAS 19 permits use of a simplified method of accounting: the net change in the value of the liability during the reporting period is recognised in full in profit or loss. Measurement of the other long-term employee benefits liability is recognised in the financial statements based on calculations performed by independent actuaries.

Other liabilities

Liabilities in disposal groups held for sale

This item refers to liabilities included in a disposal group held for sale, as defined by IFRS 5.

Current and deferred tax liabilities

Current and deferred tax liabilities are governed by IAS 12.

Current tax liabilities are calculated in accordance with the regulations in force governing direct taxation. Deferred tax liabilities are calculated on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts, with the exception of cases expressly provided for in paragraph 15 of IAS 12. Deferred tax liabilities calculated on items recognised in equity are also recognised directly in equity.

Other liabilities

This item includes:

- deferred commission income on contracts not governed by IFRS 4;
- liabilities resulting from defined benefit obligations and other long-term employee benefits;
- accrued expenses and deferred income.

Premiums and technical reserves

Contracts classified as “insurance” based on the requirements of IFRS 4 are accounted for and measured in accordance with the accounting standards used in preparation of the statutory financial statements and, as a result, comply with the provisions of Legislative Decrees 173/2997 and 209/2005 and ISVAP regulations 16, 21 and 22.

In compliance with IFRS 4, contracts qualify as insurance contracts when one party accepts significant insurance risk from another party.

Under IFRS 4, insurance risk, other than financial risk, occurs when a risk is transferred from the holder of a contract to the issuer. Financial risk is, in turn, defined as “the risk of a possible future change in one or more of a specific interest rate, financial instrument price, commodity price, foreign exchange

rate, index of prices or rates, credit rating or credit index or other variable, provided, in the case of a non-financial variable, that the variable is not specific to a party to the contract”.

Insurance risk is significant if, and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance (i.e. have no discernible effect on the economics of the transaction). Given that IFRS 4 does not provide any specific indication regarding the level of significance of the insurance risk, it is the responsibility of the insurer to define the threshold above which the payment of additional benefits in the event of occurrence of the insured event generates the transfer of significant insurance risk. This threshold has been identified by the Company's Board of Directors. The assessment of significance was conducted by grouping individual contracts into uniform categories based on the nature of the risk transferred to the Company.

Contracts that do not transfer significant insurance risk and that qualify for classification as financial instruments are accounted for and measured in accordance with the accounting standards used in preparation of the statutory financial statements when they have discretionary participation features.

IFRS 4.10 establishes that the unbundling of a contract, classified as insurance, into its deposit and insurance components is required in certain circumstances and is optional in others. In the event of unbundling, the deposit component falls within the scope of application of IAS 32 and IAS 39, whilst the risk component falls within the scope of application of IFRS 4.

Unbundling is required if the insurer can measure the deposit component separately (i.e. without considering the insurance component), and if the insurer's accounting policies do not otherwise require it to recognise all obligations and rights arising from the deposit component. Based on the above, the Company has opted not to unbundle its contracts.

Contracts (or components of contracts) that do not transfer significant insurance risk and that do not have discretionary participation features are accounted for and measured in accordance with IAS 39 or IAS 18, depending on whether they qualify for classification as financial instruments or service contracts.

The bases on which non-life and life contracts are classified, and the criteria used in accounting for and measuring such contracts, are described below.

Non-life insurance

Non-life contracts are all classified as insurance contracts, taking into account the substance of such contracts, which expose the Company to significant insurance risk.

Technical provisions for non-life contracts are as follows:

The premium reserve consists of “Provisions for the unearned portion of premiums” and “Provisions for unexpired risks”. Provisions for the unearned portion of premiums are calculated on an accruals basis, taking into account gross premium revenue less acquisition costs.

Outstanding claims provisions are measured analytically and, based on a prudent assessment of the available elements, on the basis of the final cost, in order to arrive at an adequate valuation of the provisions needed to cover claims expenses and the related direct and indirect settlement costs. The above calculation process also includes an estimate of claims incurred but not reported (IBNR).

In relation to Liability Adequacy Testing (LAT), the requirements of Italian GAAP governing the calculation of technical provisions for non-life contracts are deemed to comply with the minimum requirements of paragraph 16 of IFRS 4. As a result, the Company is exempted from the need to conduct further adequacy tests.

Specifically, the component of the premium reserve relating to provisions for unexpired risks, calculated and set aside when the technical report for a particular branch of the business indicates that the expected cost of claims is higher than revenue attributable to future reporting periods, represents a reasonable approximation of the liability adequacy test.

The calculation of outstanding claims provisions, based on the final cost, includes an estimate of the principal undiscounted future cash flows and, as a result, the provisions are higher than the amount that would result from a LAT in accordance with IFRS 4.

Catastrophe and equalisation provisions have been reversed, given that IFRS 4 does not permit recognition of any prudential provision for potential future claims expenses.

The ageing reserve is calculated in accordance with article 46 of ISVAP Regulation 16. This is based on a flat rate of 10% of gross premium revenue for the year from contracts of the type indicated in the Regulation.

Life insurance

In view of the above, Class I products whose benefits are revaluated, based on the return generated through the management of separately identifiable pools of financial assets, are classified as financial instruments with discretionary participation features (“DPF”, as defined in Appendix A of IFRS 4), for which IFRS 4.35 makes reference to local accounting standards. During the year, the Company also sold asset-based Class I products. These policies mature in 2015. Given that, at maturity, amounts that have accumulated within the separately managed *Posta Valore Più* account will be automatically transferred, these contracts have been classified as financial instruments but, in keeping with the above approach, are accounted for as insurance contracts.

“Pure risk” policies are classified as insurance contracts.

Class III products exposed to significant “insurance risk” are classified as insurance contracts. These products are classified on the basis of the results of internal assessments that, through yield curve analysis, aim to assess the likelihood that the Company will have to pay out significant additional benefits in the event of occurrence of the insured event.

In addition, in order to assess the adequacy of provisions, in accordance with IFRS 4, the Company has conducted Liability Adequacy Tests. The tests were conducted on the basis of the present value of future cash flows, obtained by projecting expected future cash flows from the existing portfolio to the end of the reporting period, based on appropriate assumptions regarding the cause of expiration (death, surrender, redemption, reduction) and the performance of claims expenses. The results of the tests revealed that the technical provisions were adequate and did not need to be topped up.

Shadow accounting

In order to mitigate mismatches between the financial assets included in separately managed accounts, measured in accordance with IAS 39, and the mathematical provisions measured in accordance with local accounting standards, the Company has applied “shadow accounting” to the contracts included in the separately managed accounts associated with life policies, as permitted by paragraph 30 of IFRS 4.

Shadow accounting allows an insurer to change the accounting policies applied to insurance liabilities (i.e. its statutory technical provisions) so that a recognised but unrealised gain or loss on an asset affects the measurement of insurance liabilities in the same way that a realised gain or loss does.

Shadow accounting is applied using a “going concern approach”, based on the following assumptions:

- the realisation, for each separately managed account, of unrealised, prospective gains and losses at the measurement date over a period of years that, based on an ALM approach, is consistent with the characteristics of the assets and liabilities held in portfolio and more representative of the overall nature of the business. The assumption based on immediate realisation is thus discarded;
- determination of the insurance liability based on the prospective yield on each separately managed account, taking into account the contractual obligations, the level of guaranteed minimum returns and any financial guarantees provided.

Commission income and expenses

These items regard commissions on investment contracts outside the scope of IFRS 4. Commission income consists of explicit and implicit fees and commissions accruing during the reporting period and management fees, whilst commission expenses regard acquisition costs.

Income and expenses arising from investments

Net income (expenses) from financial assets at fair value through profit or loss

This item includes realised gains and losses and unrealised gains and losses on assets and liabilities classified as “fair value through profit or loss”. Changes in value are measured on the basis of the difference between the fair value and carrying amount of the financial instruments accounted for in this category.

Income and expenses arising from investments in subsidiaries, associates and joint ventures

This item includes income and expenses arising from investments in the Group’s associates. It primarily refers to the Group’s share of the investees’ results for the period.

Income and expenses arising from other financial instruments and investment property

This item includes:

- income and expenses and realised gains and losses on investments classified as “available-for-sale”;
- income and expenses from loans and receivables and other financial liabilities;
- income and expenses from investment property.

Other income

This item includes:

- income from the sale of goods and services, other than financial services, and from the use, by third parties, of tangible and intangible assets and other assets;
- other net technical income, related to insurance contracts;
- exchange rate differences recorded in profit or loss in accordance with IAS 21;
- realised gains and reversals of impairments of tangible and intangible assets.

Net claims expenses

The category includes amounts paid less recoveries, the change in outstanding claims provisions and in other technical provisions for the non-life business, the change in mathematical provisions and in other technical provisions for the life business, the change in technical provisions for contracts where investment risk is transferred to policyholders, relating to insurance contracts and financial instruments falling within the scope of application of IFRS 4. Recognised amounts are shown before settlement costs and after the share attributable to reinsurers.

Expenses arising from investments in subsidiaries, associates and joint ventures

This category refers to expenses arising from the investments in subsidiaries, associates and joint ventures accounted for in the corresponding asset category.

Expenses arising from other financial instruments and investment property

This category refers to expenses arising from investment property and financial instruments not measured at fair value through profit or loss. These expenses primarily regard other expenses from investments, including the costs incurred on investment property, including management fees and uncapitalised maintenance and repair costs; losses following derecognition of a financial asset or liability or of investment property; losses resulting from measurement, including amortisation, depreciation and impairments.

Operating costs

This item includes fees and other acquisition costs, including insurance contract acquisition costs, less those ceded to reinsurers; investment management expenses, including the overheads and personnel expenses incurred in the management of financial instruments and investment property; other administrative expenses, which include the overheads and personnel expenses not allocated to claims expenses, insurance contract acquisition costs and investment management expenses.

Other costs

This item includes:

- the costs incurred on the sale of goods and services, other than financial services;
- other net technical expenses, related to insurance contracts;
- provisions made during the reporting period;
- exchange rate differences recorded in profit or loss in accordance with IAS 21;
- realised losses, impairments and depreciation and amortisation of tangible assets – when not allocated to specific items – and intangible assets.

Uncertainties regarding the use of estimates

As required by paragraph 116 of IAS 1, we declare that the consolidated financial statements for the year ended 31 December 2016 have been prepared with clarity and give a true and fair view of the financial position, cash flows and operating results for the year.

The notes provide explanations of the judgements made and the estimation methods and accounting policies adopted in applying IFRS.

Use of such estimates and assumptions affects the amounts reported in the financial statements and related disclosures. The actual amounts of items for which the above estimates and assumptions have been applied may differ from those reported in previous financial statements, due to uncertainties regarding the assumptions themselves and the conditions on which estimates are based. Estimates and assumptions are periodically reviewed and the impact of any changes is reflected in the financial statements for the period in which the estimate is revised if the revision only influences the current period, or also in future periods if the revision influences both current and future periods.

Estimates were used in the following cases during the period under review:

- in determining the fair value of financial assets and liabilities when this was not observable on an active market;
- in estimating the recoverability of deferred tax assets;
- in quantifying provisions for risks and charges and provisions for employee benefits, in view of the indeterminate nature or amount of the related liabilities and uncertainty regarding the date on which they will occur and the actuarial assumptions applied;
- in estimating technical provisions for the life business;
- in determining the amounts used in application of the shadow accounting method, as described above;
- in estimating technical provisions for the non-life business.

Determination of fair value

In compliance with IFRS 13 – Fair Value Measurement, endorsed by EU Regulation 1255/2012 of 11 December 2012, the following section provides information regarding the techniques used to measure the fair value of financial instruments within the Poste Vita Group.

The assets and liabilities concerned (specifically assets and liabilities carried at fair value and carried at cost or amortised cost, for which fair value is required to be disclosed in the notes) are classified with reference to a hierarchy that reflects the materiality of the sources used for their valuation.

The hierarchy consists of three levels.

Level 1: this level is comprised of fair values determined with reference to prices quoted in active markets for identical assets or liabilities to which the entity has access on the measurement date. For the Poste Vita Group, these include the following types of financial instrument:

- Bonds quoted on active markets:
- Bonds issued by the Italian government: measurement is based on prices on the MTS (the wholesale electronic market for government securities).
- Bonds issued by EU government bodies or Italian or foreign corporate bonds: measurement is based on prices on regulated markets, according to a hierarchy of sources:
 - a. the bid price at 4.00pm London time (GMT), quoted by a globally recognised information provider;
 - b. the last bid price on regulated markets recognised by the CONSOB in accordance with Resolution 16370 of 4 March 2008;
 - c. equity instruments quoted on active markets: measurement is based on the price resulting from the last trade of the day on the stock exchange of reference;
 - d. quoted investment funds: this category includes funds invested in financial instruments quoted on active markets. Measurement is based on the NAV (Net Asset Value) determined by the fund manager.

- Financial liabilities quoted on active markets: this category includes plain vanilla bonds, whose measurement is based on the ask prices quoted by a globally recognised information provider.

Level 1 bond price quotations incorporate a credit risk component.

Level 2: this level is comprised of fair values based on inputs other than Level 1 quoted market prices that are either directly or indirectly observable for the asset or liability. For the Poste Vita Group, these include the following types of financial instrument:

- Bonds either quoted on inactive markets or not at all:
- Plain vanilla Italian and international government and non-government bonds: valued using discounted cash flow techniques involving the computation of the present value of future cash flows, inputting rates from yield curves incorporating spreads reflecting credit risk that are based on asset swap spreads determined with reference to quoted and liquid benchmark securities issued by the issuer. Yield curves may be slightly adjusted to reflect liquidity risk relating to the absence of an active market.
- Structured bonds: measurement is based on a building blocks approach, where the structured bond is broken down into its basic components: the bond component and the option component. The bond component is measured by discounting cash flows to present value in line with the approach applicable to straight bonds, as defined above. The option component – which, considering the features of the bonds included in the portfolio of the Poste Vita Group, relates to interest rate risk - is measured in accordance with a standard closed form expression as with classical option valuation models with underlyings exposed to such risks.
- Unquoted equities: this category may be included here provided it is possible to use the price of quoted equities of the same issuer as a benchmark. The price inferred in this manner would be adjusted through the application of the discount implicit in the process to align the value of class B and C shares to quoted class A shares.
- Derivative financial instruments:
Warrants: considering the features of the securities held, measurement is based on a closed form expression.
- Financial liabilities either quoted on inactive markets or not at all:
Plain vanilla bonds: valued using discounted cash flow techniques involving the computation of the present value of future cash flows, inputting rates from yield curves incorporating spreads reflecting the issuer's credit risk;
- Structured bonds: measurement is based on a building blocks approach, where the structured bond is broken down into its basic components: the bond component and the option component. The bond component is measured by discounting cash flows to present value in line with the approach applicable to straight bonds, as defined above. The option component – which, considering the features of the bonds issued by Group companies, relates to interest rate risk -

is measured in accordance with a standard closed form expression as with classical option valuation models with underlyings exposed to such risks.

Level 3: this category includes the fair value measurement of assets and liabilities using inputs which cannot be observed. For the Poste Italiane Group the following categories of financial instrument apply:

- Property funds subject to capital calls and closed-end private equity funds subject to capital calls: these include funds that invest in unlisted instruments. Their fair value is determined by considering the NAV (Net Asset Value) reported by the fund manager. This NAV is adjusted according to the capital calls and reimbursements announced by managers.
- The investment in the associate, Europa Gestioni Immobiliare (EGI), measured using the equity method.
- Financial liabilities measured at amortised cost.

IFRS 12

Adopted with (EU) Regulation 1254/2012, IFRS 12 is a consolidated disclosure standard requiring a wide range of disclosures about an entity's interests in subsidiaries, joint arrangements, associates and non-consolidated structured entities. This standard summarises all the disclosures that an entity is required to make to allow financial statement users to assess the nature and risks deriving from its investments in other entities, and the effects of such investments on the statement of financial position, operating performance and cash flows. A structured entity is an entity designed in such a way as not to make voting rights the key factor in determining control over it, as in the case where voting rights refer solely to administrative activities and the relevant operations are managed on the basis of contractual arrangements.

At 31 December 2016, the above definition encompasses investments held by Poste Vita in the following funds:

- BlackRock MultiAssets diversified distribution fund (Open-end)
- MFX - Global Multi - Asset Income Fund (Open-end)
- Advance Capital Energy Fund (Closed-end)
- Piano 400 Fund Deutsche Bank (Open-end)
- Tages Capital Platinum (Open-end)
- Tages Capital Growth (Open-end)
- Fondo Shopping Property Fund 2 Feeder SA SICAV-SIF (Closed-end)

- MULTIFLEX - Strategic Insurance Distribution (Open-end)
- MULTIFLEX - Global Optimal Multi Asset Fund (Open-end)
- MULTIFLEX - Dynamic Multi Asset Fund (Open-end)
- DIAMOND EUROZONE RETAIL PROPERTY FUND (Closed-end)
- FONDO CBRE DIAMOND (Closed-end)
- FONDO DIAMOND EUROZONE OFFICE UBS (Closed-end)
- FONDO DIAMOND ITALIAN PROPERTIES (Closed-end)
- FONDO DIAMOND OTHER SECTOR ITALIA (Closed-end)

As provided for in paragraphs 24-31 of IFRS 12, supported by paragraphs B25 – B26, Poste Vita is required to provide disclosures in its consolidated financial statements that will allow financial statement users to assess the following, with regard to each non-consolidated structured entity:

- the nature and extent of its interest in the entity;
- the nature of the risks associated with its interest in the entity.

The required disclosures are provided below.

Nature of the interest in the non-consolidated structured entity (IFRS 12.26)

With regard to the first point, we hereby provide qualitative and quantitative disclosures regarding the nature, purpose, size and activities of the non-consolidated structured entity, and how the entity is financed.

The Company holds interests in excess of 50% in each of the above funds, with 100% interests in the Tages, Piano 400 and Blackrock funds, in the four MFX funds and in the three Diamond real estate funds. Interests in the latter funds and in the three Multi Asset funds were acquired in the third quarter of 2016. Quantitative disclosures for these latter investments are included in the following tables, together with those for the other funds. The Company's investments in the funds do not qualify as controlling interests as defined by IFRS10 and have not been consolidated, but, in any event, fall within the scope of application of IFRS12 in that they are non-consolidated structured entities. The purpose of Poste Vita's investment in the funds is to diversify its portfolio of financial instruments intended to cover Class I products (Separately Managed Accounts), with the objective of mitigating the concentration of investments in Italian government bonds and euro-denominated corporate bonds.

The following table provides the disclosures required by IFRS 12.26:

€000

31 December 2016					
Name	Nature of entity				NAV
					At
					Amount
BLA CKROCK DIVERSIFIED DISTRIBUTION FUND	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100%	29 December 2016	5,738,151
MPX - GLOBAL FUND - ASSET GLOBAL FUND (PMCO MULTI ASSET)	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100%	30 December 2016	4,047,289
ADVANCE CAPITAL ENERGY FUND	Closed-end non-harmonised fund of funds	Investments in energy companies to achieve capital appreciation and realise relevant gains, after exit	86.21%	30 December 2016	23,856
PIANO 400 FUND DEUTSCHE BANK	Open-end harmonised UCITS	Investment in a mix of asset classes, especially debt instruments of various sectors and countries	100%	16 December 2016	485,897
TAGES CAPITAL PLATINUM	Non-harmonised fund of hedge funds	Pursuit of absolute returns, with low long-term volatility and correlation with the main financial markets	100%	30 November 2016	250,382
TAGES PLATINUM GROWTH	Non-harmonised fund of hedge funds	Pursuit of absolute returns, with low long-term volatility and correlation with the main financial markets	100%	30 November 2016	190,379
SHOPPING PROPERTY FUND 2	Closed-end harmonised fund	Master fund which invests primarily in commercial properties and, marginally, in office buildings and alternative sectors. It does not invest in property debt	63.77%	30 September 2016	86,393
MULTIFLEX - Global Optimal Multi Asset Fund	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100%	30 December 2016	1,293,809
MULTIFLEX - Strategic Insurance Distribution	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100%	30 December 2016	938,210
MULTIFLEX - Dynamic Multi Asset Fund	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100%	30 December 2016	1,303,924
DIAMOND EUROZONE RETAIL PROPERTY FUND	Italian-registered, closed-end alternative real estate investment funds	Investment in "core" and "core plus" real estate assets for office use, located in the Eurozone and euro-denominated	100%	30 September 2016	108
FONDO CBRE DIAMOND	Italian-registered, closed-end alternative real estate investment funds	Investment in real estate assets, real property rights, including those resulting from property lease arrangements, participating interests in property companies and in units of alternative real estate funds. The fund's investments are not subject to particular geographical restrictions, other than their location in Italy. The properties may have the following purposes: logistics, rest homes, residential properties, hotels, mixed use and office and retail properties.	100%	30 September 2016	299
FONDO DIAMOND EUROZONE OFFICE UBS	Italian-registered, closed-end alternative real estate investment funds	Investment in "core" and "core plus" real estate assets for retail use, located in the Eurozone and euro-denominated	100%	31 December 2016	55,500
DIAMOND ITALIAN PROPERTIES	Italian-registered, closed-end alternative real estate investment funds	Investment in real estate assets, real property rights, including those resulting from property lease-translational arrangements, concessions and other similar rights in accordance with the legislation from time to time in effect	100%	31 December 2016	117,700
DIAMOND OTHER SECTOR ITALIA	Italian-registered, closed-end alternative real estate investment funds	Investment in real estate assets, real property rights, including those resulting from property lease arrangements, participating interests in property companies and the professional management and development of the fund's assets	100%	31 December 2016	500

Nature of the risk (IFRS 12. 29 – 31)

The following disclosures are provided with regard to the second point:

- the carrying amounts of the assets and liabilities recognised in the financial statements in relation to the non-consolidated structured entity;
- the line items in the statement of financial position in which those assets and liabilities are recognised;
- the maximum exposure to loss from the Company's interests in non-consolidated structured entities, including how the maximum exposure to loss is determined.
- a comparison of the carrying amounts of the assets and liabilities of the entity that relate to its interests in non-consolidated structured entities and the maximum exposure to loss from those entities.

The following table provides the disclosures required for each non-consolidated structured entity:

€000

31 December 2016					
ISIN	Name	Classification	Carrying amount of investment	Maximum loss exposure*	Difference between carrying amount and maximum loss exposure Method to determine maximum loss exposure
IE00BP9DPZ45	BLACKROCK DIVERSIFIED DISTRIBUTION FUND	Financial assets FVPL	5,738,151	671,336	5,066,815 Analytical VaR 99.5% annualised
LU1193254122	MFx - GLOBAL FUND - ASSET GLOBAL FUND (PIMCO MULTI ASSET)	Financial assets FVPL	4,047,289	487,294	3,559,996 Analytical VaR 99.5% over 1-year
IT0004597396	ADVANCE CAPITAL ENERGY FUND	Available-for-sale financial assets	20,566	9,781	10,785 VaR 99.5% over a 1-year time horizon
IE00B1VWGP80	PIANO 400 FUND DEUTSCHE BANK	Available-for-sale financial assets	485,897	57,591	428,305 Change between market price as of reporting date and guaranteed performance
IT0004801996	TAGES CAPITAL PLATINUM	Available-for-sale financial assets	250,382	68,156	182,226 VaR 99.5% over a 1-year time horizon
IT0004937691	TAGES PLATINUM GROWTH	Available-for-sale financial assets	190,379	36,265	154,114 VaR 99.5% over a 1-year time horizon
LU1081427665	SHOPPING PROPERTY FUND 2	Available-for-sale financial assets	55,091	21,048	34,043 Analytical VaR 99.5% annualizzato
LU1407712014	MULTIFLEX - Global Optimal Multi Asset Fund	Financial assets FVPL	1,293,809	168,066	1,125,743 Analytical VaR 99.5% over 1-year
LU1407712287	MULTIFLEX - Strategic Insurance Distribution	Financial assets FVPL	938,210	105,455	832,755 Historical VaR 99.5% over 1-year
LU1407711800	MULTIFLEX - Dynamic Multi Asset Fund	Financial assets FVPL	1,303,924	135,217	1,168,707 Analytical VaR 99.5% over 1-year
IT0005210387	DIAMOND EUROZONE RETAIL PROPERTY FUND	Financial assets FVPL	108	27	81 Analytical VaR 99.5% annualised
IT0005215113	FONDO CBRE DIAMOND	Financial assets FVPL	299	75	224 Analytical VaR 99.5% annualised
IT0005174450	FONDO DIAMOND EUROZONE OFFICE UBS	Financial assets FVPL	55,500	14,068	41,432 Analytical VaR 99.5% annualised
IT0005212193	DIAMOND ITALIAN PROPERTIES	Financial assets FVPL	117,700	29,425	88,275 Analytical VaR 99.5% annualised
IT0005210593	DIAMOND OTHER SECTOR ITALIA	Financial assets FVPL	500	125	375 Analytical VaR 99.5% annualised

Changes in the fair value of the above funds during the period are passed on to the policyholder under the shadow accounting mechanism, as they regard financial instruments included in separately managed accounts.

IFRS 13

EU Regulation 1255/2012, issued by the European Commission on 11 December 2012, endorsed IFRS 13 - Fair Value Measurement and rendered it effective from 1 January 2013. The new standard introduced a single framework to be used in determining fair value, when required or permitted by other IFRS, and establishing the related disclosures.

The purpose of IFRS 13 - Fair Value Measurement is thus to standardise the criteria for measuring fair value and the related disclosures, which are currently governed by various IAS/IFRS. The project forms part of a plan to bring about convergence between international accounting standards and US GAAP. In fact, FASB – the US standards setter - amended its fair value guidance in ASC 820 at the same time.

The new standard has neither added nor removed financial statement items requiring application of fair value measurement. However, the standard has amended the meaning of fair value, which is now defined as the price that would be received to sell an asset or paid to transfer a liability. In substance, this coincides with an exit price. As a result, the issue of inconsistency between amounts presented in the financial statements of entities measuring fair value as a seller and those identifying themselves as a buyer. The standard also defines the minimum disclosures required.

IFRS 2***Accounting standards***

Goods or services received or acquired and the liability assumed in a share-based payment transaction – settled in cash, equity instruments or in other financial instruments – are recognised at fair value. In the case of a cash-settled transaction, the fair value of the liability is remeasured at the end of each reporting period, with any changes in fair value recognised in profit or loss, until the liability is settled. In the case of employee benefits, the expense is recognised in personnel expenses over the period in which the employee renders the relevant service.

Phantom Stock Plan

The Annual General Meeting of shareholders of the parent, Poste Italiane SpA, held on 24 May 2016, approved the information circular for the “Long-term Incentive Plan for 2016-2018 (LTIP) – Phantom Stock Plan”, prepared in accordance with art 84-bis of the Regulations for Issuers. The LTIP, set up in line with market practices, aims to link a portion of the variable component of remuneration to the achievement of earnings targets and the creation of sustainable value for the Poste Italiane Group’s shareholders over the long term.

Description of the Plan

As described in the above information circular for the “Long-term Incentive Plan for 2016-2018 (LTIP) – Phantom Stock Plan”, prepared in accordance with art 84-bis of the Regulations for Issuers, the Phantom Stock Plan for the period 2016-2018 entails the award to Beneficiaries of phantom stocks granting them the right to receive stock representing the value of Poste Italiane’s shares and the related cash bonus at the end of a vesting period. The number of phantom stocks awarded to each Beneficiary is dependent on achieving the Performance Hurdle and meeting the Qualifying Conditions and the related Performance Targets over a three-year period. The Plan covers a medium- to long-term period. In particular, the plan includes three award cycles, corresponding to the financial years 2016, 2017 and 2018, each with a duration of three years.

The phantom stocks are awarded if the performance targets are achieved, and converted into a cash bonus based on the market value of the shares in the thirty stock exchange trading days prior to the end of the retention period (as specified below). The key characteristics of the Plan are described below.

The **beneficiaries of the Plan** are certain managers within the Poste Vita insurance group.

Plan terms and conditions

The Performance Targets, to which receipt of the cash bonus is subject, are as follows:

- the RORAC registered by the Poste Vita Insurance Group over a three-year period, used for the Long-term Incentive Plan with the aim of taking into account the continuity and sustainability of the long-term performance after appropriately adjusting for risk.
- achievement of an indicator of shareholder value creation, based on the Total Shareholder Return, used to measure performance based on the value created for the shareholders of the parent, Poste Italiane SpA, compared with other FTSE MIB-listed companies.

Vesting of the Phantom Stocks is subject to meeting the following conditions:

- the Performance Hurdle, designed to ensure sustainability of the Plan at the level of the Poste Italiane Group. The Performance Hurdle corresponds with achievement of a certain target for the Poste Italiane Group’s cumulative EBIT over a three-year period at the end of each Performance Period;
- a specific Qualifying Condition, namely the Solvency II ratio at the end of the period.

The Phantom Stocks will be awarded by the end of the year following the end of the Performance Period and are subject to a one-year retention period, before they can be converted into cash, following confirmation that the Qualifying Condition has been met.

Determination of fair value and effects on profit or loss

The total number of Phantom stocks awarded to 4 Beneficiaries of the First Cycle of the Plan amounts to 52,324 units. The fair value of each stock at 31 December 2016 was estimated to be €5.435. An independent expert, external to the Poste Italiane Group, was appointed to measure the value of the stocks and this was based on best market practices.

International accounting standards and interpretations applicable from 1 January 2016

- “Annual Improvement Cycle to IFRSs 2010 – 2012” adopted with Regulation (EU) no. 28/2015 in connection with the annual projects to improve and revise international accounting standards.
- IAS 19 - *Employee benefits – Defined Benefit Plans: Employee Contributions* adopted with Regulation (EU) no. 29/2015. The amendment clarifies the application of IAS 19 to defined benefit plans in connection with contributions linked to service by the employee or a third party. These contributions reduce the entity’s service cost in providing benefits and, to the extent that they are commensurate with the service provided by the employee in a given period, can be deducted fully from the cost for the period, instead of being allocated over the employee’s years of remaining service.
- IFRS 11 – *Joint Arrangements* amended by Regulation (EU) no. 2173/2015. The amendment provides that when an entity acquires an interest in a joint operation in which the activity of the joint operation constitutes a business it will apply all the principles contained in IFRS 3. This applies to the acquisition of both the initial interest and additional interests. On the other hand, an interest held prior to the coming into effect of the amendment is not remeasured, in the event that the acquisition of an additional interest allows the entity to retain joint control (i.e. the additional interest acquired does not give the entity a controlling interest).
- IAS 16 – *Property, Plant and Equipment* and IAS 38 – *Intangible Assets* amended by Regulation (EU) no. 2231/2015. The amendment clarifies whether it is appropriate to use revenue-based methods to calculate the depreciation or amortisation of an asset (in addition to those permitted by the pre-existing versions of IAS 16 and IAS 38 for tangible and intangible assets, respectively). The amendment defined this method as inappropriate in the case of tangible assets and as appropriate for intangible assets but only if it can be demonstrated that revenue and the consumption of the economic benefits of the intangible assets are highly correlated. The amendment is founded on the existence of cases where the revenue generated by the activity that includes the use of an asset typically reflects factors that are not directly linked to consumption of the economic benefits embodied in the asset, such as selling activity, a different production process, changes in selling prices.
- Annual improvement cycle in relation to IFRS 2012 – 2014, adopted with Regulation (EU) no. 2343/2015 in connection with the annual projects to improve and revise international accounting standards.
- IAS 1 – *Presentation of Financial Statements* as amended by Regulation (EU) no. 2406/2015. The amendments aim to improve the effectiveness of disclosure and to encourage companies to apply professional judgment in determining the information to be disclosed in their financial statements when applying IAS 1. In particular, the amendments clarify the guidelines contained in IAS 1 on the materiality, the aggregation of items, the presentation of subtotals, the structure of the financial statements and the disclosure on the accounting policies adopted. Amendments concern also the information required for the section on the other components of other comprehensive income, specifically requiring that the share of other comprehensive income pertaining to associates and joint ventures be accounted for using the equity method, indicating which of these amounts will or will not be recycled subsequently to profit and loss.

- IAS 27 – *Separate Financial Statements* amended by Regulation (EU) no. 2441/2015. Regarding entities that prepare separate financial statements, the amendment permits such entities to adopt the equity method to account for investments in subsidiaries, associates and joint ventures. This option is in addition to those permitted by the pre-existing version of IAS 27 (cost method and in accordance with IAS 39).
- Amendments to IFRS 10 and 12 and to IAS 28 adopted with Regulation (EU) no.1703/2016, with the aim of providing clarification regarding investment entities – applying the consolidation exception.

The following are applicable from 1 January 2018:

IFRS 9 – *Financial Instruments*, adopted with Regulation (EU) no. 2067/2016.

The purpose of the new accounting standard, which will replace a large part of IAS 39 – *Financial Instruments: Recognition and Measurement* from 1 January 2018, is to improve disclosures on financial instruments with the aim of addressing the concerns that arose during the financial crisis. The standard also introduces an accounting model that aims to the timely recognition of expected impairment losses on financial assets. The changes introduced by the standard can be summarised within the following three categories:

- Classification and measurement of financial assets, based on the business model, determined by senior management, in which the financial asset is held and the related purposes, and on the expected contractual cash flow characteristics. The new standard envisages three different categories of financial asset (in place of the four envisaged by the existing IAS 39):
 - Amortised cost; financial assets held to collect the contractual cash flows, represented exclusively by repayments of principal and interest;
 - Fair value through other comprehensive income (FVTOCI); financial assets held to collect the contractual cash flows, represented exclusively by repayments of principal and interest, and flows resulting from the sale of the assets;
 - Fair value through profit or loss (FVTPL); a residual category within which financial assets not falling within the previous categories are classified.
- Impairment; under the new model, Expected Losses, credit losses are recognised on an expected basis over the life of the financial instrument, requiring immediate recognition, rather than the occurrence of a trigger event, as under the existing Incurred Losses model. IFRS 9 requires entities to account for 12-month expected credit losses (stage 1) from the moment of initial recognition of the financial instrument. Expected credit losses must, instead, be measured over the remaining life of the asset being measured, when there has been a significant deterioration in the credit quality of the financial instrument since initial recognition (stage 2) or in the case of credit-impaired assets (stage 3).
- General Hedge accounting; partially amended with respect to IAS 39. Key aspects of the main changes introduced regard: an expanded scope of application of hedge accounting; the testing of hedge effectiveness is only prospective; the introduction of the option of rebalancing without interrupting the pre-existing hedge.

There are no substantial changes in the classification and measurement of financial liabilities with

respect to IAS 39. The only change is the accounting treatment of own credit risk: in the case of financial liabilities designated at fair value (the so-called fair value option), the standard requires changes in the fair value of financial liabilities resulting from a change in own credit risk to be recognised in equity, unless this treatment were to create or amplify an accounting mismatch in profit for the period, whilst the remaining changes in the fair value of the liabilities must be recognised in profit or loss.

IFRS 9: Transitional provisions and ESMA disclosures

The following information is provided in accordance with the recommendations issued in 2016 by the European Securities and Markets Authority ("ESMA") in its annual Public Statements. The recommendations aim to facilitate the gradual and transparent application of IFRS 15 and IFRS 9, and ensure appropriate disclosure in annual and interim financial statements published prior to the effective date for the new standards.

IFRS 9 – Financial Instruments

The Poste Italiane Group has opted to apply IFRS 9 from its effective date (1 January 2018, as required by EU Regulation 2067/2016, which published the standard). The Group has not opted for early application.

The Poste Vita Group is participating in the project, initiated by the Poste Italiane Group in 2017, with the aim of examining the various areas affected by the standard, evaluating its qualitative and quantitative impact, and identifying and implementing the applications and organisational changes necessary in order to ensure consistent, organic and effective adoption within the Group as a whole and across all the companies that belong to it.

PART B – SCOPE OF CONSOLIDATION

The Poste Vita Group's annual report for the year ended 31 December 2016 has been prepared in compliance with IVASS Regulation 7 of 13 July 2007, as amended, as described in part A of this document. The scope of consolidation includes the financial statements of the Parent Company, Poste Vita SpA, and those of its subsidiary, Poste Assicura SpA, an insurance company established in 2010 and a provider of non-life insurance, and, from 2015, Poste Welfare Servizi Spa. The companies are wholly owned by Poste Vita and meet the definition provided by IFRS 10, being therefore consolidated on a line-by-line basis.

The Parent Company also holds a non-controlling interest in Europa Gestioni Immobiliari SpA, a real estate company engaged in property management and transactions in Italy and abroad for own account and on behalf of third parties. This investment is not consolidated on a line-by-line basis, but accounted for using the equity method.

Name	Country	Business	Type of ownership	% direct ownership	Method of consolidation
Poste Assicura SpA	Italy	Insurance	Subsidiary	100	Line-by-line
Poste Welfare Servizi SpA	Italy	Services	Subsidiary	100	Line-by-line
Europa Gestioni Immobiliare SpA	Italy	Property management	Associate	45	Equity method

In accordance with IFRS 10, subsidiaries are the entities over which the Parent Company exercises control. Control is obtained when the Parent Company is exposed, or has rights to, variable returns from its involvement with the investee, and has the ability to influence those returns through its power over the investee. The Parent Company controls an investee if, and only if, it simultaneously:

- has power over the investee (i.e. not merely protective rights, but rights that give it the current ability to direct the relevant activities of the investee, i.e. the activities that significantly affect the investee's returns);
- is exposed, or has rights to, variable returns from its involvement with the investee;
- has the ability to influence those returns through its power over the investee.

Control is determined on the basis of the economic substance of the relationship between the Group and the investee, and, among other things, taking into account both current and potential voting rights.

The Group periodically and systematically reviews the facts and circumstances to establish if there has been any change in one or more of the above elements.

In accordance with IAS 28, an associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. The Parent Company is presumed to have significant influence if it directly or indirectly holds at least 20% of the voting power of the investee. The treatment of such an investment is described in the section, "Consolidation procedures".

PART C - NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS

1. INTANGIBLE ASSETS

At the end of 2016, intangible assets amount to €46,474.3 thousand, compared with €42,166.6 thousand at 31 December 2015.

(€000)	At 31 December 2016	At 31 December 2015	Increase/(decrease)	
Gross amount	84,491.5	68,180.8	16,310.7	23.9%
Accumulated amortisation	38,017.1	26,014.2	12,002.9	46.1%
Carrying amount	46,474.3	42,166.6	4,307.7	10.2%

The following table provides a breakdown:

(€000)	At 31 December 2016	At 31 December 2015	Increase/(decrease)	
Software	59,867.9	44,691.6	15,176.3	34.0%
Goodwill	17,823.2	17,823.2	-	0.0%
Intangibles in progress	6,268.4	5,134.0	1,134.4	22.1%
Start-up and expansion costs	518.9	532.0	-13.1	-2.5%
Carrying amount	84,478.4	68,180.8	16,297.6	23.9%

This item mainly comprises unamortized long-term software programme licenses, totalling €59,867.9 thousand.

Software licenses have finite useful lives and are amortised at a rate of 33%. No impairment losses were recognised in 2016. As required by IAS 36 ("Impairment of Assets"), goodwill is tested for impairment at least annually to assess whether or not there has been a reduction in its recoverable amount with respect to the carrying amount. The impairment test conducted did not result in the need to recognise any impairment losses.

The table below shows changes in this item during the period under review:

(€000)	At 31 December 2015	Increases	Decreases	At 31 December 2016
Software	44,691.6	15,176.3		59,867.9
- Accumulated amortisation	(25,488.8)	(11,996.4)		(37,485.2)
Goodwill	17,823.2			17,823.2
Intangibles in progress	5,134.0		(1,134.4)	6,268.4
- Accumulated amortisation				-
Start-up and expansion costs	532.0			532.0
- Accumulated amortisation	(525.4)	(6.6)		(532.0)
Total	42,166.6	3,173.3	(1,134.4)	46,474.3

2. TANGIBLE ASSETS

Tangible assets total €7,943 thousand, an increase of €279 thousand compared with 31 December 2015.

(€000)	At 31 December 2016	At 31 December 2015	Increase/(decrease)	
Gross amount	15,736.4	13,642.4	2,094.0	15.3%
Accumulated depreciation	7,793.4	5,978.2	1,815.2	30.4%
Carrying amount	7,943.0	7,664.2	278.8	3.6%

The following table shows a breakdown of tangible assets:

(€000)	At 31 December 2016	At 31 December 2015	Increase/(decrease)	
Fixtures and fittings	1,738.9	1,782.4	(43.5)	-2.4%
Electronic equipment	5,512.4	5,493.4	19.0	0.3%
Telephone system	313.8	323.9	(10.1)	-3.1%
Motor vehicles	5.3	8.7	(3.5)	-39.7%
Leasehold improvements	372.6	55.8	316.8	567.7%
Carrying amount	7,943.0	7,664.2	278.8	3.6%

Other tangible assets primarily relate to assets used in operations: i) fixtures and fittings amounting to €1,738.9 thousand, net of accumulated depreciation; ii) electronic equipment amounting to €5,512.4 thousand, net of accumulated depreciation; iii) the telephone system amounting to €313.8 thousand, net of accumulated depreciation; and iv) leasehold improvements amounting to €372.6 thousand, net of accumulated depreciation.

The following table shows a breakdown of movements during the period:

(€000)	At 31 December 2015	Increases	Decreases	At 31 December 2016
Electronic equipment	9,914.8	1,656.5		11,571.3
- Accumulated depreciation	(4,421.4)	(1,637.5)		(6,058.9)
Fixtures and fittings	2,682.1	46.9		2,729.0
- Accumulated depreciation	(899.7)	(90.3)		990.0
Telephone system	683.5		(1.9)	681.6
- Accumulated depreciation	(359.6)	(8.2)		367.8
Motor vehicles	17.5	0.0		17.5
- Accumulated depreciation	(8.8)	(3.4)		12.2
Leasehold improvements	344.5	392.5		737.0
- Accumulated depreciation	(288.7)	(75.7)		364.4
Total	7,664.2	280.8	(1.9)	7,943.0

The expansion of the Group's organisational structure has resulted in the purchase of new electronic equipment totalling approximately €1,657 thousand. The further increase regards "Leasehold improvements", reflecting capitalisation of the cost of renovating the Group's new head office premises.

3. TECHNICAL PROVISIONS CEDED TO REINSURERS

At 31 December 2016, these provisions total €65,969 thousand, an increase of €8,573 thousand compared with 31 December 2015 (€57,396 thousand).

(€000)	At 31 December 2016	At 31 December 2015	Increase/(decrease)	
Non-life provisions				
Premium reserve	7,057.8	5,892.4	1,165.4	19.8%
Outstanding claims provisions	25,842.2	21,850.1	3,992.1	18.3%
Other provisions	-	-	-	
Life provisions				
Outstanding claims provisions	6,114.8	5,494.0	620.8	11.3%
Mathematical provisions borne by policyholders and pension fund provisions	26,954.2	24,159.2	2,795.0	11.6%
Other provisions			-	
Total	65,969.0	57,395.7	8,573.3	14.9%

The year-on-year increase in the amount of technical provisions ceded to reinsurers is due to growth of the business.

4. INVESTMENTS

Investments total €115,677,487 thousand at 31 December 2016, a 12.9% increase compared with the €102,453,844 thousand of the previous year.

(€000)	At 31 December 2016	At 31 December 2015	Increase/(decrease)	
Investments in associates	105,930.8	105,224.9	705.9	0.7%
Loans and receivables	29,843.2	101,398.8	(71,555.7)	-70.6%
Available-for-sale financial assets	90,405,356.7	83,871,301.6	6,534,055.1	7.8%
Financial assets at fair value through profit or loss	25,136,356.4	18,375,919.6	6,760,436.8	36.8%
Total investments	115,677,487.0	102,453,844.9	13,223,642.2	12.9%

Investments in subsidiaries, associates and joint ventures

The Poste Vita Group accounts for its associate, Europa Gestioni Immobiliare SpA (EGI) - a real estate company, 45% owned by the Group, tasked with the management and development of the Poste Italiane SpA Group's properties no longer used in operations – using the equity method. The figures for 2016 show that the company's equity amounts to €235,402 thousand and that it reported a profit for the year of approximately €1,585 thousand.

For more details regarding the level of the fair value hierarchy assigned to the investments in this category, please see Annex 5 D.3, D.4 and D.5 to these financial statements.

Receivables

Receivables amount to €29,843 thousand at 31 December 2016, compared with €101,399 thousand in 2015. They include subscriptions and the related capital calls on mutual funds for which the corresponding units have not yet been issued. The reduction compared with the end of 2015 reflects use of all the liquidity in the intercompany current account.

Available-for-sale financial assets

This item breaks down as follows:

(€000)	At 31 December 2016	At 31 December 2015	Increase/(decrease)	
Equity instruments	15,775.0	8,457.7	7,317.4	86.5%
Debt securities	88,377,053.2	82,246,732.5	6,130,320.6	7.5%
of which:				
government bonds	73,101,023.0	69,357,333.1	3,743,689.9	5.4%
corporate bonds	15,276,030.1	12,889,399.4	2,386,630.7	18.5%
UCITS units	2,012,528.4	1,616,111.4	396,417.1	24.5%
Total	90,405,356.7	83,871,301.6	6,534,055.1	7.8%

Available-for-sale (“AFS”) financial assets amount to approximately €90,405,356.7 thousand (€83,871,301.6 thousand at 31 December 2015). These include financial instruments attributable to separately managed accounts (approximately €86,859,216.1 thousand) and, to a lesser extent, securities included in the Company’s free capital (approximately €3,546,140.6 thousand). At 31 December 2016, unrealised net gains on securities classified as AFS amount to approximately €9,380,285.9 thousand, compared with approximately €10,333,361 thousand at the end of 2015. Of this amount, €9,109,951.9 thousand (€10,018,246 thousand at 31 December 2015) is attributable to policyholders through the shadow accounting mechanism, in accordance with IFRS 4, as they relate to financial instruments included in separately managed accounts. The remaining €270,334.1 thousand (€315,114 thousand in 2015) refers to net gains on AFS securities included in the Company’s free capital and therefore attributable to a specific equity reserve.

Equity instruments classified as AFS, totalling €15,775 thousand (€8,458 thousand at 31 December 2015), relate to Class I products linked to separately managed accounts.

Debt securities of €88,377,053 thousand (€82,246,732 thousand at 31 December 2015) include €86,632,257 thousand in instruments traded on liquid and active markets, as defined on the basis of the Fair Value Policy approved for the Group, in application of IFRS 13. The remaining €1,744,797 thousand regards financial instruments not traded on liquid and active markets, as defined by the above Policy, and include specific issues by Cassa Depositi e Prestiti SpA (CDP) with a fair value of €1,131,599 thousand, used to back Class I insurance policies.

UCITS units, totalling €2,012,528 thousand (€1,616,111 at 31 December 2015) consist of €892,162 thousand in mutual funds primarily invested in equities, €315,729 in property funds and €804,637 thousand in mutual funds that are mainly invested in bonds. For more details regarding the level of the fair value hierarchy assigned to the investments in this category, please see Annex 5 D.3, D.4, and D.5 to these financial statements.

This item also includes the investment in the closed-end alternative investment fund called “Atlante”, managed by Quaestio Capital Management. As more fully described in the section, “Other information”, in the report on operations, at 31 December 2016, the fund has called up €211.0 million,

including €186.6 million allocated to the separately managed account, *PostaValorePiù*, and €24.4 million allocated to the Parent Company's free capital, compared with a total commitment of €260 million (including €30 million attributable to free capital and the remainder to the separately managed account). In view of the valuation provided by an independent appraiser, the Company has proceeded to recognise a prudent impairment loss on the investment of 50%. The impairment resulted in a total loss of approximately €106 million, including €94 million attributable to policyholders under the shadow accounting method and €12 million recognised in the Company's profit or loss.

Financial assets at fair value through profit or loss

At 31 December 2016, these assets amount to €25,136,356.4 thousand, compared with €18,375,920 thousand at 31 December 2015, and consist of the following:

(€m)	At 31 December 2016	At 31 December 2015	Increase/(decrease)	
Debt securities	9,566,506.1	7,558,586.9	2,007,919.1	26.6%
of which: <i>government bonds</i>	5,450,901.4	5,664,860.6	(213,959.2)	-3.8%
<i>corporate bonds</i>	4,115,604.6	1,893,726.3	2,221,878.3	117.3%
Structured bonds	991,683.7	1,345,786.2	(354,102.5)	-26.3%
UCITS units	14,345,208.8	9,227,304.6	5,117,904.2	55.5%
Derivatives	232,957.9	244,242.0	(11,284.1)	-4.6%
Total	25,136,356.4	18,375,919.6	6,760,436.7	36.8%

Debt securities of €9,566,149 thousand (€7,558,587 thousand at 31 December 2015) include €5,450,901 thousand in hybrid BTPs purchased to back Class III insurance policies, with the remaining €4,115,248 thousand invested in corporate bonds issued by leading issuers and included in separately managed accounts.

Structured bonds, totalling €992,040 thousand (€1,345,786 thousand at 31 December 2015) relate to investments whose returns are linked to particular market indices, primarily designed to back insurance obligations to the holders of Class III index-linked policies, amounting to €440,717 thousand. The remaining amount is classified in the Company's free capital. The sum of €550,967 thousand regards Constant Maturity Swaps issued by Cassa Depositi e Prestiti and included in separately managed accounts. The reduction compared with the beginning of the year almost entirely reflects disposals of approximately €346,250 thousand to cover corresponding Class III claims, due primarily to policies maturing.

UCITS units total €14,345,208 thousand (€9,227,305 thousand at 31 December 2015) and primarily regard investments in the UCITS funds, Blackrock Diversified Distribution Fund and MFX Global Multi Asset, totalling €13,321,382 thousand, reflecting the plan, with regard to Class I products, to reduce the exposure to government securities and at the same time ensure constant returns for policyholders.

This item includes approximately €849,175 thousand in units of funds backing unit-linked products. Derivatives amount to €232,957 thousand (€244,242 thousand at 31 December 2015) and consist of warrants backing index-linked products.

Warrants have a total nominal value of €5,558,057 thousand, unchanged with respect to the beginning of the period (€5,558,057 thousand).

Details of the Group's warrants are as follows:

Notes to the consolidated financial statements 2016

Warrants	At 31 December 2016		At 31 December 2015	
	Nominal value	Fair value	Nominal value	Fair value
Alba	712,242	17,471	712,242	17,856
Terra	1,355,039	27,209	1,355,039	34,675
Quarzo	1,253,802	35,357	1,253,802	36,348
Titanium	655,615	33,771	655,615	36,000
Arco	174,032	29,608	174,032	29,535
Prisma	174,550	25,257	174,550	25,191
6Speciale	200,000	0	200,000	0
6Aavanti	200,000	0	200,000	0
6Serenio	181,482	15,257	181,482	15,411
Primula	184,119	14,658	184,119	14,621
Top5	232,962	15,608	232,962	15,422
Top5 edizione II	234,214	18,761	234,214	19,182
Total	5,558,057	232,958	5,558,057	244,242

For more details regarding the level of the fair value hierarchy assigned to the investments in this category, please see Annex 5 D.3, D.4, and D.5 to these financial statements.

5. SUNDRY RECEIVABLES

Sundry receivables amount to €178,319 thousand at the end of the period, having risen €96,356 thousand compared with 31 December 2015, when the figure was €81,963 thousand. This item consists of the following.

(€000)	At 31 December 2016	At 31 December 2015	Increase/(decrease)	
Receivables arising from direct insurance transactions	43,461.1	11,964.0	31,497.1	263.3%
Receivables arising from reinsurance transactions	13,187.0	4,183.0	9,004.0	215.3%
Other receivables	121,670.4	65,815.6	55,854.8	84.9%
Total sundry receivables	178,318.5	81,962.6	96,355.9	117.6%

The carrying amount of trade receivables and other receivables is in line with their fair value. Trade receivables do not earn interest and are short-term.

With regard to receivables from policyholders, the Group does not present any particular credit risk concentration since credit exposure is divided among a large number of counterparties.

Receivables arising from direct insurance transactions

At 31 December 2016, this item amounts to €43,461 thousand, compared with €11,964 thousand at the end of 2015, and consists of the following:

(€000)	At 31 December 2016	At 31 December 2015	Increase/(decrease)	
Due from policyholders	8,154.8	2,683.4	5,471.4	203.9%
Premiums receivable from agents	35,171.9	8,657.8	26,514.1	306.2%
Receivables arising from co-insurance agreements	134.4	622.8	(488.4)	-78.4%
Total	43,461.1	11,964.0	31,497.1	263.3%

Amounts due from policyholders, totalling €8,154 thousand, reflecting uncollected premiums due and payable on the basis of a prudent assessment.

Receivables due from policyholders include €1,414 thousand in uncollected non-life premiums for the year. The remaining €6,740 thousand regards life insurance premiums for the year that have yet to be collected at the end of the period.

Amounts due from agents, totalling €35,172 thousand at 31 December 2016 (€8,657 at 31 December 2015), refer to premiums already collected during the last days of the year which, despite already having been collected by the agent at the end of the reporting period, were paid to the Company early in January 2017.

Receivables from co-insurance agreements amount to €134 thousand (€623 thousand at 31 December 2015) and relate to the co-insurance agreement with Eurizon Vita SpA. These are amounts owed by this company to Poste Vita in its capacity as lead agent for products placed before 30 September 2004.

Receivables arising from reinsurance transactions

These receivables amount to €13,187 thousand at the end of the period, compared with €4,183 thousand at the end of the previous year.

This receivable consists of amounts to be recovered from reinsurers for claims and commissions. The increase with respect to the previous year reflects growth of the business

Other receivables

Other receivables total €121,670 thousand at the end of 2016 (€65,816 thousand at 31 December 2015) and consist of the following:

(€000)	At 31 December 2016	At 31 December 2015	Increase/(decrease)	
Due from policyholders for stamp duty	83,983.6	58,276.0	25,707.7	44.1%
Amounts due from the parent, Poste Italiane	134.8	2,390.4	(2,255.6)	-94.4%
Due from other Group companies	2,165.9	2,823.9	(658.0)	-23.3%
Miscellaneous receivables	35,386.1	2,325.3	33,060.8	1421.8%
Total	121,670.4	65,815.6	55,854.8	84.9%

Due from policyholders for stamp duty, in the amount of €83,983.6 thousand, refers to stamp duty² on Class III and V financial policies.

The item "Due from other Group companies", amounting to €2,166 thousand, primarily relates to a sum due from Bancoposta Fondi SGR for VAT paid in 2014 on invoices issued for management

² As per the implementing decree of 24 May 2012, enacted pursuant to paragraph 5 of article 19 of Law Decree 201 of 6 December 2011, converted by Law 214 of 2 December 2011.

fees on the investment of insurance assets. This sum has yet to be settled and amounts to €2,006 thousand.

Miscellaneous receivables, totalling €35,386 thousand, primarily regard €22,005 thousand in coupon interest to be collected (effectively collected in January), a guarantee deposit for the new head office, totalling €2,400 thousand, amounts due from customers, totalling €1,221 thousand, and commissions due to the Parent Company, Poste Vita, for the management of internal funds, amounting to €2,034 thousand.

6. OTHER ASSETS

Other assets total €1,711,707 thousand, an increase of €250,674 thousand compared with 31 December 2015, and include the following:

(€000)	At 31 December 2016	At 31 December 2015	Increase/(decrease)	
Deferred acquisition costs	60,789.1	56,494.4	4,294.7	7.6%
Deferred tax assets	31,474.8	12,586.6	18,888.2	150.1%
Current tax assets	1,617,532.1	1,390,533.2	226,998.9	16.3%
Sundry assets	1,910.6	1,418.7	491.9	34.7%
Total	1,711,706.7	1,461,032.9	250,673.8	17.2%

Deferred acquisition costs amount to €60,789 thousand at the end of the period (€56,494 at 31 December 2015). They include €60,256 thousand in unamortised deferred management fees attributable to individual pension plans (*FIP - Forme Individuali di Previdenza*) and €533 thousand in unamortised fees paid in advance to Poste Italiane on sales of non-life policies.

Deferred tax assets, amounting to €31,475 thousand (€12,587 thousand at 31 December 2015), are calculated as the total of the temporary differences arising between the carrying amounts of assets and liabilities and their tax bases, in accordance with IAS 12 and to the extent deemed to be recoverable.

Changes in deferred tax assets in 2016 are shown below:

(€000)	At 31 December 2016
Deferred tax assets at 31 December 2015	12,587
- change accounted for in the income statement	18,868
- change accounted for in equity	20
Deferred tax assets at 31 December 2016	31,474.8

Temporary differences accounted for in the income statement originate mainly from provisions for personnel expenses and impairment losses on equity instruments included in Poste Vita's current assets, as well as other expenses deductible in future years, such as, for example, provisions for bad debts and losses on receivables and the non-deductible excess of the change in outstanding claims provisions attributable to Poste Assicura.

Deferred tax assets and liabilities are calculated using tax rates that are expected to apply when the related deferred tax assets are realised, based on the information available at the end of the reporting period. The Company has taken into account the provisions of art. 1, paragraph 61 of Law 208 of 28 December 2015 (the so-called 2016 Stability Law) which, as the reader will be aware, has reduced the nominal rate for IRES to 24% from the beginning of the 2017 tax year. The Company has thus calculated the deferred tax assets and liabilities accounted for in the financial statements by applying

the IRES rate of 24% to the temporary differences that it is assumed will be reversed from 1 January 2017.

Current tax assets, amounting to €1,617,532 thousand, mainly relate to tax credits on Poste Vita's mathematical provisions under Law 191/2004, totalling approximately €1,613,873 thousand, and to payments on account for corporate income tax (IRES) and regional income tax (IRAP) for 2016, totalling €194 thousand.

(€000)	At 31 December 2016	At 31 December 2015	Increase/(decrease)	
Tax credits on mathematical provisions under Law Decree 209/2002	1,613,872.7	1,371,636.5	242,236.2	17.7%
Payments on account for IRES and IRAP	194.2	14,546.5	(14,352.3)	-98.7%
Other	3,465.2	4,350.2	(885.0)	-20.3%
Total	1,617,532.1	1,390,533.2	226,998.9	16.3%

7. CASH AND CASH EQUIVALENTS

Cash and cash equivalents amounts to €1,324,657 thousand, compared with €1,608,061 thousand at the end of the previous year.

This item breaks down as follows:

(€000)	At 31 December 2016	At 31 December 2015	Increase/(decrease)	
Bank deposits	1,162,679.9	1,494,892.1	(332,212.2)	-22.2%
Post office deposits	161,972.1	113,163.1	48,809.0	43.1%
Cash and other cash equivalents	5.3	6.0	(0.7)	-11.4%
Total	1,324,657.3	1,608,061.2	(283,403.9)	-17.6%

This item includes short-term bank and post office deposits, as well as cash and revenue stamps. This relates to temporary liquidity, primarily attributable to separately managed accounts.

LIABILITIES AND EQUITY

1. EQUITY

Equity attributable to owners of the Parent amounts to €3,301,952 thousand (€3,276,963 at 31 December 2015). Changes in individual reserves are shown in the statement of changes in equity.

The various components of equity are as follows:

(€000)				
Equity	At 31 December 2016	At 31 December 2015	Increase/(decrease)	
Share capital	1,216,607.9	1,216,607.9	0.0	0.0%
Revenue reserves and other equity reserves:	1,501,546.8	1,493,618.9	7,927.9	0.5%
Legal reserve	102,001.8	86,999.5	15,002.3	17.2%
Extraordinary reserve	648.0	648.0	(0.0)	0.0%
Organisation fund	2,582.3	2,582.3	(0.0)	0.0%
Negative goodwill	426.0	426.0	0.0	0.0%
Retained earnings	1,395,873.3	1,402,961.1	(7,087.8)	-0.5%
Reserve for share-based payments	15.4	2.0	13.4	663.6%
Valuation reserve for AFS financial assets	187,770.3	218,862.9	(31,092.6)	-14.2%
Other gains or losses recognised directly through equity	147.9	54.3	(93.6)	172.3%
Profit for the period	396,175.2	347,927.3	48,247.9	13.9%
Total	3,301,952.3	3,276,962.7	24,989.6	0.8%

Changes during the period primarily reflect: i) profit for the period of €396,175 thousand, ii) the reduction in the valuation reserve for available-for-sale financial assets included in the Parent Company's free capital (€31,092 thousand) and iii) the payment of dividends of €340,000 thousand to the shareholder, Poste Italiane, as approved by the General Meeting of 14 December 2016.

The reconciliation of equity with profit for the period is shown below:

	Profit/(Loss)	Changes in equity	Equity	Profit/(Loss)	Changes in equity	Equity
(€000)	At 31 December 2015	At 31 December 2015	At 31 December 2015	At 31 December 2016	At 31 December 2016	At 31 December 2016
Italian GAAP financial statements	300,045	(150,000)	2,910,895	329,700	(340,000)	2,900,596
Measurement of financial assets	82,364		187,194	47,942		235,135
Measurement of AFS financial assets less deferred policyhold	0	(6,709)	208,720	0	(29,339)	179,382
Adjustment for measurement of investments (cost method)	6,678		(20,167)	0		(20,167)
Actuarial gains/(losses) on employee benefits	0	35	(31)	0	(55)	(86)
Adjustment for deferred acquisition costs	0		0	0		0
Other minor adjustments	2		534	16		550
Parent Company's IAS/IFRS financial statements	389,089	(156,674)	3,287,146	377,658	(369,394)	3,295,411
Retained earnings of consolidated subsidiary	9,307	1	26,705	14,566	(31)	41,240
Valuation reserve for subsidiary's AFS financial assets at fair v	0	1,459	10,142	0	(1,754)	8,388
Measurement of investment using the equity method	(50,587)	15	(46,833)	3,832	(7)	(43,008)
Elimination of effects of intercompany transactions	119		(198)	119		(79)
IAS/IFRS consolidated financial statements	347,927	(155,200)	3,276,963	396,175	(371,186)	3,301,952

2. PROVISIONS

This item includes provisions for risks and charges, totalling €11,187 thousand, and provisions for deferred tax liabilities, totalling €16 thousand.

Provisions for risks and charges reflect amounts set aside to cover contingent liabilities in relation to:

Notes to the consolidated financial statements 2016

- application of Law 166/08 (so-called "dormant policies");
- outstanding legal disputes;
- tax liabilities which could arise from ongoing disputes. The risk of a dispute arising from the "deductibility" of additional costs (incurred in 2010) following application of Law 166/08.

3. TECHNICAL PROVISIONS

Technical provisions total €113,677,921 thousand at 31 December 2016, up €13,363,682 thousand on the €100,314,238 thousand of 31 December 2015. Technical provisions break down as follows:

(€000)	At 31 December 2016	At 31 December 2015	Increase/(decrease)	
Non-life classes:				
Premium reserve	54,102.9	43,745.1	10,357.8	23.7%
Outstanding claims provisions	89,066.5	68,292.4	20,774.1	30.4%
Other technical provisions	215.9	281.3	(65.4)	-23.3%
Total non-life classes	143,385.2	112,318.8	31,066.4	27.7%
Life classes:				
Mathematical provisions	96,332,232.5	82,012,782.8	14,319,449.7	17.5%
Technical provisions where risk is borne by policyholders	6,899,765.3	7,218,466.8	(318,701.5)	-4.4%
Outstanding claims provisions	941,693.6	1,178,839.5	(237,145.9)	-20.1%
DPL provisions	9,280,746.7	9,711,791.6	(431,044.9)	-4.4%
Other technical provisions	80,097.3	80,038.8	58.5	0.1%
Total life classes	113,534,535.4	100,201,919.5	13,332,615.9	13.3%
Total	113,677,920.6	100,314,238.3	13,363,682.3	13.3%

Non-life technical provisions

Non-life technical provisions, before provisions ceded to reinsurers, consist of: the premium reserve of €54,103 thousand, outstanding claims provisions of €89,067 thousand and other provisions relating solely to the aging reserve of €216 thousand. The latter provisions have been made in accordance with article 37, paragraph 8 of Legislative Decree 209 of 7 September 2005 and article 46 of ISVAP Regulation 16, based on a flat rate of 10% of gross premium revenue for the year from contracts of the type indicated in the Regulation.

Outstanding claims provisions include provisions for claims incurred but not reported (IBNR), amounting to €18,002 thousand.

Changes in the premium reserve and outstanding claims provisions reflect trends in premium revenue.

Life technical provisions

Contracts classified as "insurance contracts" and as "financial instruments with discretionary participation features" continue to be accounted for and measured on the basis of Italian GAAP, as established in paragraph 15 of IFRS 4. These provisions were subjected to a Liability Adequacy Test (LAT) in order to test the adequacy of net technical provisions with respect to "realistic" provisions, which reflect the present value of future cash flows, obtained by projecting expected future cash flows from the existing portfolio to the end of the reporting period, based on appropriate assumptions

regarding the cause of expiration (death, surrender, redemption, reduction) and the performance of claims expenses.

The results of the tests revealed that the technical provisions were adequate and did not need to be topped up. The outcome of the test, as described in the section on “Risk management”, revealed that the provisions accounted for in the financial statements are adequate.

“Other technical provisions” include provisions for future expenses (article 31 of ISVAP Regulation 21/2008), totalling €78,864 thousand, provisions for supplementary insurance premiums, totalling €1,046 thousand, and provisions for with-profits policies, amounting to €187 thousand. Deferred Policyholder Liability (DPL) provisions, amounting to €9,280,747 thousand at 31 December 2016, are down on the figure for the beginning of the year (€9,711,792 thousand). This reflects the reduction in fair value resulting from financial market trends with respect to the end of the previous year.

4. FINANCIAL LIABILITIES

Financial liabilities break down as follows:

(€000)	At 31 December 2016	At 31 December 2015	Increase/(decrease)	
Financial liabilities held for trading				
Financial liabilities designated at fair value through profit or loss				
Other financial liabilities	1,010,382.9	1,211,890.1	(201,507.2)	-16.6%
Total	1,010,382.9	1,211,890.1	201,507.2	-16.6%

Other financial liabilities, totalling €1,010,383 thousand at 31 December 2016, include €759,447 thousand, relating to subordinated bonds issued by the Company in May 2014, including accrued interest on the bonds and the issue discount. The remaining €250,935 thousand regards subordinated debt with an undefined maturity, issued by Poste Vita and placed in its entirety with the sole shareholder, Poste Italiane. The debt pays a market rate of return and is governed by article 45, section IV, sub-section III of Legislative Decree 209 of 7 September 2005, as amended. The amount payable includes interest accrued on the debt. The reduction since the beginning of the year reflects repayment, during the period, of a tranche with a defined maturity, amounting to €50 million, and of a tranche with an undefined maturity, totalling €150 million, following the Company’s receipt of authorisation from IVASS on 22 November 2016.

5. PAYABLES

Payables amount to €207,486 thousand at 31 December 2016, up €654 thousand on the €206,832 thousand of 31 December 2015. The following table shows a breakdown and movements with respect to the previous year:

(€000)	At 31 December 2016	At 31 December 2015	Increase/(decrease)	
Payables arising from direct insurance transactions	136,636.9	141,262.3	(4,625.3)	-3.3%
Payables arising from reinsurance transactions	17,191.9	8,067.1	9,124.9	113.1%
Other payables	53,657.5	57,503.0	(3,845.5)	-6.7%
Total	207,486.4	206,832.4	654.0	0.3%

Payables arising from direct insurance transactions:

(€000)	At 31 December 2016	At 31 December 2015	Increase/(decrease)	
Commissions payable to Poste Italiane	133,946.6	140,374.9	(6,428.3)	-4.6%
Due to policyholders	2,419.5	615.0	1,804.5	293.4%
Payables arising from co-insurance agreements	270.8	272.4	(1.6)	-0.6%
Total	136,636.9	141,262.3	- 4,625.4	-3.3%

This item, totalling €136,637 thousand (€141,262 thousand at the end of 2015), refers to invoices to be received from the parent, Poste Italiane SpA, for commissions earned on the sale of insurance products in 2016 and to be settled in the first quarter of 2017.

Amounts due to policyholders, totalling €2,420 thousand (€615 thousand at 31 December 2015), mainly relate to payables to policyholders arising in the period for amounts collected that are subject to refund.

Payables arising from co-insurance agreements, amounting to €271 thousand (€272 thousand at 31 December 2015), relate to the co-insurance agreement with Eurizon Vita SpA. These are amounts owed to it by the Company in its capacity as lead agent for products placed before 30 September 2004.

Payables arising from reinsurance transactions

Amounts due to reinsurers at 31 December 2016 amount to €17,192 thousand (€8,067 thousand at 31 December 2015). This item includes amounts payable for premiums ceded under reinsurance treaties in effect at the date of presentation of the financial statements.

Other payables

This item, totalling €53,658 thousand at the end of 2016 (€57,503 thousand at 31 December 2015), breaks down as follows:

(€000)	At 31 December 2016	At 31 December 2015	Increase/(decrease)	
Trade payables	33,819.5	34,051.5	(232.0)	-0.7%
Provision for Partecipa product	-	-	0.0	
Due to Poste Italiane Group suppliers	10,444.3	8,678.5	1,765.8	20.3%
Due to employees	5,017.7	4,733.2	284.5	6.0%
<i>of which post-employment benefits</i>	2,559.6	2,190.5	369.1	16.9%
Due to MEF	1,279.9	1,555.1	(275.2)	-17.7%
Payables arising from fund purchases	828.9	4,668.5	(3,839.6)	-82.2%
Sundry payables	2,267.2	3,816.3	(1,549.1)	-40.6%
Total	53,657.5	57,503.0	- 3,845.5	-6.7%

Trade payables of €33,820 thousand refer to services rendered by companies that do not belong to the Poste Italiane Group and for which invoices have yet to be issued at the end of the period.

The amount due to Poste Italiane Group suppliers (€10,444 thousand) relates to services rendered by the parent, Poste Italiane, and its subsidiaries. Further details on the nature of these services are provided in the section, "Intercompany relations".

The amount due to the MEF (the Ministry of the Economy and Finance), amounting to €1,280 thousand, relates to amounts payable to the Fund set up by the MEF for policies expiring after 28 October 2008, when Law 166/2008 came into force, introducing rules on "dormant policies". This amount will be paid in May 2016.

Notes to the consolidated financial statements 2016

The amount of payables for fund purchases, amounting to €829 thousand, refers to funds purchased and not yet paid for at the end of 2016 and fees payable to internal fund managers.

In accordance with IVASS requirements contained in Regulation 7, the liability for post-employment benefits ("TFR") has been accounted for in "Other payables".

Under international financial reporting standards, and in accordance with indications provided by the International Accounting Standards Board (IASB) and by the International Financial Reporting Interpretations Committee (IFRIC), post-employment benefits are considered as a defined-benefit plan.

Actuarial assessment of post-employment benefits was carried out according to the "accrued benefits" method using the projected unit credit (PUC) method, as defined in paragraphs 64-66 of IAS 19.

The assessment took into account the period of service of each employee at 30 November 2016. In the case of unpaid terminated employees or those on fixed-term contracts, i.e. employees who have already terminated or who will terminate their employment in the coming months and whose vested post-employment benefits have yet to be paid, no projection was made on an individual basis. The resulting IAS 19 liability was thus assumed to equal the statutory provisions made.

The actuarial assessment of post-employment benefits is based on a number of assumptions of a demographic and financial nature.

Certain of the assumptions used are explicitly based on the Company's direct historical experience, others are based on the related best practices.

Movements in this liability for the past two years are summarised as follows:

(€000)	At 31 December 2016	At 31 December 2015	31 December 2014	Increase/(decrease)
Opening balance*	2,011.3	2,448.0	823.3	33.6%
Merger	180.9			
Service cost	225.1	62.7	36.6	58.4%
Interest cost	34.4	21.2	23.3	110.0%
Benefits paid	38.2	290.8	-	0.0%
Transfers in/(out)	23.3	5.4	23.7	443.1%
Actuarial (Gains)/Losses	122.8	45.2	132.0	-292.4%
Closing balance*	2,559.6	2,190.5	991.5	45.3%

* includes amounts attributable to PWS, a company acquired on 4 November 2015

6. OTHER LIABILITIES

These items amount to €803,610 thousand at the end of 2016, compared with €691,018 thousand at the end of the previous year, and break down as follows:

(€000)	At 31 December 2016	At 31 December 2015	Increase/(decrease)
Deferred tax liabilities	191,221.2	184,308.4	6,912.8
Current tax liabilities	603,378.2	500,067.6	103,310.6
Other liabilities	9,011.0	6,641.8	2,369.2
Total	803,610.3	691,017.7	112,592.6

Changes in deferred tax liabilities in 2016 are shown below:

Deferred tax liabilities at 31 December 2015	184,308.4
- change accounted for in the income statement	20,616.8
- change accounted for in equity	- 13,704.0
Deferred tax liabilities at 31 December 2016	191,221.2

Temporary differences accounted for in the income statement originate mainly from the increased amount of finance income recognised under IAS/IFRS in Poste Vita's financial statements, compared with the income recognised on the basis of tax regulations, in addition to deferred tax liabilities on the costs of issuing bonds, which were capitalised by Poste Vita in 2014 pursuant to the provisions of art. 32, paragraph 13 of Law Decree 82/2012 and which the Company intends to recover through their amortisation. Temporary differences accounted for directly in equity originate mainly from the fair value measurement of AFS financial assets belonging to Poste Vita and Poste Assicura.

Current tax liabilities amount to €603,378 thousand at 31 December 2016.

(€000)	At 31 December 2016	At 31 December 2015	Increase/(decrease)	
Advance payment in relation to reserve for Law Decree 209/2002	443,089.4	384,662.4	58,427.0	15.2%
Stamp duty payable	65,979.8	57,076.7	8,903.0	15.6%
Substitute tax payable on individual pension plans (FIP)	14,113.0	12,922.3	1,190.7	9.2%
Withholding taxes on life policies	7,982.3	40,828.4	(32,846.1)	-80.4%
Current tax expense	69,535.5	2,352.0	67,183.5	n.s.
Other	2,678.2	2,225.8	452.4	20.3%
Total	603,378.2	500,067.6	103,310.6	20.7%

This item refers primarily to tax due on mathematical provisions for 2016, totalling €443,089 thousand, and stamp duty payable on financial policies included in Life Classes III and V, totalling €65,980 thousand. The increase in both amounts, compared with the previous year, reflects the increase in mathematical provisions during the period.

Withholding and substitute taxes payable on amounts paid out on life policies amount to €14,113 thousand at 31 December 2016. These taxes are payable for the month of December and will be paid in the following month.

The increase in current IRES and IRAP expense, compared with 31 December 2015, reflects the fact that tax expense for the previous year was almost entirely offset by payments on account, something that was not the case at 31 December 2016.

Other liabilities

Other liabilities amount to €9,011 thousand at 31 December 2016 (€6,642 thousand at 31 December 2015) and primarily regard unpaid salaries due to personnel.

PART D – NOTES TO THE CONSOLIDATED INCOME STATEMENT

1.1 NET PREMIUM REVENUE

Consolidated net premium revenue amounts to €19,883,936 thousand, up €1,686,173 thousand on the €18,197,763 thousand of the previous year.

Gross premium revenue amounts to €19,939,035 thousand, up 9.3% on the figure for 2015 (€18,238,485 thousand). Total outward reinsurance premiums amount to €46,787 thousand for 2016, compared with €39,929 thousand in 2015.

for the year ended 31 December (€000)	2016	2015	Increase/(decrease)	
Gross life premium revenue	19,820,208	18,145,401	1,674,806.7	9.2%
Gross non-life premium revenue	118,827	93,084	25,743.2	27.7%
Total gross premium revenue	19,939,035	18,238,485	1,700,549.9	9.3%
Change in gross premium reserve	(10,358)	260	(10,617.5)	n.s.
Gross premium revenue	19,928,677	18,238,745	1,689,932.4	9.3%
Outward life reinsurance premiums	(16,765)	(14,759)	(2,005.6)	13.6%
Outward non-life reinsurance premiums	(30,022)	(25,169)	(4,853.0)	19.3%
Total outward reinsurance premiums	(46,787)	(39,929)	(6,858.5)	17.2%
Change in share of premium reserve attributable to reinsurers	2,046	(1,053)	3,099.7	-294.3%
Outward reinsurance premiums	(44,740.9)	(40,982)	(3,758.9)	9.2%
Total net premium revenue	19,883,936	18,197,763	1,686,173	9.3%

All gross premium revenue attributable to the Insurance Group's portfolio falls within the scope of IFRS 4.

1.3 NET INCOME FROM FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss generated income of €935,263 thousand in 2016, compared with a loss of €48,738 thousand in 2015. This reflects the impact of financial market trends, which generated net fair value gains of €615,719 thousand, compared with net losses of €262,665 thousand in 2015.

The following table shows a breakdown of income and expenses from financial instruments at fair value through profit or loss:

(€000)					
Year ended 31 December 2016	Interest	Other income (expenses), net	Net realised gains/(losses)	Net unrealised gains/(losses)	Total income (expenses), net
Income and expenses from financial assets at fair value through profit or loss	92,960	229,776	(3,191)	615,719	935,263
Year ended 31 December 2015					
Income and expenses from financial assets at fair value through profit or loss	57,468	138,970	17,390	(262,665)	(48,837)
Increase/(decrease)	35,492	90,806	(20,581)	878,384	984,100

Of the net gains of €615,719 thousand, €571,653 thousand has been recognised in Deferred Policyholder Liability provisions under the shadow accounting mechanism, as these gains were generated by instruments attributable to separately managed accounts.

1.4- 1.5 NET INCOME FROM INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES, FROM OTHER FINANCIAL INSTRUMENTS AND INVESTMENT PROPERTY

This item totals €2,407,254 thousand, compared with €2,663,312 thousand in 2015, and breaks down as follows:

(€000)						
Year ended 31 December 2016	Interest	Other income (expenses), net	Ordinary income	Net realised gains/(losses)	Net unrealised gains/(losses)	Total income (expenses), net
Income and expenses from available-for-sale financial assets	2,278,124	19,712	2,297,836	251,419	- 106,276	2,442,979
Income from cash and cash equivalents	8		8			8
Income and expenses from loans and receivables			-			-
Income and expenses from other financial liabilities	(36,446)		(36,446)			(36,446)
Income and expenses from investments in associates			-		713	713
Total	2,241,686	19,712	2,261,398	251,419	- 105,563	2,407,254
Year ended 31 December 2015	Interest	Other income (expenses), net	Ordinary income	Net realised gains/(losses)	Net unrealised gains/(losses)	Total income (expenses), net
Income and expenses from available-for-sale financial assets	2,076,192	294,462	2,370,654	329,100		2,699,754
Income from cash and cash equivalents	400		400.0			400
Income and expenses from loans and receivables	1,632		1,632			1,632
Income and expenses from other financial liabilities	(38,899)		(38,899)			(38,899)
Income and expenses from investments in associates					425	425
Total	2,039,325.0	294,462	2,333,787	329,100.0	425	2,663,312
Increase/(decrease)	202,361	(274,750)	(72,389)	(77,681)	(105,988)	(256,058)

Net income from investments classified as available-for-sale amounts to €2,442,978 thousand, down on the figure for 2015 (€2,699,754 thousand) due primarily to a reduction in net realised gains in 2016 and the impairment loss recognised on the investment in the Atlante Fund, totalling €106,276 thousand. The latter loss has been attributed to policyholders under the shadow accounting method, as it relates to the portion of the investment attributable to separately managed accounts.

A small part of net expenses of approximately €36,446 thousand for the period under review (€38,899 thousand in 2015) relates to interest expense on subordinated debt.

1.6 OTHER INCOME

This item amounts to €10,206 thousand for 2016 (€2,182 thousand in 2015) and primarily regards the following:

- revenue from ordinary activities at Poste Welfare Servizi SRL, totalling €9,619 thousand;
- the reversal of premiums ceded in previous years, totalling €188 thousand;
- the recovery of claims paid in previous years, totalling €109 thousand; and
- the recovery of personnel expenses, totalling €109 thousand.

2.1 NET CLAIMS EXPENSES

Total claims expenses, after the share attributable to reinsurers, total €21,970,954 thousand, compared with €19,694,895 thousand in 2015.

Notes to the consolidated financial statements 2016

Total amounts paid, including allocated settlement costs and the change in technical provisions, amount to €21,990,568 thousand in 2016, compared with €19,709,907 thousand in 2015. These expenses break down as follows:

for the year ended 31 December (€000)	2016	2015	Increase/(decrease)	
Non-life business				
Claims paid	19,275	16,538	2,737.8	16.6%
Change in outstanding claims provisions	20,774	22,761	(1,987.3)	-8.7%
Change in other technical provisions	(65)	42	(107.5)	-255.4%
Costs of settling claims	2,528	2,559	(31.0)	-1.2%
Total non-life business	42,512	41,900	612.1	1.5%
Life business				
Claims paid	7,689,095	7,317,302	371,793.2	5.1%
Change in outstanding claims provisions	(237,146)	704,112	(941,258.3)	-133.7%
Change in mathematical provisions	14,327,132	13,381,314	945,818.6	7.1%
Change in technical provisions where the investment risk is borne by policyholders and deriving from pension fund management	(318,701)	(1,285,011)	966,309.4	-75.2%
Change in other technical provisions	477,308	(458,895)	936,202.8	-204.0%
Costs of settling claims	10,367	9,183	1,183.6	12.9%
Total life business	21,948,055	19,668,006	2,280,049.2	11.6%
Total claims paid and change in technical provisions	21,990,568	19,709,907	2,280,661	11.6%

The share attributable to reinsurers amounts to €19,614 thousand, compared with €15,012 thousand for the previous year, and breaks down as follows:

for the year ended 31 December (€000)	2016	2015	Increase/(decrease)	
Non-life business				
Claims paid	5,831	5,900	(69.3)	-1.2%
Change in outstanding claims provisions	3,509	6,366	(2,856.9)	-44.9%
Change in other technical provisions		-	0.0	-
Costs of settling claims	200	329	(129.4)	-39.3%
Total non-life business	9,540	12,596	(3,055.6)	-24.3%
Life business				
Claims paid	6,656	4,103	2,553.0	62.2%
Change in outstanding claims provisions	621	(308)	929.2	-301.2%
Change in mathematical provisions	2,795	(1,388)	4,183.4	-301.3%
Costs of settling claims	2	10	(7.8)	-76.8%
Total life business	10,074	2,416	7,657.9	316.9%
Total claims paid and change in technical provisions	19,614	15,012	4,602	30.7%

2.5 OPERATING COSTS

Operating costs amount to €569,685 thousand at the end of the period, up on the €516,467 thousand of 2015.

The following table shows a breakdown of operating costs by business (life or non-life):

for the year ended 31 December (€000)	2016	2015	Increase/(decrease)	
Non-life business				
Commissions and other acquisition costs:	26,958	21,160	5,798.5	27.4%
<i>Acquisition commissions</i>	21,200	16,788	4,412.0	26.3%
<i>Other acquisition costs</i>	5,758	4,372	1,386.5	31.7%
Commissions and share of profit received from reinsurers	(13,876)	(10,836)	(3,040.1)	28.1%
Total non-life business	13,083	10,324	2,758.5	26.7%
Life business				
Commissions and other acquisition costs:	449,951	414,659	35,291.9	8.5%
<i>Acquisition commissions</i>	410,398	382,983	27,414.7	7.2%
<i>Other acquisition costs</i>	39,554	31,676	7,877.3	24.9%
Commissions and share of profit received from reinsurers	(2,303)	(2,136)	(166.5)	7.8%
Total life business	447,648	412,523	35,125.4	8.5%
Investment management expenses	44,369	37,736	6,633.6	17.6%
Other administrative expenses	64,585	55,884	8,700.4	15.6%
Total operating costs	569,685	516,467	53,218	10.3%

Acquisition commissions, net of the change in unamortised deferred acquisition costs, amounting to €431,598 thousand for 2016 (€399,771 thousand in 2015) reflect commissions related to the sale of insurance products paid to Poste Italiane SpA's distribution network. Commissions relating to long-term contracts are amortised in accordance with ISVAP Regulation 22 of 4 April 2008.

The increase on the comparable amount for the previous year is due mainly to the growth in premium revenue. Commissions are set on the basis of written arm's length agreements entered into with Poste Italiane SpA.

Other acquisition costs, amounting to €45,312 thousand (€36,048 in 2015), include expenses arising from the sale of insurance policies, other than acquisition commissions. Specifically, this sub-item includes advertising expenses incurred to market insurance products, administrative costs incurred in handling applications and drawing up policies, as well as employee expenses allocated, in whole or in part, to operational units or operations.

Commissions and the share of profit received from reinsurers, totalling €16,179 thousand (€12,972 thousand in 2015) include commissions paid to the Company by reinsurers, calculated on the share of premiums ceded under the relevant treaties. The increase reflects growth of the business.

Costs not directly or indirectly attributable to the acquisition of premiums and contracts, to the settlement of claims or to investment management represent other administrative costs and total €64,585 thousand for 2016, compared with €55,884 for 2015.

Investment management expenses amount to €44,369 thousand for 2016, compared with €37,736 for 2015. These include portfolio management fees of €26,403 thousand, fees for the custody of securities, totalling €2,905 thousand, and overheads of €15,061 thousand allocated to this item. The increase in these costs is due to growth in the portfolio.

2.6 OTHER COSTS

Notes to the consolidated financial statements 2016

This item amounts to €53,751 thousand for 2016, compared with €42,522 thousand for 2015. These costs relate mainly to:

- maintenance commissions paid to the agent, totalling €32,649 thousand;
- substitute tax of €13,982 thousand payable on revaluations of mathematical provisions for pension products;
- accrued charges incurred by the Company in relation to dormant policies, totalling €1,232 thousand;
- overheads of €1,944 thousand allocated to this item; and
- the share of the profit passed on to policyholders under the terms of the relevant policies, totalling €506 thousand.

3 INCOME TAX EXPENSE

Income tax expense for the period, amounting to €251,967 thousand, includes €250,219 thousand in current IRES and IRAP expense and €1,749 thousand net deferred tax income.

(€000)	Year ended 31 December 2016
Current taxation	250,219
- IRES	212,295
- IRAP	37,924
Deferred taxation:	1,749
- deferred tax liabilities arising during the period	21,259
- deferred tax liabilities used during the period	(642)
- deferred tax assets arising during the period	(22,462)
- deferred tax assets used during the period	3,593
Total	251,967

The table below reconciles the effective tax charge and the tax charge resulting from application of the statutory IRES tax rate of 27.5%. No account was taken of IRAP, considering that the tax base for this tax is different from that on which IRES is calculated.

(€000)	Year ended 31 December 2016	
	Amount	Tax rate
Profit before tax	648,142	
Income tax based on statutory tax rate (only IRES at 27.5%)	178,239	27.5%
Change in life technical provisions	54,942	8.5%
Non-deductible interest expense	386	0.1%
Non-deductible extraordinary expenses	618	0.1%
Tax free dividends	- 122	0.0%
Deduction of IRAP from IRES	- 596	-0.1%
ACE (aid for economic growth) relief	- 20,469	-3.2%
Other	246	0.0%
Corporate income tax (IRES)	213,244	32.9%
IRAP (regional business tax)	38,723	6.0%
Income tax expense for the period	251,967	0

Strategic direction and coordination

The Parent Company, Poste Vita, is a wholly owned subsidiary of Poste Italiane SpA, which performs direction and coordination activities for the Group. The table below shows key indicators extracted from the financial statements for the year ended 31 December 2015.

Reference should be made to Poste Italiane SpA's financial statements which, together with the independent auditors' report, are available in the form and manner established by law.

Key indicators from Poste Italiane SpA's financial statements

POSTE ITALIANE SPA STATEMENT OF FINANCIAL POSITION at 31 December

Assets	2015	2014
Non-current assets	50,255,119	46,208,447
Current assets	19,666,593	21,201,468
Inventories		
Non-current assets held for sale	-	-
TOTAL ASSETS	69,921,712	67,409,915
EQUITY AND LIABILITIES	2015	2014
Equity		
Share capital	1,306,110	1,306,110
Reserves	3,826,038	2,933,893
Retained earnings	2,514,290	2,264,920
Total	7,646,438	6,504,923
Non-current liabilities	9,902,497	8,016,804
Current liabilities	52,372,777	52,888,188
TOTAL EQUITY AND LIABILITIES	69,921,712	67,409,915

Separate statement of profit or loss

STATEMENT OF PROFIT OR LOSS
for the year ended 31 December

	2015	2014
Revenue from sales and services	8,205,339	8,470,673
Other income from financial activities	432,729	388,971
Other operating income	398,603	306,753
Total revenue	9,036,671	9,166,397
Cost of goods and services	1,818,825	1,921,417
Other expenses from financial activities	2,659	5,766
Personnel expenses	5,895,396	5,971,907
Amortisation, depreciation and impairments	484,513	578,505
Capitalised costs and expenses	(4,878)	(6,218)
Other operating costs	226,279	314,388
Operating profit/(loss)	613,877	380,632
Finance costs	76,378	178,625
Finance income	58,443	70,977
Profit before tax	595,942	272,984
Income tax expense	145,144	216,092
PROFIT FOR THE PERIOD	450,798	56,892

PART E – OTHER INFORMATION

INFORMATION ON RELATED PARTY TRANSACTIONS

Transactions between the Parent Company, Poste Vita SpA, and its subsidiaries, Poste Assicura SpA and Poste Welfare Servizi Srl have been eliminated, as consolidated financial statements require the elimination of intercompany transactions and, as such, they are not shown in this section. They relate mainly to staff secondment, office rental and the organization of space, administration, support, IT assistance, claims management, communication and marketing.

Assets, liabilities, costs and income arising from transactions between Group companies, including the Parent Company, and their related parties are shown in the following tables:

(€000)				
Related party	At 31 December 2016		At 31 December 2015	
	Assets	Liabilities	Assets	Liabilities
Associate	105,931		105,225	
Other related parties	2,756,332	395,610	2,765,577	602,944
Total	2,862,263	395,610	2,870,802	602,944

(€000)				
Related party	At 31 December 2016		At 31 December 2015	
	Income	Costs	Income	Costs
Associate	714	-	425	
Other related parties	83,056	515,213	106,109	468,745
Total	83,771	515,213	106,534	468,745

The Parent Company, Poste Vita, is a wholly owned subsidiary of Poste Italiane SpA, which directs and coordinates the Group.

Transactions with Poste Italiane SpA, which owns all the shares outstanding, are governed by written agreements and conducted on an arm's length basis. They primarily regard:

- the sale and distribution of insurance products at post offices and related activities;
- post office current accounts;
- partial secondment of personnel used by the Company;
- support in organising the business and in the recruitment and management of personnel;
- the pick-up, packaging and shipping of ordinary mail;
- call centre services;
- Term Life Insurance policies.

Furthermore, at 31 December 2016, subordinated loan notes, totalling €250 million (€450 million at 31 December 2015) and issued by the Company, have been subscribed for by the parent, Poste Italiane SpA. The notes provide a market rate of return reflecting the creditworthiness of the Company.

The reduction since the beginning of the year reflects repayment, during the period, of the tranche with a defined maturity, amounting to €50 million, and of the tranche with an undefined maturity, totalling €150 million, following the Company's receipt of authorisation from IVASS on 22 November 2016.

At 31 December 2016, assets include the value of the investment in the associate, Europa Gestioni Immobiliare SpA (EGI), totalling €105,931 thousand, whilst revenue includes the Group's share of the associate's profit for the year, amounting to €714 thousand.

In addition to the relationship with the parent, Poste Vita Group companies also maintain operational relations with other Poste Italiane Group companies, with regard to:

- management of the Company's free capital and of a part of the portfolio investments attributable to separately managed accounts (Bancoposta Fondi SGR and Anima SGR);
- printing, enveloping and mail delivery through information systems; management of incoming mail, the dematerialization and filing of printed documentation (Postel);
- services related to network connections with Poste Italiane's post offices (Postecom);
- courier services within Italy (Sda);
- mobile telephone services (Poste Mobile);
- advice on obligations pertaining to occupational health and safety (Poste Tutela);
- Term Life Insurance policies (Postel, EGI, PosteCom, Poste Mobile, Poste Assicura, Mistral Air, Poste Tributi and Bancoposta Fondi SGR).
- third-party liability and fire and mortgage insurance with MCC;

These arrangements are also conducted on an arm's length basis. A description of the above transactions is provided in the notes.

PERSONNEL

The Group employs a total of 494 people at 31 December 2016, compared with 452 at 31 December 2015. The figure for 2016 includes 81 staff employed by Poste Welfare Servizi Srl.

Workforce breakdown	At 31 December 2016	At 31 December 2015	Increase/(decrease)
Executives	42	40	2
Middle managers	199	175	24
Operational staff	249	227	22
Personnel on fixed-term contracts	4	10	(6)
Direct employees	494	452	42

The Insurance Group continued to strengthen its organisational structure during the period in order to meet the requirements associated with its growing size, the increase in business and plans for the future. The centralisation of a number of non-specialist functions, previously carried out by the

subsidiary, Poste Assicura (human resources, administration, legal affairs, etc.), during the year has streamlined the Insurance Group's organisation.

Disclosure of fees paid to the independent auditors and for services other than audit

In compliance with the provisions of art. 49-*duodecies* of the CONSOB's Regulations for Issuers, the fees paid to BDO Italia SpA for auditing the separate and consolidated financial statements in 2015 amount to €128 thousand. Fees paid for services relating to the audit of reports for the separately managed accounts, the conduct of compliance reviews for the annual reports prepared for internal insurance funds and the audit of the accounts of the investee, Poste Assicura SpA, and of the subsidiary, Poste Welfare Servizi Spa, amount to €267 thousand, after expenses and VAT. These services are carried out by the audit firm, PricewaterhouseCoopers SpA.

Events after 31 December 2016

There have been no material events after the end of the reporting period.

Rome, 21 March 2017

The Board of Directors

STATEMENT OF FINANCIAL POSITION - ASSETS

(€000)

			At 31 December 2016		At 31 December 2015
1	INTANGIBLE ASSETS	1	46.474	101	42.167
1.1	Goodwill	2	17.823	102	17.823
1.2	Other intangible assets	3	28.651	103	24.343
2	TANGIBLE ASSETS	4	7.943	104	7.664
2.1	Land and buildings	5	-	105	-
2.2	Other tangible assets	6	7.943	106	7.664
3	TECHNICAL PROVISIONS CEDED TO REINSURERS	7	65.969	107	57.396
4	INVESTMENTS	8	115.677.487	108	102.453.845
4.1	Investment property	9	-	109	-
4.2	Investments in subsidiaries, associates ad joint ventures	10	105.931	110	105.225
4.3	Investments held to maturity	11	-	111	-
4.4	Loans and receivables	12	29.843	112	101.399
4.5	Available-for-sale financial assets	13	90.405.357	113	83.871.302
4.6	Financial assets at fair value through profit or loss	14	25.136.356	114	18.375.920
5	SUNDRY RECEIVABLES	15	178.319	115	81.963
5.1	Receivables arising from direct insurance transactions	16	43.461	116	11.964
5.2	Receivables arising from reinsurance transactions	17	13.187	117	4.183
5.3	Other receivables	18	121.670	118	65.816
6	OTHER ASSETS	19	1.711.707	119	1.461.033
6.1	Non-current assets or disposal groups held for sale	20	-	120	-
6.2	Deferred acquisition costs	21	60.789	121	56.494
6.3	Deferred tax assets	22	31.475	122	12.587
6.4	Current tax assets	23	1.617.532	123	1.390.533
6.5	Sundry assets	24	1.911	124	1.419
7	CASH AND CASH EQUIVALENTS	25	1.324.657	125	1.608.061
	TOTAL ASSETS	26	119.012.556	126	105.712.128

STATEMENT OF FINANCIAL POSITION - EQUITY AND LIABILITIES

(€000)

			At 31 December 2016		At 31 December 2015
1	EQUITY	31	3.301.952	131	3.276.963
1.1	attributable to the owners of the Parent	32	3.301.952	132	3.276.963
1.1.1	Share capital	33	1.216.608	133	1.216.608
1.1.2	Other equity instruments	34	-	134	-
1.1.3	Capital reserves	35	-	135	-
1.1.4	Retained earnings and other reserves	36	1.501.547	136	1.493.619
1.1.5	(Treasury shares)	37	-	137	-
1.1.6	Reserve for currency translation differences	38	-	138	-
1.1.7	Valuation reserve for available-for-sale financial assets	39	187.770	139	218.863
1.1.8	Other valuation reserve	40	(148)	140	(54)
1.1.9	Profit/(Loss) for the period attributable to owners of the Parent	41	396.175	141	347.927
1.2	attributable to non-controlling interests	42	-	142	-
1.2.1	Share capital and reserves attributable to non-controlling interests	43	-	143	-
1.2.2	Valuation reserves	44	-	144	-
1.2.3	Profit/(Loss) for the period attributable to non-controlling interests	45	-	145	-
2	PROVISIONS	46	11.203	146	11.187
3	TECHNICAL PROVISIONS	47	113.677.921	147	100.314.238
4	FINANCIAL LIABILITIES	48	1.010.383	148	1.211.890
4.1	Financial liabilities at fair value through profit or loss	49	-	149	-
4.2	Other financial liabilities	50	1.010.383	150	1.211.890
5	PAYABLES	51	207.486	151	206.832
5.1	Payables arising from direct insurance transactions	52	136.637	152	141.262
5.2	Payables arising from reinsurance transactions	53	17.192	153	8.067
5.3	Other payables	54	53.658	154	57.503
6	OTHER LIABILITIES	55	803.610	155	691.018
6.1	Liabilities included in disposal groups held for sale	56	-	156	-
6.2	Deferred tax liabilities	57	191.221	157	184.308
6.3	Current tax liabilities	58	603.378	158	500.068
6.4	Other liabilities	59	9.011	159	6.642
	TOTAL EQUITY AND LIABILITIES	60	119.012.556	160	105.712.128

INCOME STATEMENT

for the year ended 31 December

(€000)

			31/12/2016		31/12/2015
1.1	Net premium revenue	1	19.883.936	41	18.197.763
1.1.1	Gross premium revenue	2	19.928.677	42	18.238.745
1.1.2	Outward reinsurance premiums	3	- 44.741	43	- 40.982
1.2	Fee and commission income	4	5.873	44	3.319
1.3	Net income (expenses) from financial assets at fair value through profit or loss	5	935.263	45	- 48.736
1.4	Income from investments in subsidiaries, associates and joint ventures	6	713	46	425
1.5	Income from other financial instruments and investment property	7	2.626.562	47	2.749.043
1.5.1	Interest income	8	2.278.132	48	2.311.024
1.5.2	Other income	9	22.386	49	61.662
1.5.3	Realised gains	10	326.045	50	376.356
1.5.4	Unrealised gains	11	-	51	-
1.6	Other income	12	10.206	52	2.182
1	TOTAL REVENUE	13	23.462.553	53	20.903.995
2.1	Net claims expenses	14	- 21.970.954	54	- 19.694.895
2.1.1	Claims paid and change in technical provisions	15	- 21.990.568	55	- 19.709.907
2.1.2	Share attributable to reinsurers	16	19.614	56	15.012
2.2	Commission expenses	17	-	57	-
2.3	Expenses arising from investments in subsidiaries, associates and joint ventures	18	-	58	-
2.4	Expenses arising from other financial instruments and investment property	19	- 220.022	59	- 86.157
2.4.1	Interest expense	20	- 36.446	60	- 38.900
2.4.2	Other expenses	21	- 2.674	61	-
2.4.3	Realised losses	22	- 74.626	62	- 47.256
2.4.4	Unrealised losses	23	- 106.276	63	-
2.5	Operating costs	24	- 569.685	64	- 516.467
2.5.1	Commissions and other acquisition costs	25	- 460.731	65	- 422.847
2.5.2	Investment management expenses	26	- 44.369	66	- 37.736
2.5.3	Other administrative expenses	27	- 64.585	67	- 55.884
2.6	Other costs	28	- 53.751	68	- 42.522
2	TOTAL COSTS AND EXPENSES	29	- 22.814.411	69	- 20.340.040
	PROFIT/(LOSS) BEFORE TAX	30	648.142	70	563.955
3	Income tax expense	31	- 251.967	71	- 216.027
	PROFIT/(LOSS) FOR THE PERIOD	32	396.175	72	347.927
4	PROFIT/(LOSS) FROM DISCONTINUED OPERATIONS	33	-	73	-
	CONSOLIDATED PROFIT/(LOSS)	34	396.175	74	347.927
	of which attributable to owners of the Parent	35	396.175	75	347.927
	of which attributable to non-controlling interests	36	-	76	-

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December

(€000)

		Totale 31-12-2016	Totale 31-12-2015
CONSOLIDATED PROFIT/(LOSS)		396.175	347.927
Other components of comprehensive income that will not be reclassified to profit or loss, net of taxation	-	94	31
Change in subsidiaries' equity		-	-
Change in revaluation reserve for intangible assets		-	-
Change in revaluation reserve for tangible assets		-	-
Income and expenses from non-current assets and disposal groups held for sale		-	-
Actuarial gains and losses and adjustments related to defined-benefit plans	-	94	31
Other components		-	-
Other components of comprehensive income that may be reclassified to profit or loss, net of taxation	-	31.093	- 5.250
Change in reserve for currency translation differences		-	-
Gains or losses on available-for-sale financial assets	-	31.093	- 5.250
Gains or losses on cash flow hedges		-	-
Gains or losses on hedges of a net investment in foreign operations		-	-
Change in subsidiaries' equity		-	-
Income and expenses related to non-current assets or disposal groups held for sale		-	-
Other components		-	-
TOTAL OTHER COMPONENTS OF COMPREHENSIVE INCOME	-	31.186	- 5.220
TOTAL CONSOLIDATED COMPREHENSIVE INCOME		364.989	342.708
of which attributable to owners of the Parent		364.989	342.708
of which attributable to non-controlling interests		-	-

Details of other components of comprehensive income

for the year ended 31 December

(€000)

	Changes			Adjustments due to reclassification to profit or loss			Other changes			Total changes			Tax			Balance		
	2016		2015	2016		2015	2016		2015	2016		2015	2016		2015	At 31 December 2016		At 31 December 2015
Other components of comprehensive income that will not be reclassified to profit or loss	(94)		31			-			-	(94)		31	-		-	(148)		(54)
Reserve for changes in subsidiaries' equity	-		-	-		-	-		-	-		-	-		-	-		-
Revaluation reserve for intangible assets	-		-	-		-	-		-	-		-	-		-	-		-
Revaluation reserve for tangible assets	-		-	-		-	-		-	-		-	-		-	-		-
Income and expenses from non-current assets and disposal groups held for sale	-		-	-		-	-		-	-		-	-		-	-		-
Actuarial gains and losses and adjustments related to defined-benefit plans	(94)		31	-		-	-		-	(94)		31	-		-	(148)		(54)
Other components	-		-	-		-	-		-	-		-	-		-	-		-
Other components of comprehensive income that may be reclassified to profit or loss	(24.183)		34.198	(6.910)		(39.448)	-		-	(31.093)		(5.250)	13.687		19.611	187.770		218.863
Reserve for currency translation differences	-		-	-		-	-		-	-		-	-		-	-		-
Gains or losses on available-for-sale financial assets	(24.183)		34.198	(6.910)		(39.448)	-		-	(31.093)		(5.250)	13.687		19.611	187.770		218.863
Gains or losses on cash flow hedges	-		-	-		-	-		-	-		-	-		-	-		-
Gains or losses on hedges of a net investment in foreign operations	-		-	-		-	-		-	-		-	-		-	-		-
Reserve for changes in subsidiaries' equity	-		-	-		-	-		-	-		-	-		-	-		-
Income and expenses related to non-current assets or disposal groups held for sale	-		-	-		-	-		-	-		-	-		-	-		-
Other components	-		-	-		-	-		-	-		-	-		-	-		-
TOTAL OTHER COMPONENTS OF COMPREHENSIVE INCOME	-	24.277	34.228	-	6.910	-	39.448			-	31.186	-	5.220	13.687	19.611	187.622		218.809

STATEMENT OF CHANGES IN EQUITY

(€000)

			Balance at 31 December 2014	Changes in closing balances	Changes	Adjustments due to reclassification to profit or loss	Transfers	Changes in equity interests	Balance at 31 December 2015	Changes in closing balances	Changes	Adjustments due to reclassification to profit or loss	Transfers	Changes in equity interests	Balance at 31 December 2016
Equity attributable to owners of the Parent	Share capital		1,216,608	-	-	-	-	-	1,216,608	-	-	-	-	-	1,216,608
	Other equity instruments		-	-	-	-	-	-	-	-	-	-	-	-	-
	Capital reserves		-	-	-	-	-	-	-	-	-	-	-	-	-
	Retained earnings and other reserves		1,318,772	-	174,847	-	-	-	1,493,619	-	7,928	-	-	-	1,501,547
	(Treasury shares)		-	-	-	-	-	-	-	-	-	-	-	-	-
	Profit/(Loss) for the period		324,932	-	23,096	-	-	-	347,927	-	48,248	-	-	-	396,175
	Other components of comprehensive income		224,028	-	34,228	-	39,448	-	218,809	-	24,277	-	6,910	-	187,623
	Total attributable to owners of the Parent		3,084,239	-	232,171	-	39,448	-	3,276,963	-	31,899	-	6,910	-	3,301,952
Equity attributable to non- controlling interests	Share capital and reserves		-	-	-	-	-	-	-	-	-	-	-	-	-
	Profit/(Loss) for the period		-	-	-	-	-	-	-	-	-	-	-	-	-
	Other components of comprehensive income		-	-	-	-	-	-	-	-	-	-	-	-	-
	Total attributable to non-controlling interests		-	-	-	-	-	-	-	-	-	-	-	-	-
Total			3,084,239	-	232,171	-	39,448	-	3,276,963	-	31,899	-	6,910	-	3,301,952

CASH FLOW STATEMENT (indirect method)

for the year ended 31 December

(€000)

	31/12/2016	31/12/2015
Profit/(Loss) for the period before tax	648.142	563.955
Changes in non-monetary items	13.015.182	13.631.217
Change in non-life premium reserve	9.192	934
Change in outstanding claims provisions and other non-life technical provisions	16.717	16.920
Change in outstanding claims provisions and other life technical provisions	13.329.200	13.073.873
Change in deferred acquisition costs	(4.295)	(3.977)
Change in provisions	17	537
Non-monetary income and expenses from financial instruments, investment property and investments	(350.008)	532.486
Other changes	14.359	10.444
Change in receivables and payables generated by operating activities	(26.637)	174.965
Change in receivables and payables deriving from direct insurance sales and reinsurance transactions	(36.002)	49.226
Change in other receivables and payables	9.364	125.739
Income tax paid	(203.082)	(195.899)
Net cash generated by (used for) monetary items related to investing and financing activities	(6.760.437)	(6.014.522)
Liabilities from investment contracts issued by insurance companies	0	0
Due to bank and interbank customers	0	0
Loans and receivables outstanding with bank and interbank customers	0	0
Other financial instruments at fair value through profit or loss	(6.760.437)	(6.014.522)
TOTAL NET CASH GENERATED BY OPERATING ACTIVITIES	6.673.169	8.159.715
Net cash generated by (used for) investment property	0	0
Net cash generated by (used for) investments in subsidiaries, associates and joint ventures	(706)	58.061
Net cash generated by (used for) loans and receivables	71.556	624.951
Net cash generated by (used for) investments held to maturity	0	0
Net cash generated by (used for) available-for-sale financial assets	(6.184.047)	(7.390.958)
Net cash generated by (used for) tangible and intangible assets	(18.715)	(39.432)
Other net cash generated by (used for) investing activities	0	0
TOTAL NET CASH GENERATED BY (USED FOR) INVESTING ACTIVITIES	(6.131.913)	(6.747.378)
Net cash generated by (used for) equity instruments attributable to owners of the Parent	-283.153	-221.231
Net cash generated by (used for) treasury shares	0	0
Distribution of dividends to owners of the Parent	-340.000	-150.000
Net cash generated by (used for) share capital and reserves attributable to non-controlling interests	0	0
Net cash generated by (used for) subordinated liabilities and equity instruments	(201.507)	(88.963)
Net cash generated by (used for) sundry financial liabilities	0	0
TOTAL NET CASH GENERATED BY (USED FOR) FINANCING ACTIVITIES	-824.660	-460.195
Effect of exchange rate differences on cash and cash equivalents	0	0
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	1.608.061	655.919
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(283.404)	952.142
CASH AND CASH EQUIVALENTS AT END OF PERIOD	1.324.657	1.608.061

Statement of financial position by operating segment

(€000)

		Non-life business		Life business		Intersegment eliminations		Total	
		At 31 December 2016	At 31 December 2015	At 31 December 2016	At 31 December 2015	At 31 December 2016	At 31 December 2015	At 31 December 2016	At 31 December 2015
1	INTANGIBLE ASSETS	29.607	12.421	16.946	29.944	-	79	46.474	42.167
2	TANGIBLE ASSETS	303	725	7.640	6.939	-	-	7.943	7.664
3	TECHNICAL PROVISIONS CEDED TO REINSURERS	32.900	27.742	33.069	29.653	-	-	65.969	57.396
4	INVESTMENTS	187.692	142.996	115.538.891	102.339.025	(49.096)	(28.175)	115.677.487	102.453.845
4.1	Investment property	-	-	-	-	-	-	-	-
4.2	Investments in subsidiaries, associates and joint ventures	-	-	155.027	133.400	(49.096)	(28.175)	105.931	105.225
4.3	Investments held to maturity	-	-	-	-	-	-	-	-
4.4	Loans and receivables	-	-	29.843	101.399	-	-	29.843	101.399
4.5	Available-for-sale financial assets	187.292	142.996	90.218.065	83.728.306	-	-	90.405.357	83.871.302
4.6	Financial assets at fair value through profit or loss	-	-	25.135.956	18.375.920	-	-	25.136.356	18.375.920
5	SUNDRY RECEIVABLES	13.802	5.448	167.102	78.306	(2.586)	(1.792)	178.319	81.963
6	OTHER ASSETS	12.136	13.776	1.699.570	1.447.257	-	-	1.711.707	1.461.033
6.1	Deferred acquisition costs	533	1.910	60.257	54.585	-	-	60.789	56.494
6.2	Other assets	11.604	11.866	1.639.314	1.392.672	-	-	1.650.918	1.404.538
7	CASH AND CASH EQUIVALENTS	13.115	16.887	1.311.542	1.591.175	-	-	1.324.657	1.608.061
	TOTAL ASSETS	289.556	219.994	118.774.760	105.522.299	(51.761)	(30.165)	119.012.556	105.712.128
1	EQUITY	-	-	-	-	-	-	3.301.952	3.276.963
2	PROVISIONS	-	-	11.187	11.187	-	-	11.203	11.187
3	TECHNICAL PROVISIONS	143.385	112.319	113.534.535	100.201.919	-	-	113.677.921	100.314.238
4	FINANCIAL LIABILITIES	-	-	1.010.383	1.211.890	-	-	1.010.383	1.211.890
4.1	Financial liabilities at fair value through profit or loss	-	-	-	-	-	-	-	-
4.2	Other financial liabilities	-	-	1,010.383	1,211.890	-	-	1,010.383	1,211.890
5	PAYABLES	28.641	17.984	181.431	190.640	(2.586)	(1.792)	207.486	206.832
6	OTHER LIABILITIES	6.979	9.984	796.631	681.034	-	-	803.610	691.018
	TOTAL EQUITY AND LIABILITIES	-	-	-	-	-	-	119,012,556	105,712,128

Income statement by operating segment
for the year ended 31 December

(€000)

		Non-life business				Life business				Intersegment eliminations				Total			
		2016		2015		2016		2015		2016		2015		2016		2015	
1.1	Net premium revenue	1	80.493	21	67.121	1	19.803.443	21	18.130.644			-	1	19.883.936	21	18.197.763	
1.1.1	Gross premium revenue	2	108.469	22	93.344	2	19.820.208	22	18.145.403	(0)		-	2	19.928.677	22	18.238.745	
1.1.2	Outward reinsurance premiums	3	(27.976)	23	(26.223)	3	(16.765)	23	(14.759)			0	3	44.741	23	40.982	
1.2	Fee and commission income	4	-	24	-	4	5.873	24	-			-	4	5.873	24	-	
1.3	Net income (expenses) from financial assets at fair value through profit or loss	5	0	25	-	5	935.263	25	48.736			-	5	935.263	25	48.736	
1.4	Income from investments in subsidiaries, associates and joint ventures	6	-	26	-	6	713	26	425			-	6	713	26	425	
1.5	Income from other financial instruments and investment property	7	3.653	27	3.763	7	2.622.910	27	2.745.280			-	7	2.626.562	27	2.749.043	
1.6	Other income	8	10.645	28	2.251	8	3.967	28	2.664	(4.407)		(2.733)	8	10.206	28	2.182	
1	TOTAL REVENUE	9	94.791	29	73.135	9	23.372.169	29	20.833.595	(4.407)		(2.735)	9	23.462.553	29	20.903.995	
2.1	Net claims expenses	10	(32.972)	30	(29.305)	10	(21.937.981)	30	(19.665.590)			0	10	(21.970.954)	30	(19.694.895)	
2.1.1	Claims paid and change in technical provisions	11	(42.512)	31	(41.900)	11	(21.948.055)	31	(19.668.006)			0	11	(21.990.568)	31	(19.709.907)	
2.1.2	Share attributable to reinsurers	12	9.540	32	12.596	12	10.074	32	2.416			0	12	19.614	32	15.012	
2.2	Commission expenses	13	-	33	-	13	-	33	-			-	13	-	33	0	
2.3	Expenses arising from investments in subsidiaries, associates and joint ventures	14	-	34	-	14	-	34	-			-	14	0	34	0	
2.4	Expenses arising from other financial instruments and investment property	15	(109)	35	(101)	15	(219.913)	35	(86.055)			0	15	(220.022)	35	(86.157)	
2.5	Operating costs	16	(34.716)	36	(27.492)	16	(539.494)	36	(491.829)	4.526		0	16	(569.685)	36	(516.467)	
2.6	Other costs	17	(1.880)	37	(1.485)	17	(51.870)	37	(41.037)			0	17	(53.751)	37	(42.522)	
2	TOTAL COSTS AND EXPENSES	18	(69.678)	38	(58.383)	18	(22.749.259)	38	(20.284.511)	4.526	2.854		18	(22.814.411)	38	(20.340.040)	
	PROFIT/(LOSS) BEFORE TAX	19	25.114	39	14.752	19	622.910	39	549.084	119		-	19	648.142	39	563.955	

Scope of consolidation

Name	Country of registration	Country of operation	Method (1)	Business (2)	% direct interest	Total % interest (3)	% ordinary voting rights (4)	% consolidation
<i>Poste Assicura SPA</i>	086	086	G	1	100	100	100	100
<i>Poste Welfare Servizi S.r.l.</i>	086	086	G		100	100	100	100

(1) Consolidation method: Line-by-line =G, Proportionate=P, Line-by-line consolidation due to coordinated management=U

(2) 1=Italian ins.; 2= EU ins.; 3=non-EU ins.; 4=insurance holding; 4.1= mixed holding company; 5= UE reinsurance; 6=non-EU reins.; 7=bank; 8=asset man. co.; 9=other holding; 10=real estate; 11=other

(3) This is the sum of the equity interests related to all the companies along the ownership chain standing between the reporting entity and the company in question. If a number of subsidiaries hold interests in the latter, it is necessary to report the sum of the individual interests.

(4) Total percentage of the available voting rights, if different from the equity interest held.

Details of non-consolidated investments

(€000)

Name	Country of registration	Country of operation	Business (1)	Type (2)	% direct interest	Total % interest (3)	% ordinary voting rights (4)	Carrying amount
EGI SPA	086	086	10	b	45	45	45	105.931

(1) 1=Italian ins.; 2= EU ins.; 3=non-EU ins.; 4=insurance holding; 4.1= mixed holding company; 5= UE reinsurance; 6=non-EU reins.; 7=bank; 8=asset man. co.; 9=other holding; 10=real estate; 11=other

(2) a=subsidiaries (IFRS 10) ; b=associates (IAS 28); c=*joint ventures* (IFRS 11); indicate companies classified as held for sale, in compliance with IFRS 5, with an asterisk (*) and include the key under the table.

(3) This is the sum of the equity interests related to all the companies along the ownership chain standing between the reporting entity and the company in question. If a number of subsidiaries hold interests in the latter, it is necessary to report the sum of the individual interests.

(4) Total percentage of the available voting rights, if different from the equity interest held.

Details of tangible and intangible assets

(€000)

		Cost		Remeasured amount or fair value		Total carrying amount
Investment property	1	-	2	-		-
Other properties	3	-	4	-		-
Other tangible assets	5	7.943	6	-		7.943
Other intangible assets	7	28.651	8	-		28.651

Details of technical provisions attributable to reinsurers

(€000)

		Direct business			Indirect business			Total carrying amount	
		At 31 December 2016	At 31 December 2015		At 31 December 2016	At 31 December 2015		At 31 December 2016	At 31 December 2015
Non-life provisions	1	32.900	27.742	11	-	-	21	32.900	27.742
Premium reserve	2	7.058	5.892	12	-	-	22	7.058	5.892
Outstanding claims provisions	3	25.842	21.850	13	-	-	23	25.842	21.850
Other technical provisions	4	-	-	14	-	-	24	-	-
Life provisions	5	33.069	29.653	15	-	-	25	33.069	29.653
Outstanding claims provisions	6	6.115	5.494	16	-	-	26	6.115	5.494
Mathematical provisions	7	26.954	24.159	17	-	-	27	26.954	24.159
Technical provisions where the investment risk is borne by policyholders and provisions deriving from the management of pension funds	8	-	-	18	-	-	28	-	-
Other technical provisions	9	-	-	19	-	-	29	-	-
Total technical provisions attributable to reinsurers	10	65.969	57.396	20	-	-	30	65.969	57.396

Details of financial assets

(€000)

	Investments held to maturity		Loans and receivables		Available-for-sale financial assets		Financial assets at fair value through profit or loss				Total carrying amount	
							Held-for-trading financial assets		Financial assets designated at fair value through profit or loss			
	At 31 December 2016	At 31 December 2015	At 31 December 2016	At 31 December 2015	At 31 December 2016	At 31 December 2015	At 31 December 2016	At 31 December 2015	At 31 December 2016	At 31 December 2015	At 31 December 2016	At 31 December 2015
Equity instruments and derivatives recognised at cost	-	-	-	-	-	-	-	-	-	-	-	-
Equity instruments at fair value	-	-	-	-	15.775	8.458	-	-	-	-	15.775	8.458
<i>of which listed</i>	-	-	-	-	15.775	8.458	-	-	-	-	15.775	8.458
Debt securities	-	-	-	-	87.674.121	82.246.733	-	-	10.558.190	8.904.373	98.232.311	91.151.106
<i>of which listed</i>	-	-	-	-	87.599.919	82.176.826	-	-	10.558.190	8.902.114	98.158.109	91.078.940
UCITS units	-	-	-	-	2.715.461	1.616.111	-	-	14.345.209	9.227.305	17.060.669	10.843.416
Loans and receivables due from banks	-	-	-	-	-	-	-	-	-	-	-	-
Interbank loans and receivables	-	-	-	36.217	-	-	-	-	-	-	-	36.217
Deposits with ceding entities	-	-	-	-	-	-	-	-	-	-	-	-
Assets of investment components of insurance contracts	-	-	-	-	-	-	-	-	-	-	-	-
Other loans and receivables	-	-	29.843	65.182	-	-	-	-	-	-	29.843	65.182
Non-hedging derivatives	-	-	-	-	-	-	-	-	232.958	244.242	232.958	244.242
Hedging derivatives	-	-	-	-	-	-	-	-	-	-	-	-
Other financial investments	-	-	-	-	-	-	-	-	-	-	-	-
Total	-	-	29.843	101.399	90.405.357	83.871.302	-	-	25.136.356	18.375.920	115.571.556	102.348.620

Details of assets and liabilities related to contracts issued by insurance companies where the investment risk is borne by policyholders and deriving from the management of pension funds

(€000)

	Benefits linked to investment funds and market indices		Benefits linked to pension fund management		Total	
	At 31 December 2016	At 31 December 2015	At 31 December 2016	At 31 December 2015	At 31 December 2016	At 31 December 2015
On-balance-sheet assets	6.973.752	7.304.220	-	-	6.973.752	7.304.220
Intercompany assets *	-	-	-	-	-	-
Total assets	6.973.752	7.304.220	-	-	6.973.752	7.304.220
On-balance-sheet financial liabilities	-	-	-	-	-	-
On-balance-sheet technical provisions	6.899.765	7.218.467	-	-	6.899.765	7.218.467
Intercompany liabilities *	-	-	-	-	-	-
Total liabilities	6.899.765	7.218.467	-	-	6.899.765	7.218.467

* Assets and liabilities eliminated during the consolidation process

Details of technical provisions

(€000)

	Direct business				Indirect business				Total carrying amount			
	At 31 December 2016		At 31 December 2015		At 31 December 2016		At 31 December 2015		At 31 December 2016		At 31 December 2015	
Non-life provisions	1	143.385	61	112.319	21	-	81	-	41	143.385	101	112.319
Premium reserve	2	54.103	62	43.745	22	-	82	-	42	54.103	102	43.745
Outstanding claims provisions	3	89.066	63	68.292	23	-	83	-	43	89.066	103	68.292
Other provisions	4	216	64	281	24	-	84	-	44	216	104	281
<i>of which provisions made after a test of adequacy of liabilities</i>	5	-	65	-	25	-	85	-	45	-	105	-
Life provisions	6	113.534.535	66	100.201.919	26	-	86	-	46	113.534.535	106	100.201.919
Outstanding claims provisions	7	941.694	67	1.178.840	27	-	87	-	47	941.694	107	1.178.840
Mathematical provisions	8	96.332.232	68	82.012.783	28	-	88	-	48	96.332.232	108	82.012.783
Technical provisions where the risk is borne by policyholders and provisions deriving from the management of pension funds	9	6.899.765	69	7.218.467	29	-	89	-	49	6.899.765	109	7.218.467
Other provisions	10	9.360.844	70	9.791.830	30	-	90	-	50	9.360.844	110	9.791.830
<i>of which provisions made after a test of adequacy of liabilities</i>	11	-	71	-	31	-	91	-	51	-	111	-
<i>of which deferred policyholder liabilities</i>	12	9.280.747	72	9.711.792	32	-	92	-	52	9.280.747	112	9.711.792
Total technical provisions	13	113.677.921	73	100.314.238	33	-	93	-	53	113.677.921	113	100.314.238

Details of financial liabilities

(€000)

	Financial liabilities at fair value through profit or loss						Other financial liabilities		Total carrying amount	
	Held-for-trading financial liabilities		Financial liabilities designated at fair value through profit or loss							
	At 31 December 2016	At 31 December 2015	At 31 December 2016		At 31 December 2015		At 31 December 2016	At 31 December 2015	At 31 December 2016	At 31 December 2015
Equity-like instruments	-	-	-		-				-	-
Subordinated liabilities	-	-	-		-		1.010.383	1.211.890	1.010.383	1.211.890
Liabilities from investment contracts issued by insurance companies deriving	-	-	-		-		-	-	-	-
from contracts where the investment risk is borne by policyholders	-	-	-		-		-	-	-	-
from pension fund management	-	-	-		-		-	-	-	-
from other contracts	-	-	-		-		-	-	-	-
Deposits received from reinsurers	-	-	-		-		-	-	-	-
Liabilities of investment components of insurance contracts	-	-	-		-		-	-	-	-
Debt securities issued	-	-	-		-		-	-	-	-
Due to banks	-	-	-		-		-	-	-	-
Interbank payables	-	-	-		-		-	-	-	-
Other borrowings	-	-	-		-		-	-	-	-
Non-hedging derivatives	-	-	-		-		-	-	-	-
Hedging derivatives	-	-	-		-		-	-	-	-
Sundry financial liabilities	-	-	-		-		-	-	-	-
Total	-	-	-		-		1.010.383	1.211.890	1.010.383	1.211.890

Details of underwriting business

(€000)

		Year ended 31 December 2016			Year ended 31 December 2015		
		Gross amount	portion attributable to reinsurers	Net amount	Gross amount	portion attributable to reinsurers	Net amount
Non-life business							
NET PREMIUM REVENUE		108.469	27.976	80.493	93.344	26.223	67.121
a	Premium revenue	118.827	30.022	88.805	93.084	25.169	67.915
b	Change in premium reserve	10.358	2.046	8.311	(260)	(1.053)	793
NET CLAIMS EXPENSES		42.512	9.540	32.972	41.900	12.596	29.305
a	Claims paid	21.804	6.031	15.773	19.097	6.229	12.867
b	Change in outstanding claims provisions	20.774	3.509	17.265	22.761	6.366	16.395
c	Change in recoveries	0	0	0	0	0	0
d	Change in other technical provisions	(65)	0	(65)	42	0	42
Life business							
NET PREMIUM REVENUE		19.820.208	16.765	19.803.443	18.145.403	14.759	18.130.644
NET CLAIMS EXPENSES		21.948.055	10.074	21.937.981	19.668.006	2.416	19.665.590
a	Claims paid	7.699.462	6.659	7.692.804	7.326.485	4.113	7.322.372
b	Change in outstanding claims provisions	(237.146)	621	(237.767)	704.112	(308)	704.421
c	Change in mathematical provisions	14.327.132	2.795	14.324.337	13.381.173	(1.388)	13.382.561
d	Change in technical provisions where the investment risk is borne by policyholders and deriving from pension fund management	(318.701)	0	(318.701)	(1.285.011)	0	(1.285.011)
e	Change in other technical provisions	477.308	0	477.308	(458.754)	0	(458.754)

	Interest	Other income	Other expenses	Realised gains	Realised losses	Net realised gains/(losses)	Unrealised gains		Unrealised losses		Net unrealised gains/(losses)	Total income (expenses), net 2016	Total income (expenses), net 2015
							Unrealised gains	Write-backs	Unrealised losses	Impairments			
Investment income and expenses	2,636,811	258,034	- 8,546	340,942	- 92,715	3,134,526	647,762	-	- 403,318	-	244,444	3,378,971	2,653,116
a From investment property	-	-	-	-	-	-	-	-	-	-	-	-	-
b From investments in subsidiaries, associates and joint ventures	-	-	-	-	-	-	713	-	-	-	713	713	425
c From investments held to maturity	-	-	-	-	-	-	-	-	-	-	-	-	-
d From loans and receivables	-	-	-	-	-	-	-	-	-	-	-	-	1,632
e From available-for-sale financial assets	2,278,140	22,386	- 2,674	326,045	- 74,626	2,549,271	-	-	106,276	-	106,276	2,442,995	2,699,796
f From held-for-trading financial assets	-	-	-	-	-	-	-	-	-	-	-	-	-
g From financial assets at fair value through profit or loss	358,671	235,648	- 5,873	14,898	- 18,089	585,255	647,049	-	(297,042)	-	350,008	935,263	- 48,736
Income and expenses from sundry receivables	-	-	-	-	-	-	-	-	-	-	-	-	-
Income from cash and cash equivalents	- 8	-	-	-	-	8	-	-	-	-	-	8	359
Income and expenses from financial liabilities	(36,446)	-	-	-	-	(36,446)	-	-	-	-	-	(36,446)	- 38,900
a From held-for-trading financial liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-
b From financial liabilities at fair value through profit or loss	-	-	-	-	-	-	-	-	-	-	-	-	-
c From other financial liabilities	(36,446)	-	-	-	-	(36,446)	-	-	-	-	-	(36,446)	- 38,900
Income and expenses from payables	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	2,600,357	258,034	- 8,546	340,942	- 92,715	3,098,072	647,762	-	403,318	-	244,444	3,342,516	2,614,574

Details of underwriting expenses

for the year ended 31 December

(€000)

		Non-life business			Life business		
		2016		2015		2016	2015
Gross commissions and other acquisition costs		(26.958)	21	(21.160)	11	(449.951)	31 (414.659)
a	Acquisition commissions	(19.823)	22	(15.218)	12	(415.305)	32 (388.174)
b	Other acquisition costs	(5.758)	23	- 4.372	13	(39.554)	33 (31.676)
c	Change in deferred acquisition costs	(1.377)	24	(1.570)	14	5.672	34 5.547
d	Collection fees	-	25	-	15	(764)	35 (357)
Commissions and share of profits received from reinsurers		13.876	26	10.836	16	2.303	36 2.136
Other investment management expenses		(406)	27	(630)	17	(43.963)	37 (37.106)
Other administrative expenses		(20.551)	28	(16.538)	18	(44.034)	38 (42.200)
Total		- 34.039		- 27.492		- 535.646	- 491.829

Assets and liabilities recognised at fair value on a recurring and non-recurring basis: breakdown by fair value level

(€000)

		Level 1		Level 2		Level 3		Total	
		At 31 December 2016	At 31 December 2015	At 31 December 2016	At 31 December 2015	At 31 December 2016	At 31 December 2015	At 31 December 2016	At 31 December 2015
Assets and liabilities recognised at fair value on a recurring basis									
Available-for-sale financial assets		86.647.735	80.223.133	3.001.298	3.286.378	756.324	361.791	90.405.357	83.871.302
Financial assets at fair value through profit or loss	Held-for-trading financial assets	-	-	-	-	-	-	-	-
	Financial assets designated at fair value through profit or loss	10.094.631	8.067.402	14.867.618	10.308.518	174.107	-	25.136.356	18.375.920
Investment property		-	-	-	-	-	-	-	-
Tangible assets		-	-	-	-	-	-	-	-
Intangible assets		-	-	-	-	-	-	-	-
Total assets recognised at fair value on a recurring basis		96.742.366	88.290.534	17.868.917	13.594.896	930.430	361.791	115.541.713	102.247.221
Financial liabilities at fair value through profit or loss	Held-for-trading financial liabilities	-	-	-	-	-	-	-	-
	Financial liabilities designated at fair value through profit or loss	-	-	-	-	-	-	-	-
Total liabilities recognised at fair value on a recurring basis		-	-	-	-	-	-	-	-
Assets and liabilities recognised at fair value on a non-recurring basis									
Non-current assets or disposal groups held for sale		-	-	-	-	-	-	-	-
Liabilities included in disposal groups held for sale		-	-	-	-	-	-	-	-

Details of changes in level 3 assets and liabilities recognised at fair value on a recurring basis

(€000)

	Available-for-sale financial assets	Financial assets at fair value through profit or loss		Investment property	Tangible assets	Intangible assets	Financial liabilities at fair value through profit or loss	
		Held-for-trading financial assets	Financial assets designated at fair value through profit or loss				Held-for-trading financial liabilities	Financial liabilities designated at fair value through profit or loss
Opening balance	361.791	-	-	-	-	-	-	-
Purchases/Issues	631.813	-	174.600	-	-	-	-	-
Sales/Repurchases	(153.838)	-	0	-	-	-	-	-
Redemptions	-	-	-	-	-	-	-	-
Gains or losses through profit or loss	(106.276)	-	493	-	-	-	-	-
- of which unrealised gains/losses		-		-		-	-	-
Gains or losses through other components of comprehensive income	-	-	-	-		-	-	-
Transfers to level 3	-	-	-	-	-	-	-	-
Transfers to other levels	-	-	-	-	-	-	-	-
Other changes	22.835	-	-	-	-	-	-	-
Closing balance	756.324	-	174.107	-	-	-	-	-

Assets and liabilities not recognised at fair value: breakdown by fair value level

(€000)

	Carrying amount		Fair value							
			Level 1		Level 2		Level 3		Total	
	at 31 December 2016	at 31 December 2015	at 31 December 2016	at 31 December 2015	at 31 December 2016	at 31 December 2015	at 31 December 2016	at 31 December 2015	at 31 December 2016	at 31 December 2015
Assets	-	-	-	-	-	-	-	-	-	-
Investments held to maturity	-	-	-	-	-	-	-	-	-	-
Loans and receivables	29.843	101.399	-	-	-	-	29.843	101.399	29.843	101.399
Investments in subsidiaries, associates and joint ventures	105.931	105.225	-	-	-	-	105.931	105.225	105.931	105.225
Investment property	-	-	-	-	-	-	-	-	-	-
Tangible assets	7.943	7.664	-	-	-	-	7.943	7.664	7.943	7.664
Total assets	143.717	214.288	-	-	-	-	143.717	214.288	143.717	214.288
Liabilities	-	-	-	-	-	-	-	-	-	-
Other financial liabilities	1.010.383	1.211.890	-	-	-	-	1.010.383	1.211.890	1.010.383	1.211.890

Interests in non-consolidated structured entities

(€000)

Name of structured entity	Revenue earned by structured entity during reporting period	Carrying amount (at transfer date) of assets transferred to structured entity during reporting period	Carrying amount of assets recognised in financial statements and attributable to structured entity	Asset class in financial statements	Carrying amount of liabilities recognised in financial statements and attributable to structured entity	Liability class in financial statements	Maximum loss exposure
BLACKROCK DIVERSIFIED DISTRIBUTION FUND			5.738	Attività finanziaria a fair value rilevato a CE			671
MFx - GLOBAL FUND - ASSET GLOBAL FUND (PIMCO MULTI ASSET)			4.047	Attività finanziaria a fair value rilevato a CE			487
ADVANCE CAPITAL ENERGY FUND			24	Attività finanziarie disponibili per la vendita			10
PIANO 400 FUND DEUTSCHE BANK			486	Attività finanziarie disponibili per la vendita			58
TAGES CAPITAL PLATINUM			250	Attività finanziarie disponibili per la vendita			68
TAGES PLATINUM GROWTH			190	Attività finanziarie disponibili per la vendita			36
SHOPPING PROPERTY FUND 2			86	Attività finanziarie disponibili per la vendita			21
MULTIFLEX - Global Optimal Multi Asset Fund			1.294	Attività finanziaria a fair value rilevato a CE			168
MULTIFLEX - Strategic Insurance Distribution			938	Attività finanziaria a fair value rilevato a CE			105
MULTIFLEX - Dynamic Multi Asset Fund			1.304	Attività finanziaria a fair value rilevato a CE			135
DIAMOND EUROZONE RETAIL PROPERTY FUND			0	Attività finanziaria a fair value rilevato a CE			0
FONDO CBRE DIAMOND			0	Attività finanziaria a fair value rilevato a CE			0
FONDO DIAMOND EUROZONE OFFICE UBS			56	Attività finanziaria a fair value rilevato a CE			14
DIAMOND ITALIAN PROPERTIES			118	Attività finanziaria a fair value rilevato a CE			29
DIAMOND OTHER SECTOR ITALIA			1	Attività finanziaria a fair value rilevato a CE			0