CONSOLIDATED ANNUAL REPORT 2018

CONTENTS

BOARD OF DIRECTORS[1]

Chairwoman	Maria Bianca Farina
Chief Executive Officer	Matteo Del Fante
Director	Vladimiro Ceci
Director	Laura Furlan
Director	Guido Maria Nola
Director	Maria Cristina Vismara
Director	Gianluigi Baccolini

GENERAL MANAGER

Maurizio Cappiello

BOARD OF STATUTORY AUDITORS [1]

Chairman	Marco Fazzini
Auditor	Marco De Iapinis
Auditor	Barbara Zanardi
Alternate	Maria Giovanna Basile
Alternate	Massimo Porfiri

1. The Board of Directors and the Board of Statutory Auditors were appointed by the shareholders at the General Meeting held on 19 June 2017 and will serve for three-year terms of office, until approval of the financial statements for 2019.
   Matteo Del Fante's appointment as a Director, following his co-option on to the Board of Directors subject to the prior approval of the Board of Statutory Auditors at the meeting held on 26 July 2017, was confirmed by the shareholder resolution of 20 December 2017; in accordance with the provisions of paragraph 3 of art. 2386 of the Italian Civil Code, the term of office will expire at the same time as that of the other members of the Board of Directors in office, and therefore on the date of the Annual General Meeting called to approve the financial statements for 2019. At the Board meeting of 20 December 2017, Mr Del Fante was also appointed Chief Executive Officer.
   The appointment of Laura Furlan and Guido Maria Nola as Directors, following their co-option on to the Board of Directors at the meeting held on 4 September 2018 in place of the resigning Directors, Francesca Sabetta and Roberto Giacchi, was confirmed by the shareholder resolution of 15 November 2018; in accordance with the provisions of paragraph 3 of art. 2386 of the Italian Civil Code, the related terms of office will expire at the same time as that of the other members of the Board of Directors in office, and therefore on the date of the Annual general Meeting called to approve the financial statements for 2019.
   On 26 February 2019, the Board of Directors co-opted Vladimiro Ceci and Maria Cristina Vismara on to the Board of Directors to replace Antonio Nervi and Dario Frigerio following their resignations; in accordance with paragraph 1 of art. 2386 of the Italian Civil Code, the related terms of office will expire with the next General Meeting of shareholders.

SUPERVISORY BOARD(2)

Chairman	Francesco Alfonso
Member	Franco Cornacchia
Member	Marianna Calise

INDEPENDENT AUDITORS(3)	BDO Italia SpA

INTERNAL AUDIT AND RELATED PARTY TRANSACTIONS COMMITTEE(4)

Chairman	Vladimiro Ceci
Member	Maria Cristina Vismara
Member	Gianluigi Baccolini

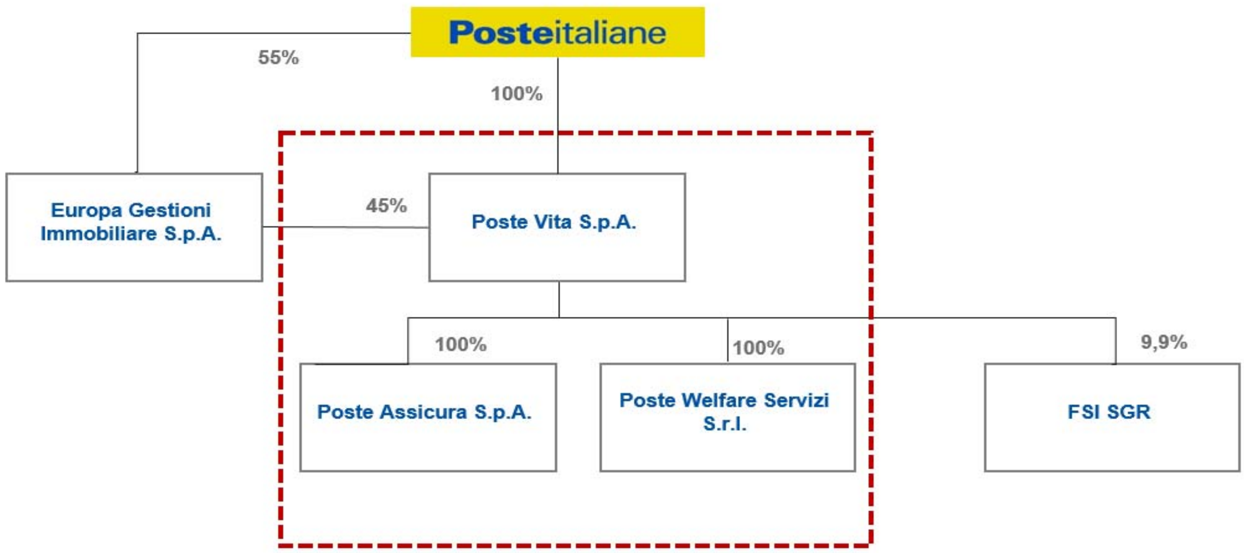
REMUNERATION COMMITTEE(4)

Chairwoman	Maria Guida Nola
Member	Maria Cristina Vismara
Member	Gianluigi Baccolini

2. The Supervisory Board, appointed by the Board of Directors at their meeting of 30 July 2018, has a three-year term of office that will expire on the date of approval of the financial statements for 2019.
3. Appointment approved by the shareholders at the General Meeting of 29 April 2014.
4. The Committees were appointed by the Directors on 19 June 2017; on 26 February 2019, Vladimiro Ceci was appointed Chairman of the Internal Audit and Related Party Transactions Committee in place of Maria Guida Nola, and Guido Maria Nola was appointed Chairman of the Remuneration Committee in place of Antonio Nervi. At the same time, the composition of both the above committees changed with the appointment of Maria Cristina Vismara as an independent member in place of Dario Frigerio.

Group structure

The Poste Vita Group's current structure and its scope of consolidation are briefly described below:



The Poste Vita Group operates in the life and non-life insurance sectors and has a leading position in the life sector and a growth strategy in the non-life sector.

The scope of consolidation includes the subsidiary, Poste Assicura SpA, an insurance company founded in 2010 to provide non-life insurance, excluding motor insurance, and a wholly owned subsidiary of the Parent Company, Poste Vita, and Poste Welfare Servizi Srl, a company that primarily provides its customers with administrative, technical and software assistance relating to the management of health funds and data acquisition and validation. The latter company is also a wholly owned subsidiary of Poste Vita. The Parent Company also holds a non-controlling interest in Europa Gestioni Immobiliari SpA, a real estate company tasked with the management and development of Poste Italiane's properties no longer used in operations. This investment is not accounted for on a line-by-line basis but using the equity method.

In addition, in the fourth quarter of 2016, the Parent Company, Poste Vita, 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, or as a connected party with CDP and/or other shareholders of FSI SGR. This investment is measured at fair value through profit or loss.

EXECUTIVE SUMMARY

In keeping with the strategic objectives set out in the business plan, during the period, the Poste Vita Insurance Group primarily focused its efforts on:

- strengthening its leadership in the life market for traditional and pension products, whilst also developing its Class III business;
- achieving growth in the protection and welfare segment.

RECLASSIFIED INCOME STATEMENT						€m
for the year ended 31 December	2018			2017		
	Non-life business	Life business	Total	Non-life business	Life business	Total
Net premium revenue	**128.0**	**16,592.3**	**16,720.3**	**99.3**	**20,243.6**	**20,342.9**
Gross premium revenue	*168.2*	*16,609.9*	*16,778.1*	*131.1*	*20,263.4*	*20,394.5*
Outward reinsurance premiums	*(40.1)*	*(17.6)*	*(57.8)*	*(31.8)*	*(19.8)*	*(51.5)*
Fee and commission income		**19.8**	**19.8**		11.5	11.5
Net finance income from assets related to traditional products	**4.5**	**1,970.1**	**1,974.6**	**3.9**	**3,336.1**	**3,340.0**
Income	*4.7*	*3,101.2*	*3,105.9*	3.7	2,940.8	2,944.5
Realised gains and losses	*(0.2)*	*209.7*	*209.5*	0.2	171.9	172.1
Unrealised gains and losses	*(0.0)*	*(1,340.8)*	*(1,340.8)*	0.0	223.4	223.4
Net finance income from assets related to index- and unit-linked products		**(123.9)**	**(123.9)**		111.8	111.8
Net change in technical provisions	**(27.7)**	**(17,097.4)**	**(17,125.1)**	**(25.6)**	**(22,325.9)**	**(22,351.5)**
Claims paid	*(35.9)*	*(10,895.8)*	*(10,931.7)*	*(25.8)*	*(10,841.8)*	*(10,867.6)*
Change in technical provisions	*(4.1)*	*(6,211.0)*	*(6,215.0)*	*(6.7)*	*(11,496.3)*	*(11,503.0)*
Share attributable to reinsurers	*12.3*	*9.3*	*21.6*	*6.9*	*12.2*	*19.1*
Investment management expenses	**(0.4)**	**(43.1)**	**(43.5)**	(0.4)	(45.0)	(45.5)
Acquisition and administration costs	**(36.8)**	**(488.4)**	**(525.2)**	(34.5)	(544.7)	(579.2)
Net commissions and other acquisition costs	*(12.4)*	*(404.4)*	*(416.8)*	(8.7)	(460.3)	(469.0)
Operating costs	*(24.4)*	*(83.9)*	*(108.3)*	(25.8)	(84.4)	(110.2)
Other revenues/(costs), net	**6.3**	**(35.4)**	**(29.1)**	4.7	(35.1)	(30.4)
GROSS OPERATING PROFIT	**74.0**	**794.0**	**867.9**	**47.4**	**752.2**	**799.6**
Net finance income from investment of free capital		84.8	84.8		71.2	71.2
Interest expense on subordinated debt		(34.2)	(34.2)		(27.6)	(27.6)
PROFIT BEFORE TAX	**74.0**	**844.6**	**918.6**	**47.4**	**795.7**	**843.2**
Income tax expense	(20.8)	105.7	84.9	(13.3)	(283.7)	(297.0)
NET PROFIT	**53.1**	**950.3**	**1,003.5**	**34.2**	**512.0**	**546.2**

The **Life business** generated gross premium revenue of €16.6 billion in 2018, marking a decline with respect to the previous year (€20.3 billion), but reflecting a significant rebalancing of premium revenue in terms of class of business. Class III premiums amount to €740.1 million, marking a major improvement with respect to the €537.2 million of 2017 (growth of 38%), driven by inflows into the *PIR* (*Piano Individuale di Risparmio*) product launched from the second half of 2017, amounting to €316 million, and the positive performance of the multiclass product which, with total premium revenue of €988 million (including €357 million generated by sales of Class III products), registered growth of 173% compared with the previous year.
After years of significant growth, and in line with the need for customer diversification, gross premium revenue from sales of Class I and V investment and savings products is down 20% compared with the previous year, falling from €19.5 billion to €15.1 billion.

Total **claims paid** amount to €10.9 billion, broadly in line with the figure for 2017. A reduction in expirations, including coupon interest, in 2018, amounting to €6.0 billion (€6.6 billion in 2017), was offset by an increase in surrenders and claims expenses (amounting to €3.4 billion and €1.5 billion, respectively), which rose in proportion to the performance of assets under management (the surrender rate has remained stable at ~3.0%).

In any event, net premium revenue of €5.7 billion remained positive (€9.4 billion in 2017), contributing significantly to the growth in assets under management, in line with the stated aim of consolidating the group's market leadership.

While the contribution of the **Non-life business** to the Group's results is still limited, sales in this area performed satisfactorily, with total gross premium revenue for the period of approximately €187.2 million, an increase of 33% compared with 2017 (€141.2 million). Growth was driven by all the types of policy: i) credit protection (CPI) policies (up 48%); ii) Property and Personal up 15%, thanks also to the launch of the *Posta Protezione Casa 360* product, which has introduced cover for guarantees linked to natural disasters, and iii) Welfare, where revenue is up from €5.3 million at the end of the fourth quarter of 2017 to the current €25.5 million, driven by both the launch of the health care fund for the Poste Italiane Group's employees (€13 million since April 2018) and new distribution agreements with corporate customers (Employee Benefits). The positive commercial performance was also accompanied by a good technical performance, as claims expenses grew at a slower rate than premium revenue during the period. **Claims expenses** amounted to €40.0 million, compared with €32.5 million for the year ended 31 December 2017, with the overall loss ratio falling from 24.8% at 31 December 2017 to the current 23.8%.

In terms of **investments** during the period, the investment policy continues to be marked by the utmost prudence, based on the guidelines established by the Board of Directors. As a result, the portfolio is primarily invested in government securities and corporate bonds, with an overall exposure that represents around 78% of the entire portfolio. The rest of the portfolio is primarily invested in multi-asset, harmonised open-end funds of the UCITS (Undertakings for Collective Investment in Transferable Securities) type. Returns on investments linked to separately managed accounts registered good performances, with returns of 3.29% for *PostaPensione* accounts and 2.82% for *PostaValorePiù* accounts.

The negative performances of the financial markets during the year were reflected in an overall reduction in unrealised gains, which are down from €8.3 billion at the beginning of the year to the current €2.0 billion: Deferred Policyholder Liability (DPL) provisions, linked to the above change in the fair value of the financial instruments covering the provisions, amount to approximately €2.0 billion, down from €8.2 billion at the beginning of the year.

As a result of the above operating and financial performance, **technical provisions** for the Life business's direct Italian portfolio, including DPL provisions, amount to €125.0 billion, up from €123.5 billion at the end of 2017. Technical provisions for the Non-life business, before the portion ceded to reinsurers, amount to €183.4 million at the end of the period, an increase of 14.4% compared with the figure for the end of 2017 (€160.2 million), reflecting the growth in business.

The investment of **"free capital"** generated net finance income of approximately €84.8 million, an increase on the figure for 2017 (€71.2 million). This reflects higher unrealised losses in 2017, relating to the further impairment loss on the investment in the Atlante fund, totalling €12.1 million.

With regard to **organisational aspects**, the period witnessed a reduction in the cost of consultants' fees and of external professionals, resulting in **operating costs** of approximately €108.3 million in 2018, down from €110.2 million in 2017. This means that operating costs continue to remain in line with best market practices at 0.6% of earned premiums and 0.1% of provisions, figures on a par with 31 December 2017.

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The above performance resulted in **EBITDA** of €918.6 million, up from €843.2 million for 2017. After tax, which in 2018 benefitted from the recognition of deferred tax income[1] of €384.6 million, **net profit for the year** amounts to €1,003.5 million, compared with €546.2 million for 2017.

[1] During 2018, the Parent Company, Poste Vita, completed system testing prior to release of the algorithm for use in calculating deferred tax assets on the non-deductible movement in technical provisions resulting from the application of paragraph 1-*bis* of art. 111 of the Consolidated Law on Income Tax, introduced in 2010, which provides for a partial exemption from taxation of the movement in mathematical provisions relating to Class I (excluding those for *PostaPensione* accounts) and Class V policies. This led the parent Company to recognise deferred tax income of approximately €384.6 million at 31 December 2018. Having met the related conditions, deferred tax assets were recognised on the increase in the IRES tax base applied annually in the Company's tax returns, having an impact therefore on the Local GAAP financial statements, the reporting package and the consolidated financial statements. The accounting treatment adopted by the Parent Company was also supported by the specific opinion of a leading independent expert.

Key performance indicators

A summary of the principal KPIs is shown below:

(€m)

PRINCIPAL FINANCIAL KPIs	31 December 2018	31 December 2017	Increase/(decrease)	
Equity	3,951.3	3,369.3	582.0	17.3%
Technical provisions	125,146.1	123,650.6	1,495.5	1.2%
Financial investments*	128,226.3	126,869.4	1,356.8	1.1%
Solvency II ratio	211.2%	279.4%	-68.1%	
Workforce	553	535	18	

PRINCIPAL OPERATIONAL KPIs	31 December 2018	31 December 2017	Increase/(decrease)	
Gross premium revenue	16,778.1	20,394.5	-3,616.4	-17.7%
EBIT	867.9	799.6	68.3	8.5%
Net profit	1,003.5	546.2	457.3	83.7%
ROE**	28.1%	17.3%	10.8%	10.8%
Surrender ratio	2.9%	2.9%	0.0%	
Operating costs / Earned premiums	0.6%	0.5%	-0.1	
Operating costs / Provisions	0.1%	0.1%	0.0	

*** including cash**

**** in calculating this indicator, the figure for equity was determined net of the FVTOCI reserve. If the deferred tax income of €384.6 million, resulting from the recognition of deferred tax assets at 31 December 2018, is excluded, this indicator is 18.3%.**

ECONOMIC AND MARKET ENVIRONMENT

The global economy continued to grow in the fourth quarter of 2018, but signs of a cyclical downturn in many advanced and emerging economies began to be seen. These economic uncertainties started to weigh on international financial markets, with declines in long-term yields and share prices. The prospects for the global economy reflect the risks associated with trade negotiations between the USA and China, the slowing Chinese economy, the potential reawakening of financial tensions in emerging countries and the uncertainties surrounding the UK's future relationship with the European Union, especially after the Westminster parliament's decision not to ratify the agreement reached in November. Consumer inflation appears to be under control in all the major advanced economies, partly thanks to the fall in oil prices during the fourth quarter of the year.

Against this backdrop, the process of normalising monetary policies continued to be gradual, as in previous quarters, with the aim of allowing the financial markets to adjust to the changes made by central banks without any particular shocks.

According to the forecasts published by leading international bodies (the OECD and the International monetary Fund), the global economy grew by 3.7% in 2018 compared with 3.8% in 2017.

The US economy saw its ninth consecutive year of growth since the recession of 2008, marked by sustained job creation that has resulted in full employment (the unemployment rate is 3.7%), and a core inflation rate that, at 2.0%, is in line with the Federal Reserve's target and under control given the absence of wage growth. In this context, in 2018, the Federal Reserve: i) raised interest rates by 100 bps (to a range of 2.25%-2.50%); ii) eliminated its forward guidance, enabling it to continue to raise rates in response to macroeconomic data alone; and iii) dropped its use of the word "accommodative", signalling that monetary policy is close to being "neutral". December's Beige Book[2] showed, however, that the Federal Reserve is concerned about both global economic growth and trade tariffs and financial market volatility, which are making it harder to judge the size and timing of further rate rises compared with previously.

Eurozone growth continued, but at a slower pace, reflecting temporary factors (such as uncertainty over the global economy, the threat represented by protectionism, the vulnerability of emerging countries, a potential increase in financial market volatility, demonstrations in France and legislation on vehicle emissions) that have damaged business confidence and contributed to a weakening of overseas demand. Despite the current slowdown, the pace of economic growth appears overall to have remained in line with a growth scenario ahead of its potential level. After rising to 2.2% in October, inflation then fell back to stand at 1.6% at the end of the year, primarily due to a deceleration of energy prices, causing core inflation to remain weak at 1.0%. Against this backdrop, the ECB's monetary policy, both conventional and otherwise, continued in line with financial market expectations: the deposit facility rate and the main refinancing operation rate remained unchanged at -0.4% and 0.0%, respectively, whilst its APP-Asset Purchase Programme came to an end in December. The ECB has reiterated the importance of wide-ranging monetary stimulus to support prices over the medium term, announcing its intention to reinvest the proceeds from securities reaching maturity under the APP for a prolonged period of time, even after the initial rise in official

[2] The **Beige Book** is a report prepared by the **Federal Reserve** and is considered a key market mover for the US dollar. In broad terms, the **Beige Book** brings together in a single report all the data provided by the Federal Reserve's District Offices regarding output, consumption, sales, financial and banking matters, energy, agriculture and anything else than can help to give an accurate and complete picture of the economy in the relevant districts**.**

interest rates, and in any event until it is necessary to maintain a high degree of monetary easing (including liquidity operations over the medium to long term).

Among the BRIC economies (Brazil, Russia, India and China), economic growth in India remains robust, although not quite as strong as in the first half of the year, the Russian economy is strengthening, Brazil remains fragile and the slowdown in China is continuing despite the fiscal stimulus introduced by the government and in spite of the central bank's easing of monetary policy.

Financial market trends

With rising uncertainty regarding the prospects for the global economy, long-term rates in the leading advanced economies began to fall again in the last two months of the year. At the end of the fourth quarter of 2018, the yields on ten-year US and German government bonds stood at 2.68% and 0.24%, respectively, compared with 3.06% and 0.47% at the end of the third quarter of 2018. In the specific case of the USA, the situation also reflected expectations of a gradual normalisation of monetary policy.

At the same date, the yield on 10-year Italian Treasury Notes (BTPs) stood at 2.74%, compared with 3.14% at the end of September, with the spread with respect to ten-year German government bonds amounting to 250 basis points. Between the end of September and mid-November, the spread on ten-year treasury notes in Italy and Germany had risen to 326 basis points, reflecting increased uncertainty regarding the Italian budget for the three-year period 2019-2021 and the publication of macroeconomic data that was worse than expected. The following gradual easing of uncertainty surrounding the budget and the agreement reached with the European Commission then led to a sharp decline in the spread which, however, remains at a higher level than at the beginning of the year.

Yields on euro-denominated investment grade corporate bonds remain at historic lows. The average yield on BBB-rated investment grade issues, at the end of December, stand at around 1.8% compared with 1.5% in September. The increase primarily reflects an increase in credit risk premiums as swap rates have fallen across all the principal maturities.

The gloomier global economic outlook and uncertainty around trading relations between the USA and China weighed heavily on the leading equity markets, which declined over the course of 2018. In the fourth quarter of the year, the MSCI World Index fell by around 13%, the S&P 500 declined by approximately 14%, the Eurostoxx 50 fell by around 11% and emerging stock markets were down around 8%.

Finally, on the foreign exchange markets, the euro fell from US$1.16 to US$ 1.14 over the quarter in question.

Life insurance market

Based on the available official data at 31 December 2018 (source: ANIA), **new business for Life insurance policies** stood at €82.3 billion (up 3.5% on the previous year). If new Life business reported by EU undertakings is taken into account, the figure rises to €95.6 billion, slightly down (1.6%) compared with 2017.

In terms of insurance class, Class I premiums amount to €54.2 billion, an increase of 8.6% compared with the previous year. Class III products, on the other hand, recorded a 4.5% reduction in premiums to €26.8 billion compared with 2017. Inflows from capitalisation products were marginal at €1.3 billion, declining 14.8%. Sales of long-term care products (Class IV) performed well, with premium revenue, albeit modest, rising by almost 41% compared with 2017 to €20 million. New business relating to individual pension plans amounts to €1.6 billion, in line with the figure for the previous year.

Nuova produzione individuale vita per ramo di attività dicembre 2018 *(migliaia di euro)*

RAMO/PRODOTTO	Premi nel mese	Distrib. (%)	Var. (%) 18/17	N° polizze da inizio anno	Premi da inizio anno	Distrib. (%)	Var. (%) 18/17
Vita - ramo I	4.830.429	72,3%	36,8%	2.699.314	54.173.129	65,8%	8,6%
Capitalizzazioni - ramo V	86.303	1,3%	-66,8%	5.658	1.240.017	1,5%	-14,8%
Linked - ramo III	1.734.002	25,9%	-25,8%	682.060	26.752.620	32,5%	-4,5%
- di cui: unit-linked	*1.734.002*	*25,9%*	*-25,8%*	*682.060*	*26.752.620*	*32,5%*	*-4,5%*
- di cui: index-linked	*-*	*0,0%*	*n.d.*	*-*	*-*	*0,0%*	*n.d.*
Malattia – ramo IV	3.305	0,0%	51,6%	33.664	19.568	0,0%	40,9%
Fondi pens. aperti – ramo VI	28.546	0,4%	-17,3%	74.546	141.851	0,2%	-6,3%
Imprese italiane-extra UE	**6.682.585**	**100,0%**	**8,4%**	**3.495.242**	**82.327.185**	**100,0%**	**3,5%**
Imprese UE	**764.887**		**-40,3%**		**13.252.272**		**-24,8%**
Totale	**7.447.472**		**0,0%**		**95.579.457**		**-1,6%**

With regard to distribution channel, around 70% of new business was obtained through banks and post offices, with premium revenue of €57.3 billion up 4.2% compared with 2017. In terms of agents as a whole, the volume of new business amounts to €11.6 billion at 31 December 2018, up 2.7% on 2017.

The performance of new business obtained through authorised financial advisors was €12.5 billion, slightly down (2.4%) compared with the figure for the previous year.

Nuova produzione vita per canale distributivo dicembre 2018 *(migliaia di euro)*

CANALE DISTRIBUTIVO	Premi nel mese	Distrib. (%)	Var. (%) 18/17	Premi da inizio anno	Distrib. (%)	Var. (%) 18/17
Sportelli bancari e postali	3.806.442	57,0%	15,8%	57.300.156	69,6%	4,2%
Agenti	1.102.163	16,5%	-7,5%	8.636.880	10,5%	0,5%
Agenzie in economia	278.687	4,2%	-7,4%	2.975.606	3,6%	9,8%
Consulenti finanziari abilitati	1.159.774	17,4%	-11,8%	12.474.315	15,2%	-2,4%
Altre forme (inclusi Broker)	335.519	5,0%	373,7%	940.228	1,1%	113,5%
Imprese italiane-extra UE	**6.682.585**	**100,0%**	**8,4%**	**82.327.185**	**100,0%**	**3,5%**

N.B.: sono inclusi anche i premi unici aggiuntivi

Single premiums continued to be the preferred form of payment for policyholders, representing 93.5% of total premiums written and 61.6% of policies by number.

Ripartizione % per tipologia di premio e per canale distributivo
(Da inizio anno)

TIPOLOGIA DI PREMIO	N° polizze/ adesioni	RIPARTIZIONE PREMI PER CANALE					
		Sportelli bancari e postali	Agenti	Agenzie in econom.	Consul. finanziari abilitati	Altre forme (inclusi Broker)	Totale
Annui	**15,8%**	0,4%	2,4%	3,2%	0,2%	0,7%	**0,6%**
Unici	**61,6%**	94,0%	87,1%	82,9%	98,7%	82,8%	**93,5%**
Ricorrenti	**22,6%**	5,6%	10,5%	13,8%	1,2%	16,5%	**5,9%**
Totale	**100,0%**	100,0%	100,0%	100,0%	100,0%	100,0%	**100,0%**

Non-life insurance market

Based on the available official data (source: ANIA), total direct Italian premiums in the Non-life insurance market, thus including policies sold by Italian and overseas undertakings, amounted to €26.2 billion at the end of the third quarter of 2018, slightly up compared with 2017 (2.4%). This marks the sixth consecutive quarter reversing the negative trend seen over the previous five years. The performance was helped by both the slight increase in premium revenue from vehicle insurance and further growth in other Non-life classes.

In detail, third-party land vehicle premiums amount to €10.2 billion, in line with the figure for the end of the third quarter of 2017, whilst land vehicle hull premiums amount to €2.3 billion, up 5.7% on the same period of the previous year. Other Non-life classes were positively influenced by the general upturn in the economy and by innovative new products, confirming the positive trend of recent quarters. These other classes registered growth of 3.2%, with premium revenue amounting to €13.6 billion.

Other classes, in terms of volumes and growth rate, include general third-party liability insurance, with premium revenue of €2.7 billion up 2.2%, medical, with premiums of €1.9 billion (up 7.5%), and other property insurance, with premiums of €2.2 billion (up 5.5%).

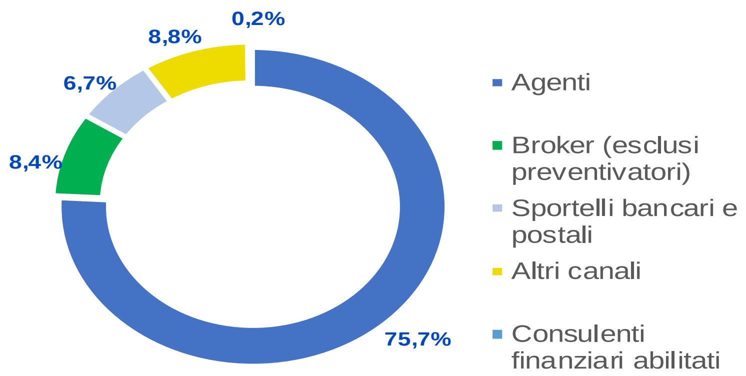
PREMI PORTAFOGLIO DIRETTO AL III TRIMESTRE 2018
Valori in milioni di euro

Rami	PREMI ITA ed EXTRA UE**	QUOTA MERCATO ITA ed EXTRA UE	PREMI UE***	QUOTA MERCATO UE	PREMI TOTALI	VAR.* % PREMI ITA ed EXTRA UE	VAR.* % PREMI UE	VAR.* % PREMI TOTALI
	al III trim. 2018	*al III trim. 2018*	*al III trim. 2018*	*al III trim. 2018*	*al III trim. 2018*	*2018/2017*	*2018/2017*	*2018/2017*
R.C. Autoveicoli terrestri	9.761	95,5%	460	4,5%	10.221	0,1%	9,2%	0,5%
Corpi di veicoli terrestri	2.137	92,1%	182	7,9%	2.319	5,8%	5,4%	5,7%
Totale settore Auto	**11.898**	**94,9%**	**642**	**5,1%**	**12.540**	**1,1%**	**8,1%**	**1,4%**
Infortuni	2.084	87,3%	304	12,7%	2.387	-0,2%	3,2%	0,2%
Malattia	1.828	95,3%	91	4,7%	1.919	7,9%	-0,1%	7,5%
Corpi di veicoli ferroviari	5	95,6%	0	4,4%	5	17,8%	-2,1%	16,7%
Corpi di veicoli aerei	6	49,8%	6	50,2%	12	-45,5%	-36,6%	-41,3%
Corpi veicoli marittimi	147	75,7%	47	24,3%	194	-9,6%	1,4%	-7,2%
Merci trasportate	124	55,8%	98	44,2%	222	1,8%	5,3%	3,3%
Incendio ed elementi naturali	1.496	90,3%	161	9,7%	1.657	2,2%	0,6%	2,0%
Altri danni ai beni	1.981	89,3%	236	10,7%	2.217	5,8%	3,6%	5,5%
R.C. Aeromobili	5	45,1%	7	54,9%	12	8,5%	8,8%	8,7%
R.C. Veicoli marittimi	30	94,7%	2	5,3%	31	3,5%	-8,8%	2,8%
R.C. Generale	1.922	70,7%	796	29,3%	2.718	2,7%	1,1%	2,2%
Credito	56	13,6%	357	86,4%	413	11,8%	7,2%	7,8%
Cauzione	287	76,3%	89	23,7%	376	2,5%	-1,4%	1,6%
Perdite pecuniarie	431	73,4%	156	26,6%	587	-1,0%	8,4%	1,3%
Tutela Legale	263	86,4%	41	13,6%	304	4,9%	12,0%	5,8%
Assistenza	528	91,1%	52	8,9%	580	5,6%	15,0%	6,4%
Totale altri rami danni	**11.192**	**82,1%**	**2.443**	**17,9%**	**13.636**	**3,3%**	**3,2%**	**3,2%**
Totale rami danni	**23.090**	**88,2%**	**3.085**	**11,8%**	**26.176**	**2,1%**	**4,2%**	**2,4%**

** Le variazioni % sono calcolate a perimetro di imprese omogeneo.*
*** Per imprese italiane ed extra-UE si intendono le imprese nazionali e le rappresentanze in Italia di imprese non facenti parte dello Spazio Economico Europeo e operanti in regime di stabilimento.*
**** Per imprese UE si intendono le rappresentanze in Italia di imprese aventi sede legale in paesi facenti parte dello Spazio Economico Europeo e operanti in regime di stabilimento; i dati si riferiscono alle sole imprese che hanno partecipato alla rilevazione.*

In terms of distribution channel, as regards policies sold by Italian and overseas undertakings, agents continue to lead the way with a market share of 75.7%, slightly down on the figure for the end of the third quarter of 2017 (76.8%). Brokers represent the second most popular channel for Non-life products, with a market share of 8.4%, whilst the market share of banks and post offices is in line with the same period of 2017 at 6.7% (6.5% at 30 September 2017). Direct sales accounted for 9.0% of the market at the end of the third quarter of 2018, up compared with the figure at the end of the third quarter of 2017 (8.2%).

Distribuzione Premi portafoglio diretto Danni per canale distributivo (*)



Fonte: ANIA - dati aggiornati a settembre 2018

(*) Imprese italiane e reppresentanze imprese extra-UE

OPERATING REVIEW

Premium revenue, net of outward reinsurance premiums, totalling approximately €16,720 million, is down 17.8% compared with the €20,343 million of 2017. The table below breaks down net premium revenue by type of business compared with 2017.

(€m)

Premium revenue for the year ended 31 December	2018	2017	Increase/(decrease)	
Class I	15,781.7	19,634.2	(3,852.5)	(19.6%)
Class III	740.1	537.2	202.9	37.8%
Class IV	19.2	16.8	2.4	14%
Class V	68.9	75.1	(6.2)	(8.3%)
Gross "Life" premium revenue	16,609.9	20,263.4	(3,653.5)	(18.0%)
Outward reinsurance premiums	(17.6)	(19.8)	2.1	(10.7%)
Net "Life" premium revenue	***16,592.3***	***20,243.6***	**(3,651.4)**	**(18.0%)**
Non-life premiums	187.2	141.2	45.9	32.5%
Outward reinsurance premiums	(37.4)	(34.3)	(3.1)	9.0%
Change in premium reserve	(19.0)	(10.1)	(8.9)	87.3%
Change in share of premium reserve attributable to reinsurers	(2.7)	2.5	(5.3)	(208.5%)
Net "Non-life" premium revenue	***128.0***	***99.3***	28.7	**28.9%**
Total net premium revenue for the period	**16,720.3**	**20,342.9**	**(3,622.6)**	**(17.8%)**

Life business

As noted earlier, **Life business operations** primarily involved the marketing of Class I and V investment and savings products (traditional separately managed accounts), with **total premium revenue** of approximately €15.9 billion (€19.7 billion in 2017). Total revenue from the sale of Class III products rose but remained marginal at €0.7 billion (€0.5 billion at the end 2017).

The following table shows a summary of premium revenue for the period by class, net of outward reinsurance premiums, amounting to €16,592.3 million (€20,243.6 million at the end of 2017).

(€m)

Premium revenue for the year ended 31 December	2018	2017	Increase/(decrease)	
Class I	15,781.7	19,634.2	(3,852.5)	(19.6%)
Class III	740.1	537.2	202.9	37.8%
Class IV	19.2	16.8	2.4	14%
Class V	68.9	75.1	(6.2)	(8.3%)
Gross "Life" premium revenue	16,609.9	20,263.4	(3,653.5)	(18.0%)
Outward reinsurance premiums	(17.6)	(19.8)	2.1	(10.7%)
Net "Life" premium revenue	***16,592.3***	***20,243.6***	**(3,651.4)**	**(18.0%)**

The following table shows a breakdown of gross premium revenue for the Life business:

(€m)

Breakdown of gross premium revenue for the Life business for the year ended 31 December	2018	2017	Increase/(decrease)	
Regular premiums	**1,994.1**	**2,100.5**	**(106.3)**	**(5.1%)**
- of which first year	319.13	481.6	(162.4)	(33.7%)
- of which subsequent years	1,675.01	1,618.9	56.1	3.5%
Single premiums	14,615.8	18,162.9	(3,547.1)	(19.5%)
Total	**16,609.9**	**20,263.4**	**(3,653.5)**	**(18.0%)**

The following table shows a breakdown of new business[3], which at €15,574.3 million is down 19.5% compared with €19,336.1 million of 2017.

(€m)

New business for the year ended 31 December	2018	2017	Increase/(decrease)	
Class I	14,762.5	18,755.4	- 3,992.9	-21.3%
Class III	740.6	518.7	221.9	42.8%
Class IV	1.9	2.4	(0.6)	-23.4%
Class V	69.4	59.6	9.8	16.5%
Total	**15,574.3**	**19,336.1**	**- 3,761.8**	**-19.5%**

Net inflows resulted in a 2.5% increase in the number of Life policies sold, which amount to 6.9 million, compared with 6.7 million at the end of 2017.

[3] Policies that require the payment of premiums in periodic instalments are shown on an annualised basis.

Portfolio of contracts	At 1 January 2018	New contracts	Claims paid and lapses	At 31 December 2018	Increase/ (decrease)
Traditional investment products	4,844,925	494,952	(331,900)	5,007,977	3.4%
Bundled investment products	96,715	67,975	(3,522)	161,168	66.6%
Unit-linked products	84,998	37,640	(2,349)	120,289	41.5%
Index-linked products	169,696		(112,292)	57,404	-66.2%
Pension products	942,845	50,720	(12,075)	981,490	4.1%
Protection products	576,538	181,776	(148,177)	610,137	5.8%
Total	**6,715,717**	**833,063**	**(610,315)**	**6,938,465**	**3.3%**

Non-life business

In 2018, the Poste Vita Group expanded its Non-life offering with the addition of new credit protection products (offered by BancoPosta). This saw the market launch of the *Posteprotezione Mutuo Flessibile*, *Posteprotezione Incendio Mutui New*, *Posteprotezione Incendio Mutui Flessibile* and *Posteprotezione Prestito Impresa* products. As a result, Payment Protection insurance rose 48% compared with 2017.

Sales of goods and property protection policies also grew, rising 15% compared with the figure for 2017. This reflects the launch of the new *Posta Protezione Casa 360*, which has introduced cover for guarantees linked to natural disasters.

During the period, the Group continued with specific commercial initiatives aimed at improving the health and accident product offering. Sales of collective welfare products, launched in the previous year, continued to grow with premium revenue increasing by approximately €20.2 million compared with 2017.

As a result of the above, gross premium revenue for the Non-life business amounts to approximately €187.2 million for 2018, up 33% compared with the previous year.

(€m)

Gross premium revenue	2018	% share	2017	Incidenza%	Delta	Delta %
Goods and property	37.6	20%	32.7	23%	4.9	15%
Personal insurance	79.7	43%	73.4	52%	6.4	9%
Credit protection	44.4	24%	29.9	21%	14.5	48%
Welfare and other management	25.4	14%	5.3	4%	20.1	378%
Total	**187.2**	**100%**	**141.2**	**100%**	**45.9**	**33%**

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 40%; ii) growth of approximately 82% in Medical insurance compared with 2017, after the above-mentioned increase in revenue generated by the Employee Benefits business; and iii) growth in financial loss policies due, as noted previously, to an increase in revenue from payment protection insurance.

(€m)

Gross premium revenue for the year ended 31 December	2018	% share	2017	% share	Increase/ (decrease)	% inc./(dec.)
Accident	74.2	40%	64.0	45%	10.2	16%
Medical	44.7	24%	24.6	17%	20.1	82%
Fire and Natural Disaster	7.1	4%	5.7	4%	1.4	25%
Other Damage to Property	9.6	5%	8.2	6%	1.4	17%
General Liability	17.0	9%	15.3	11%	1.7	11%
Financial Loss	21.6	12%	10.9	8%	10.7	99%
Legal Expenses	2.8	2%	2.8	2%	0.0	1%
Assistance	10.1	5%	9.8	7%	0.4	4%
Total	**187.2**	**100%**	**141.2**	**100%**	**45.9**	**33%**

Payments and change in technical provisions

Claims paid during 2018 total €10,931.7 million, compared with €10,867.6 million in the previous year, as shown below:

(€m)

Payments in the year ended 31 December	2018	2017	Increase/(decrease)	
Non-life business				
Claims paid	31.0	22.5	8.5	37.6%
Costs of settling claims	4.9	3.3	1.6	50.3%
Total Non-life claims paid	**35.9**	**25.8**	**10.1**	**39.2%**
Life business				
Amounts paid	**10,883.1**	**10,830.5**	**52.6**	**0.5%**
of which:				
Surrenders	3,402.2	2,977.2	425.0	14.3%
Maturities	6,008.4	6,560.4	(552.0)	(8.4%)
Claims	1,472.5	1,292.9	179.5	13.9%
Costs of settling claims	12.7	11.3	1.4	12.5%
Total Life claims paid	**10,895.8**	**10,841.8**	**54.0**	**0.5%**
Total	**10,931.7**	**10,867.6**	**64.1**	**0.6%**

Total claims paid on Non-life policies amount to €35.9 million, including settlement and direct costs of €4.9 million, up 39.2% on the figure for 2017 (€25.8 million). This reflects the growth in premium revenue and above all in the Welfare segment.

Total claims paid on Life policies amount to €10,895.8 million, broadly in line with the figure for 2017. A reduction in expirations, including coupon interest, in 2018, amounting to €6,008.4 million (€6,560.4 million in 2017), was offset by an increase in surrenders and claims expenses (amounting to €3,402.2 million and €1,472.5 million, respectively), which rose in proportion to the performance of assets under management (the surrender rate has remained stable at ~2.9%).

The **change in technical provisions,** totalling €6,215.0 million, is down compared with the €11,503.0 million of 31 December 2017. This primarily reflects a matching increase in insurance liabilities, reflecting the above-mentioned operating performance. The decrease in mathematical provisions for class I, IV and V products, compared with the figure for 2017, primarily reflects the reduction in premium revenue. The figure also includes the reduction in Deferred Policyholder Liability (DPL) provisions, amounting to €1,345.0 million (an increase of €161.9 million at 31 December 2017), linked to the measurement of securities included in separately managed accounts and classified as FVTPL and reflecting the negative impact of financial market trends. The decrease of €878.0 million in mathematical provisions for Class III policies during the period primarily reflects financial market volatility and maturities of guaranteed index-linked policies registered during the period.

(€m)

Change in technical provisions	2018	2017	Increase/(decrease)	
Non-life technical provisions	**4,1**	**6,7**	**(2,7)**	**(39,6%)**
Mathematical provisions for Class I, IV and V	8.417,4	14.693,7	(6.276,3)	(42,7%)
Mathematical provisions Class III	(878,0)	(3.369,7)	2.491,7	(73,9%)
DPL provisions	(1.345,0)	161,9	(1.506,8)	(930,8%)
Other technical provisions	16,5	10,4	6,1	58,8%
Total Life technical provisions	**6.211,0**	**11.496,3**	**(5.285,3)**	**(46,0%)**
Total	**6.215,0**	**11.503,0**	**(5.288,0)**	**(46,0%)**

With reference to policies ceded to reinsurers, claims paid in the period under review, inclusive of the change in technical provisions, amount to €21.6 million, an increase that reflects the strong growth in the Non-life business. This figure compares with €19.1 million for the same period of 2017, as shown below:

(€m)

Claims expenses attributable to reinsurers in the year ended 31 December	2018	2017	Increase/(decrease)	
Non-life business				
Claims paid	9.6	6.9	2.7	39.6%
Costs of settling claims	0.3	0.2	0.1	70.8%
Total Non-life insurance claims	**9.9**	**7.1**	**2.9**	**40.5%**
Change in technical provisions	2.3	-0.1	2.5	(1762.1%)
Total Non-life insurance	**12.3**	**6.9**	**5.3**	**77.0%**
Life business				
Claims paid	7.4	9.0	(1.6)	(17.4%)
Costs of settling claims	0.0	0.0	0.0	0.0%
Total Life insurance claims paid	**7.4**	**9.0**	**(1.5)**	**(17.3%)**
Change in technical provisions	1.9	3.3	(1.4)	(41.3%)
Total Life insurance	**9.3**	**12.2**	**(2.9)**	**(23.7%)**
Total	**21.6**	**19.1**	**2.5**	**13.0%**

Technical provisions

As a result of the above operating and financial performance, technical provisions amount to €125,146.1 million, slightly up on the €123,650.6 million of the end of 2017. The provisions are allocated as follows:

(€m)

Technical provisions at 31 December	2018	2017	Increase/(decrease)	
Non-life classes:				
Premium reserve	83.3	64.3	19.0	29.6%
Outstanding claims provisions	100.0	95.8	4.2	4.3%
Other technical provisions	0.1	0.2	(0.0)	(17.6%)
Total Non-life classes	**183.4**	**160.2**	**23.1**	**14.4%**
Life classes:				
Mathematical provisions	119,416.3	111,013.1	8,403.2	7.6%
Technical provisions for class III products	2,652.1	3,530.1	(878.0)	(24.9%)
Outstanding claims provisions	780.2	631.2	149.0	23.6%
DPL provisions	2,006.7	8,225.0	(6,218.3)	(75.6%)
Other technical provisions	107.5	91.0	16.5	18.1%
Total Life classes	**124,962.7**	**123,490.4**	**1,472.3**	**1.2%**
Total	**125,146.1**	**123,650.6**	**1,495.5**	**1.2%**

Provisions for the Life classes amount to €124,962.7 million (€123,490.4 million at the end of 2017). These provisions are made to meet all of the Company's obligations and include mathematical provisions (€119,416.3 million), provisions for unit- and index-linked products (€2,652.1 million), outstanding claims provisions (€780.2 million), deferred policyholder liability (DPL) provisions made under the shadow accounting method, totalling €2,006.7 million, and other technical provisions (€107.5 million). The latter includes provisions for future expenses, totalling €107.3 million, provisions for supplementary insurance premiums, totalling €0.03 million, and provisions for with-profits policies, amounting to €0.2 million.

Deferred Policyholder Liability (DPL) provisions, amounting to €2,006.7 million at the end of 2018, are down compared with the beginning of the year (€8,225.0 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 realised income and expenses, as established by the applicable Italian accounting standards, without considering unrealised gains and losses. This generates a timing mismatch between liabilities and the assets designed to back them, which are recognised at fair value, in accordance with IFRS 9. 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 to the financial statements.

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 the LAT - Liability Adequacy Test required 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.

The outcome of this test revealed that the technical provisions recorded in the financial statements at the end of the period were fully adequate.

Non-life technical provisions, before provisions ceded to reinsurers, amount to €183.4 million at the end of the period (€160.2 million at the end of 2017), and consist of: the premium reserve of €83.3 million, outstanding claims provisions of €100.0 million and other provisions of €0.1 million, relating solely to the ageing reserve. Outstanding claims provisions for claims incurred but not reported (IBNR) amount to €20.4 million. Changes in the premium reserve and outstanding claims provisions reflect the growth in premium revenue.

Distribution

The Poste Vita Group distributes its products through the post offices of the parent, Poste Italiane SpA – BancoPosta RFC, duly registered under letter D in the single register of insurance intermediaries as per ISVAP Regulation 5 of 16 October 2006. The sales network consists of around 13,000 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.

Total commissions paid for distribution, collection and portfolio maintenance services – paid under a specific agreement with the insurance broker, BancoPosta RFC – Poste Italiane SpA, amount to approximately €432.5 million. On an accruals basis, the amount for the period totals €434.5 million, reflecting the amortisation of prepaid commissions. The Group sells its collective policies through brokers, to which it paid commissions of €4.2 million during the period.

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) and CPI insurance continued during the period.

Premiums ceded to reinsurers amount to €17.6 million (€19.8 million at 31 December 2017) and include €10.0 million for Class I products and a remaining €7.6 million for Class IV products. The share of claims expenses attributable to reinsurers, after technical provisions, amounts to €9.3 million (€12.3 million in the same period of 2017). As a result of this, **ceded policies**, including commissions received from reinsurers amounting to €2.0 million (€1.9 million in 2017) showed a negative result of €6.3 million, compared with a negative result of €5.6 million for the same period of 2017.

Non-life business

Briefly, the reinsurance structure applied in 2018 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 protect 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 all the risks attaching to new business, is in the form of a quota share treaty, with retrocession of a flat commission and on a loss occurring basis. The risks underlying policies in run-off, given that they are on a risk attaching basis, continue to be covered in the form of a quota share treaty with the ceded percentage based on pure premiums;
- retention of 75% of the risk exposure for property and liability products (Fire, Other Damage to Property, General Liability excluding professional liability and Financial Loss not deriving from Credit Protection products). The reinsurance treaty (Bouquet, Multi-line) is a proportional treaty with the ceded percentage based on commercial premiums and coverage of the retained share provided by excess-of-loss treaties per risk and/or event to protect against large losses. For catastrophe risk alone (e.g. earthquake), the proportional treaty is based on pure premiums. Professional Liability Insurance is covered solely by a quota share treaty where 90% of the risk is ceded with retrocession of a flat commission;
- retention of 100% of the risk exposure for new Credit Protection Insurance (CPI) business. For the risks linked to runoff credit protection policies (prior to 2018), the reinsurance policy continues in the form of a quota share treaty with a ceded percentage of 50%. The cession rate continues to be based on pure premiums, providing risk attaching coverage;
- retention of 65% of the risks associated with Assistance policies. The reinsurance structure has a quota share basis, with retrocession of a flat commission and profit sharing on a loss occurring basis;
- retention of 50% of the risk exposure for Legal Expenses policies. The reinsurance structure has a quota share basis, with retrocession of a flat commission and profit sharing on a loss occurring basis*;*
- adoption of a treaty covering the main standard collective, closed-group corporate accident policies. This reinsurance structure has a loss occurring basis and is based on a quota share treaty with commercial premiums, with a cession rate of 50% and sliding-scale reinsurance commissions depending on the loss ratio. A non-proportional excess-of-loss treaty covers the retained share, extended to cover all Class 1 corporate policies, including non-standard ones;

- adoption of a Stop Loss treaty for corporate medical insurance (Class 2), having a single layer providing coverage of up to 150%;
- confirmation of an 80% quota share treaty for risks 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*:*
  - adoption quota share reinsurance treaty in the Company’s favour for risks regarding the Medical Scheme for associated companies in the Poste Italiane Group;
- use of optional and/or special acceptance reinsurance treaties, primarily in cases where the risk is not covered by the existing reinsurance treaty. This approach applies particularly to risks that do not meet the qualitative and quantitative criteria provided for in existing reinsurance treaties, but which Poste Assicura is normally willing to insure against, primarily corporate accident or medical policies. The entity of the risk retained by Poste Assicura and the most appropriate reinsurance structure are decided on, from time to time, based on the nature of the risk involved.

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 69% (79% in the same period of 2017).

The ratio of ceded premiums at the end of the period to gross premiums written is 20%, a reduction on the figure for 31 December 2017 (24%).

Accrued premiums ceded to reinsurers amount to €40.1 million (€31.8 million at 31 December 2017). Reinsured claims, after technical provisions, amount to €12.3 million (€6.9 million in the same period of 2017). As a result, the **balance of ceded policies**, after also taking into account commissions of €18.3 million received from reinsurers (€16.4 million in 2017) amounts to a loss of €9.6 million, which is €1.1 million worse than the loss of €8.5 million recorded in the same period of 2017. This reflects the more than proportionate increase in premium revenue with respect to claims during the period.

Complaints

The Parent Company, Poste Vita, received 1,247 new complaints during 2018, down from the figure of 1,497 received in 2017. The average time taken to respond to complaints in 2018 was around 13 days (16 days in 2017). The Company received 326 complaints regarding its Personal Injury Protection (PIP) product in 2018, compared with 389 received in 2017. The average time taken to respond to complaints during the period was around 13 days (14 days in 2017).

The subsidiary, Poste Assicura, received 1,072 new complaints in the same period, whilst the number for 2017 was 649. The ratio of complaints to the total number of outstanding contracts at 31 December 2018 is 0.09% (0.06% in 2017). The average time taken to respond to complaints in 2018 was around 16 days, in line with 2017 and well within the 45-day time limit set by IVASS.

FINANCIAL POSITION

Financial investments

Financial investments amount to €126,652.2 million at 31 December 2018, broadly in line with the €125,962.4 million of the end of 2017 and reflecting the operating performance and financial market trends.

(€m)

at 31 December	2018	2017	Increase/(decrease)	
Investments in associates	107.0	106.8	0.2	0.2%
Financial assets measured at amortised cost	1,584.1	46.8	1,537.4	n/s
Financial assets at fair value through OCI	95,147.3	96,078.9	(931.6)	(1.0%)
Financial assets at fair value through profit or loss	29,813.8	29,730.0	83.8	0.3%
Total financial investments	**126,652.2**	**125,962.4**	**689.8**	**0.5%**

Investments of €107.0 million 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.

The figures for 2018 show that the company has equity of €237.7 million and made a net profit of approximately €0.4 million, down on the €1.8 million reported for 2017.

The increase of €0.2 million during the period is due to revaluation of the investment to take account of the Company's share of the associate's net profit for the year.

Financial assets measured at amortised cost, bring financial assets held to collect the contractual cash flows represented solely payments of principal and interest, amount to €1,584.1 million at the end of the period (before IFRS 9 become effective, these assets were classified as available-for-sale) and primarily regard the Company's free capital.

(€m)

		2018	2017	Increase/(decrease)	
Equity instruments		-			
Debt securities		1,467.5			
of which:	*government bonds*	1,448.4			
	corporate bonds	19.1			
UCITS units		-			
Receivables		116.7	46.8	69.9	149.5%
Total		**1,584.1**	**46.8**	**1,537.4**	**3287.6%**

Receivables included in this category (amounting to €116.7 million at the end of 2018) primarily regard: i) €78.8 million (€1.3 million at 31 December 2017) representing the balance on the intercompany current account with the parent), and ii) €19.5 million (€45.5 million at the end of 2017) in accrued coupon interest yet to be collected at 31 December 2018. The impairment at 31 December 2018 regards loans and receivables measured at amortised cost, recognised as a direct adjustment to the carrying amounts of these assets, amounting to €51 thousand (€17 thousand at 1 January 2018).

Financial assets measured at FVTOCI amount to approximately €95,147.3 million (€96,078.9 million at 31 December 2017) relate to securities allocated to separately managed accounts (approximately €92,850.5 million) and a residual portion attributable to the Company's free capital (approximately €2,296.8 million).

(€m)

at 31 December		2018	2017	Increase/(decrease)	
Equity instruments		-	18.3	(18.3)	(100.0%)
Debt securities		95,147.3	94,708.6	438.7	0.5%
of which:	*government bonds*	79,288.6	81,313.7	(2,025.0)	(2.5%)
	corporate bonds	15,858.7	13,394.9	2,463.8	18.4%
UCITS units		-	1,352.0	(1,352.0)	(100.0%)
Total		**95,147.3**	**96,078.9**	**(931.6)**	**(1.0%)**

The less positive performance of the financial markets during the period is reflected in a reduction in the fair value reserve for these instruments, which amounts to €3,156.6 million in potential gains (€8,089.6 million at the end of 2017), including: i) €3,158.8 million attributable to policyholders through the shadow accounting mechanism, as they relate to financial instruments included in separately managed accounts, and ii) €2.1 million relating to net losses on FVOCI financial assets included in the Company's free capital and, therefore, attributable to a specific equity reserve (equal to €1.4 million, net of the related taxation).

Financial assets at fair value through profit or loss (FVTPL) amount to approximately €29,813.8 million (€29,730.0 million at 31 December 2017) and primarily regard:

- investments included in the Company's separately managed accounts, amounting to €27.2 billion, of which: i) approximately €24.4 billion invested in multi-asset, harmonised open-end funds of the UCITS (Undertakings for Collective Investment in Transferable Securities) type; ii) approximately €2.1 billion in callable bonds; and iii) €0.7 billion in real estate funds:
- financial instruments backing unit- and index-linked policies, totalling €2.6 billion.

The composition of the FVTPL portfolio is shown below, indicating, on the one hand, the increase in investments in UCITS units as a result of new investments in multi-asset, harmonised open-end funds of the UCITS type and, on the other, the reduction in the fair value of debt securities due to negative market trends.

(€m)

at 31 December		2018	2017	Increase/(decrease)	
Equity instruments		166.3	57.2	109.1	190.8%
Debt securities		1,592.3	6,767.3	(5,174.9)	(76.5%)
of which:	*government bonds*	824.4	2,152.0	(1,327.6)	(61.7%)
	corporate bonds	767.9	4,615.2	(3,847.3)	(83.4%)
UCITS units		27,951.5	22,513.6	5,437.9	24.2%
Derivatives		44.6	183.7	(139.1)	(75.7%)
Receivables		59.1	208.2	(149.2)	(71.6%)
Total		**29,813.8**	**29,730.0**	**83.8**	**0.3%**

As shown in the table below, the performance of the financial markets resulted in the recognition of net unrealised losses of €1,442.2 million (relating almost entirely to multi-asset, harmonised open-end funds of the UCITS type), compared with net gains of €363.1 million recognised in the same period of 2017, including: i) €1,340.8 million in net losses on investments included in separately managed accounts and therefore entirely attributable to policyholders through the shadow accounting mechanism; ii) €101.2 million in net losses relating to assets backing unit and index-linked products, which are therefore largely offset by the corresponding revaluation of provisions; and iii) net losses of €0.2 million on securities included in the Company's free capital.

(€m)

	At 31 December 2018	At 31 December 2017	
Income/expenses on FVTPL	**Net gains/losses**	**Net gains/losses**	**Increase/ (decrease)**
Separately managed accounts	(1,340.8)	223.4	(1,564.2)
Assets backing unit-/index-linked policies	(101.2)	151.8	(253.0)
Free capital	(0.2)	(12.1)	11.9
Total	**(1,442.2)**	**363.1**	**(1,805.4)**

Regarding derivative transactions, at 31 December 2018, the derivative instruments held primarily consist of the warrants purchased to hedge the indexed component of certain Class III products. These have a total nominal value of €798.7 million and a fair value of €44.7 million, a reduction compared with 31 December 2017 (€183.7 million) primarily due to sales of €119.4 million and a €19.7 million reduction in the fair value of such instruments (after realised gains of €11.2 million and unrealised losses of €30.9 million), after the hedging derivative described below.

It should be noted that the Company is considering the possibility of entering into forward transactions for hedging purposes and that, at 31 December 2018, has entered into a forward sale transaction that will be unwound in March 2019. Fair value losses on this transaction at the end of the period amount to €0.2 million.

(€m)

Warrant/Derivative	**At 31 December 2018**				**At 31 December 2017**			
Policy	**Nominal value**	**Fair value**	**Realised gains/losses**	**Unrealised gains/losses**	**Nominal value**	**Fair value**	**Realised gains/losses**	**Unrealised gains/losses**
Alba							1.6	
Terra							18.1	
Quarzo							18.1	
Titanium			7.97		620.5	44.7	0.9	12.7
Arco			1.65		164.5	34.1	0.5	6.1
Prisma			1.55		165.8	29.4	0.4	5.4
6Speciale					200.0	0.0		
6Aavanti					200.0	0.0		
6Sereno	173.2	11.8		(5.8)	173.2	17.7	0.2	3.1
Primula	175.8	10.5		(6.4)	175.8	17.0	0.2	3.0
Top5	224.1	10.0		(8.2)	224.1	18.2	0.2	3.1
Top5 edizione II	225.6	12.3		(10.5)	225.6	22.8	0.3	4.7
Total warrants	**798.7**	**44.6**	**11.2**	**(30.9)**	**2,149.4**	**183.7**	**40.4**	**38.2**
Fwd 15 March 2019	3.0	(0.2)		(0.2)				
Total	**801.7**	**44.5**	**11.2**	**(31.1)**	**2,149.4**	**183.7**	**40.4**	**38.2**

Receivables included in this category total €59.1 million at the end of the period (€208.2 million at the end of the previous year) and regard subscriptions and capital calls on mutual funds for which the corresponding units have not yet been issued.

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The composition of the bond portfolio according to issuing country is in line with the situation in 2017, being marked by a strong prevalence of Italian government bonds, accounting for 68.0% of the total.

€m

Country	FVTPL	FVOCI	CA	TOTALE	peso %
DUTCH ANTILLES		11		11	0.0%
AUSTRALIA	36	367		403	0.3%
AUSTRIA		67		67	0.1%
BELGIUM	9	362	-	371	0.3%
CANADA	1	75		75	0.1%
DENMARK	-	92		92	0.1%
FINLAND	0	139		139	0.1%
FRANCE	132	2,920	4	3,056	2.4%
CZECH REPUBLIC		47		47	0.0%
GERMANY	54	617		671	0.5%
JAPAN	6	22		28	0.0%
IRELAND	376	305		681	0.5%
ITALY	3,843	80,577	1,454	85,874	68.0%
LUXEMBOURG	24,638	316		24,954	19.7%
MEXICO		55		55	0.0%
NORWAY		24		24	0.0%
NEW ZEALAND		3		3	0.0%
NETHERLANDS	84	2,018	2	2,104	1.7%
PORTUGAL	1	67		67	0.1%
UK	425	1,532		1,957	1.5%
SLOVENIA		-		-	0.0%
SPAIN	44	2,609	8	2,661	2.1%
SWEDEN	5	373		378	0.3%
SWITZERLAND	2	219		221	0.2%
USA	99	2,329		2,428	1.9%
Total	**29,754.8**	**95,147**	**1,467**	**126,370**	**100%**

The distribution of the securities portfolio at 31 December 2018 by duration class is shown below, indicating that the portfolio is heavily weighted towards securities with durations of over 30 years:

€m

Remaining duration	FVTPL	FVTOCI	Amortised cos	TOTAL
up to 1	848	5,801	32	6,682
from 1 to 3	610	14,163	156	14,928
from 3 to 5	294	25,194	277	25,766
from 5 to 7	246	13,604	238	14,089
from 7 to 10	912	10,252	363	11,527
from 10 to 15	344	12,128	372	12,844
from 15 to 20	753	4,471	9	5,232
from 20 to 30	23	8,776	19	8,818
over 30	25,725	758		26,483
Total	**29,754.8**	**95,147**	**1,467**	**126,370**

Returns on Poste Vita's separately managed accounts, in the specific period under review (from 1 January 2018 to 31 December 2018), are as follows:

Separately managed accounts	Gross return	Average invested capital
	% rate	€m
Posta Valore Più	2.82%	110,077.5
Posta Pensione	3.29%	6,298.5

EQUITY AND SOLVENCY MARGIN

Equity amounts to €3,951.3 million at 31 December 2018, an increase of €582.0 million compared with the end of 2017. In this respect, the adoption of IFRS 9 from 1 January 2018 has reduced equity overall by €143.1 million. In particular, the reduction in equity primarily reflects (€139.7 million) the reclassification of securities previously classified as "Available-for-sale" to "Financial assets at amortised cost". The reduction is thus due to the loss of unrealised gains on investments included in the Company's free capital and previously reflected in movements in the AFS reserves.

A comparison of equity at 31 December 2018 with the figure at 31 December 2017, after adjusting for IFRS 9, shows an increase of €725.1 million. This primarily reflects: i) net profit for the period of €1,003.5 million; ii) This primarily reflects: i) net profit for the period of €40.6 million, and iii) distribution of retained earnings of €237.8 million to the shareholder, Poste Italiane, in implementation of the shareholder resolution of 22 June 2018. Changes in equity during the period are shown below:

Equity

(€m)	At 31 December 2017	Effects of IFRS 9 transition at 1 January 2018	Equity at 1 January 2018	Appropriation of net profit for 2017	Distribution of retained earnings	ECL reserve	FVTOCI reserve	Other gains and losses recognised directly	Net profit for 2018	At 31 December 2018
Share capital	**1,216,608**		**1,216,608**							**1,216,608**
Revenue reserves and other equity reserves:	**1,427,722**	**(3,439)**	**1,424,283**	**546,193**	**(237,800)**			**(26)**	**-**	**1,732,649**
Legal reserve	118,488		118,488	23,772						142,260
Extraordinary reserve	648		648							648
Organisation fund	2,582		2,582							2,582
Negative goodwill	426		426							426
Other reserves	15		15					(7)		8
Retained earnings	**1,305,562**	**(3,439)**	**1,302,123**	**522,421**	**(237,800)**			**(19)**		**1,586,725**
of which Retained earnings	1,305,562		1,305,562	522,421	(237,800)			(19)		1,590,164
of which FTA reserve		(3,439)	(3,439)							(3,439)
Reserve for FVTOCI financial assets	**178,871**	**(139,671)**	**39,200**			**(37)**	**(40,545)**			**(1,382)**
of which AFS/FVTOCI reserve	178,871	(140,656)	38,215				(40,545)			(2,331)
of which ECL reserve		985	985			(37)				948
Other gains and losses recognised directly through equity	**(63)**		**(63)**					**11**		**(52)**
Net profit	**546,193**		**546,193**	**(546,193)**					**1,003,488**	**1,003,488**
Total	**3,369,331**	**(143,110)**	**3,226,221**	**0**	**(237,800)**	**(37)**	**(40,545)**	**(15)**	**1,003,488**	**3,951,311**

In addition, the **subordinated debt** issued at 31 December 2018 amounts to €1,000 million (€1,000 million at 31 December 2017), including:

- €250 million in loan notes placed with the parent and having an undefined maturity;
- €750 million in subordinated bonds issued by the Parent Company, Poste Vita, and maturing in May 2019.

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.

With regard to the Poste Vita Insurance Group's **solvency margin** at 31 December 2018, at the date of preparation of this document, own funds qualifying for inclusion total €8,259 million, a reduction of €263 million compared with the €8,522 million at the end of 2017.

In contrast, capital requirements rose during the year, increasing by approximately €860 million (from €3,050 million at the end of 2017 to €3,910 million at 31 December 2018).

The reduction in the solvency ratio compared with the end of 2017 primarily reflects financial market trends, with rising spreads on government bonds from May 2018 having a negative impact on the fair value of the financial assets held by the Company, above all BTPs.

As a result of the above trends, the Group's solvency ratio fell in 2018 (from 279.4% at 31 December 2017 to 211.2% at 31 December 2018), whilst remaining above the regulatory requirement.

Given this market volatility and the performance of the spread between Italian and German government bonds, the main causes of the sharp decline in Poste Vita's Solvency II Ratio, in 2018 the Company carefully examined the various alternatives at its disposal in order to support the ratio. The goal was to restore the Solvency II Ratio to around 200%, bearing in mind the upcoming maturity (May 2019) of the subordinated bonds issued by Poste Vita, amounting to €750 million.

At the end of this process, the decision was taken to use ancillary own funds (AOFs), by a long way the most preferable solution in terms of both cost and flexibility given the significantly worsened spread.

AOFs are different from Tier 1 capital and essentially consist of unsecured guarantees or commitments that, if necessary, can be included in the computation of the Company's own funds.

This refinancing through the use of AOFs was formalised with Poste Italiane's signature of a Commitment Letter with a five-year term, committing the parent to subscribe for ordinary shares to be issued in future by Poste Vita. Signature of the Commitment Letter is equivalent for Poste Vita to the issue of a Tier 2 subordinated loan (Tier 2 - AOFs) convertible into equity but without receiving cash (unfunded). The available amount of the commitment will be included in Tier 2 - AOFs. From an operational viewpoint, when Poste Vita decides to call up the new shares (in one or more tranches amounting to up to €1.75 billion), the parent, Poste Italiane, will subscribe for the new ordinary shares in cash. The share issue is a funded transaction. Following this, the enforced amount of Poste Italiane's commitment to subscribe for the shares will cease to be included in Tier 2 – AOFs and will be transferred to Tier 1 capital.

The request for approval was authorised by the Board of Directors on 30 October 2018 and submitted to IVASS on 31 October 2018. The Company received formal approval from IVASS on 13 February 2019.

OPERATING RESULTS

The reclassified income statement by type of business for the year ended 31 December 2018 is shown below, compared with the same period of 2017:

Life business

RECLASSIFIED INCOME STATEMENT			
for the year ended 31 December	Life business		
	2018	2017	Increase/(decre
Net premium revenue	**16,592.3**	**20,243.6**	**(3,651.4)**
Gross premium revenue	*16,609.9*	20,263.4	(3,653.5)
Outward reinsurance premiums	*(17.6)*	(19.8)	2.1
Fee and commission income	**19.8**	**11.5**	**8.4**
Net finance income from assets related to traditional products	**1,970.1**	**3,336.1**	**(1,366.0)**
Income	*3,101.2*	2,940.8	160.3
Realised gains and losses	*209.7*	171.9	37.8
Unrealised gains and losses	*(1,340.8)*	223.4	(1,564.2)
Net finance income from assets related to index- and unit-linked products	**(123.9)**	**111.8**	**(235.6)**
Net change in technical provisions	**(17,097.4)**	**(22,325.9)**	**5,228.5**
Claims paid	*(10,895.8)*	(10,841.8)	*(54.0)*
Change in technical provisions	*(6,211.0)*	(11,496.3)	*5,285.4*
Share attributable to reinsurers	*9.3*	12.2	*(2.9)*
Investment management expenses	**(43.1)**	**(45.0)**	**1.9**
Acquisition and administrative costs	**(488.4)**	**(544.7)**	**56.3**
Net commissions and other acquisition costs	*(404.4)*	(460.3)	*55.8*
Operating costs	*(83.9)*	(84.4)	*0.5*
Other revenues/(costs), net	**(35.4)**	**(35.1)**	**(0.3)**
GROSS OPERATING PROFIT	**794.0**	**752.2**	**41.8**
Net finance income from investment of free capital	84.8	71.2	13.6
Interest expense on subordinated debt	(34.2)	(27.6)	(6.5)
PROFIT BEFORE TAX	**844.6**	**795.7**	**48.9**
Income tax expense	105.7	(283.7)	389.4
NET PROFIT	**950.3**	**512.0**	**438.3**

Premium revenue for the first half of 2018, net of outward reinsurance premiums, amounts to €16,592.3 million, down 18% compared with the €20,243.6 million of 2017.

In terms of income from investments, **net finance income from securities related to traditional products** in the period totals €1,970.1 million, down €1,366.0 million compared with 2017. The negative performance of financial markets, linked to the increase in the spread, resulted in net unrealised losses of €1,340.8 million, compared with net gains of €223.4 million in 2017. These are, however, net losses on investments included in separately managed accounts and therefore entirely attributable to policyholders through the shadow accounting mechanism.

As a result of the impact of financial market volatility, **investments linked to index- and unit-linked products** produced net finance costs of approximately €123.9 million in 2018, compared with net finance income of €111.8 million in 2017. This amount is almost entirely matched by a corresponding change in technical provisions.

Fee and commission income from the management of internal funds linked to unit-linked products amounts to €19.8 million, up €8.4 million compared with the figure for 2017 (€11.5 million) as a result of the increase in assets under management.

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 €6,221.0 million at the end of 2018, compared with €11,496.3 million in 2017.

Claims paid to customers during the period amount to approximately €10,895.8 million, in line with the €10,841.8 million for the same period of 2017 and including: i) expirations, including coupon interest, amounting to €6,008.4 million (€6,560.4 million in 2017); ii) the payment of claims, totalling €1,472.5 million (€1,292.9 million in 2017) and iii) surrenders totalling €3,402.2 million (€2,977.2 million in 2017), representing a 2.9% share of initial provisions, as in the previous year.

After taking into account the portion ceded to reinsurers, amounting to €9.3 million, the **net change in technical provisions** is €17,097.4 million at the end of the period, compared with €22,325.9 million at the end of 2017.

Total **commissions** paid for distribution, collection and portfolio maintenance services amount to approximately €404.4 million (on an accruals basis, the amount for the period totals €406.5 million, reflecting the amortisation of prepaid commissions on the sale of pension products). This figure accounts for around 2.4% of earned premiums and is in line with the figure for 2017 (2.3%). After the commissions received from reinsurers, the figure is €404.4 million, compared with €460.3 million at 31 December 2017, reflecting the reduction in premium revenue during the period.

With regard to **organisational aspects**, the period witnessed an increase in project development costs to support the Company’s business, accompanied by a reduction in the cost of consultants’ fees and of external professionals. This resulted in **operating costs** of approximately €83.9 million in 2018, in line with the €84.4 million of 2017. This means that operating costs stood at around 0.5% of earned premiums and 0.1% of provisions, figures in line with best market practices and broadly in line with 2017.

Other costs, net amount to €35.4 million (other costs, net of €35.1 million in 2017) and primarily regard: i) charges incurred by the Company in relation to dormant policies, totalling approximately €3.8 million; ii) the reversal of premiums for previous years, totalling €13.4 million, and iii) withholding tax of €16.7 million on individual pension plans.

The above performance has resulted in **EBITDA** for the period of €794.0 million, up on the €752.2 million for 2017.

As noted above, the **investment of free capital** generated net finance income of €84.8 million, primarily in the form of ordinary income. This is up on the figure for 2017 (€71.2 million) due to the recognition of higher unrealised losses in 2017, mainly in relation to the impairment loss of approximately €12.1 million on the investment in the Atlante fund.

€m

Income from free capital in the year ended 31 December	2018	2017	Increase/ (decrease)
Ordinary income	80.8	77.7	(0.2)
Realised gains/losses	4.3	5.6	2.0
Unrealised gains/losses	(0.2)	(12.1)	11.1
Total	**84.8**	**71.2**	**12.9**

Interest expense amounts to €34.2 million for 2018 (€27.6 million in 2017) and regards: i) €6.2 million in interest paid during the period on subordinated loan notes subscribed for by the parent; ii) €22.9 million in interest paid to the subscribers of subordinated bonds issued by the Company, and iii) €5.1 million in commission expense payable to the parent, Poste Italiane, on ancillary own funds, in view of the commitment letter signed on 15 November 2018.

As a result, **pre-tax profit** for 2018 amounts to €844.6 million, up €48.9 million on the figure for 2017, amounting to €795.7 million. **Net profit** amounts to €950.3 million (€512.0 million for 2017), representing a faster rate of increase with respect to the pre-tax figure due to deferred tax income recognised in 2018 on the non-deductible movement in technical provisions, totalling approximately €384.6 million (including €350 million attributable to previous years). After adjusting for this item, net profit is €565.7 million, an increase of €53.7 million compared with 2017.

Non-life business

RECLASSIFIED INCOME STATEMENT *(€m)*

for the year ended 31 December	Non-life business			
	2018	2017	Increase/(decrease)	
Net premium revenue	**128.0**	**99.3**	**28.7**	**29%**
Gross premium revenue	*168.2*	131.1	37.1	28%
Outward reinsurance premiums	*(40.1)*	(31.8)	(8.4)	26%
Fee and commission income	**0.0**	**0.0**		
Net financial income from assets related to traditional products	**4.5**	**3.9**	**0.6**	**16%**
Net finance income from assets related to index- and unit-linked products	**0.0**	**0.0**		
Net change in technical provisions	**(27.7)**	**(25.6)**	**(2.1)**	**8%**
Claims paid	*(35.9)*	(25.8)	*(10.1)*	*39%*
Change in technical provisions	*(4.1)*	(6.7)	*2.6*	*-39%*
Share attributable to reinsurers	*12.3*	6.9	*5.4*	*78%*
Investment management expenses	**(0.4)**	**(0.4)**	**0.0**	**-5%**
Acquisition and administrative costs	**(36.8)**	**(34.5)**	**(2.3)**	**7%**
Net commissions and other acquisition costs	*(12.4)*	(8.7)	*(3.7)*	*42%*
Operating costs	*(24.4)*	(25.8)	*1.3*	*-5%*
Other revenues/(costs), net	**6.3**	**4.7**	**1.6**	**35%**
PROFIT BEFORE TAX	**74.0**	**47.4**	**26.5**	**56%**
Income tax expense	(20.8)	(13.3)	(7.5)	57%
NET PROFIT	**53.1**	**34.2**	**19.0**	**56%**

Gross premium revenue in the Non-life business, generated by policies sold in the period under review, totals approximately €168.2 million (up 28% compared with 2017). After outward reinsurance premiums, **net premium revenue** amounts to approximately €128.0 million, compared with €99.3 million in 2017.

During the period, **claims expenses**, inclusive of settlement costs and direct costs, amounted to €35.9 million, compared with the €25.8 million of 2017. The **change in technical provisions**, inclusive of provisions for late lodgements, totals €4.1 million for the period, compared with €6.7 million for 2017.

The positive commercial performance was also accompanied by a good technical performance, as claims expenses grew at a slower rate than premium revenue during the period. This resulted in a decline in the overall loss ratio from 24.8% at 31 December 2017 to 23.8%.

Considering the reinsurers' share of €12.3 million, the **net change in technical provisions** amounts to €27.7 million at the end of the period, compared with €25.6 million at the end of 2017.

Commissions paid for distribution and collection activities amount to approximately €32.2 million. After commissions received from reinsurers and the impact of amortisation for the period, commissions amount to €12.4 million, up on the €8.7 million of 2017 as a result of the growth in premium revenue.

Operating costs amount to approximately €24.4 million, broadly in line with the €25.8 million of 2017. These costs primarily regard personnel expenses, commercial and advertising expenses, IT costs and professional services. As a proportion of premium revenue, operating costs are down from 19.6% in 2017 to 14.5%.

Net finance income, resulting from a prudent policy that aims to safeguard the Group's financial strength, amounts to €4.5 million despite less than favourable market conditions. This is up on the figure for 2017 (€3.9 million) as a result of the growth of the portfolio.

Other revenues, net of €6,3 million in 2018 are up on the €4.7 million of 2017. This primarily consists of revenue from ordinary activities, totalling €10.3 million, generated by the subsidiary, Poste Welfare Servizi, during the period, after the reversal of premium revenue for previous years, amounting to €3.4 million.

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This performance has resulted in **EBITDA for the period** of €74.0 million, marking a significant increase compared with the €47.4 million of 2017. After tax, **net profit** of €53.1 million is up from €34.2 million for 2017.

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 the 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, elected by the General Meeting of shareholders held on 19 June 2017, has a term of office of three years, which will expire on the date of approval of the financial statements for the year ended 31 December 2019. The Board has seven members, two of which are independent.

The Board of Directors, as described above, 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 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 organisation.

The Chairwoman has the role of guiding and overseeing the work of the Board of Directors. In addition to the authority provided for by law and in the articles of association with regard to the activities of corporate bodies and legal representation of the Company, including the power to sign on the Company's behalf and to represent it before the courts, the Board of Directors assigned the Chairwoman the following powers on 19 June 2017:

- Internal control: oversight of the activities of the Internal Control function, with the aim of ensuring communication with the Board of Directors, to which the function reports;
- Government Relations: with the support of the Chief Executive Officer and working closely with the parent, this includes relations with Parliament, the government, ministries, other government bodies and the authorities in general.

At its meeting of 26 July 2017, the Board of Directors co-opted the Chief Executive Officer in accordance with art. 2386 of the Italian Civil Code, with his appointment confirmed by the General Meeting of shareholders held on 20 December 2018 and to run until approval of the financial statements for the year ended 31 December 2019. The Board of Directors also, in accordance with art. 2381 of the Italian Civil Code, granted the Chief Executive Officer all the powers necessary for the administration of the Company, unless otherwise provided for by law, the Company's articles of association and the resolution appointing him to the position. The Chief Executive Officer is also the Company's legal representative within the scope of the powers delegated to him.

On 19 June 2017, the Board of Directors appointed the General Manager and vested him with the relevant authority in the form of a notarised deed. Later, at the meeting held on 26 July 2017, it was decided to create a General Manager's Office to which, at the date of preparation of this document, the following functions report: Commercial, Insurance Office, Marketing and Customer Services, IT Systems and Welfare.

The Board of Directors has also established a Remuneration Committee, which 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.

An Internal Audit and Related Party Transactions Committee has also been set up, 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, elected by the General Meeting of shareholders held on 19 June 2017, is made up of 3 standing members and 2 alternates. 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 Italia 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 policies and procedures designed to 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 committees with the role of guiding and controlling corporate policies on strategic issues.

Lastly, to ensure compliance with the more advanced governance models and in accordance with the Company's articles of association, a manager responsible for financial reporting has been appointed.

Internal control system

Within the Poste Vita Group, but tailored to meet the needs of each company, the risk management process is part of a wider internal control system structured as follows:

- line 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, 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, 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.
- second level controls also include the Actuarial Department, which is tasked with coordination, management and control of technical provisions and with reviewing of the reinsurance strategy, whilst also contributing to effective application of the Risk Management System;
- controls assigned to the Internal Auditing 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 audits to assess 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, having been included in the model as a result of the role assigned to them by IVASS Regulation 38 with regard to determination, implementation, maintenance and monitoring of the corporate governance 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, the regular nature and functionality of reporting procedures, 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.

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 applied throughout the Group and is progressively 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 Internal Audit Policy document.

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. The Risk Management function 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.

The Actuarial Department reports to the Risk Officer and is required, as part of its role, to apply the risk management system.

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” adopted by the companies in the Group, in keeping with similar code put in place by the parent, Poste Italiane.

IVASS Regulation 38

On 3 July 2018, IVASS issued Regulation 38, containing provisions regarding the corporate governance system for both undertakings and groups.

The principal change introduced by this Regulation, with respect to the previous one, regards the obligation for the Ultimate Italian Parent Undertaking to create an actual Corporate Governance System for the group of companies it controls. This must take into account the structure, the business model and the nature, significance and complexity of the overall risk exposures of both the group and of each individual investee and subsidiary (and, therefore, not just those included in the registered group). The system must also enable the Parent Undertaking to exercise the following:

- strategic control over the different areas of the group’s operations and the related risks;

- management control designed to ensure the economic and financial stability of individual undertakings and the group as a whole;
- technical and operational control that aims to assess the risk exposures that individual companies contribute to the group.

The Company has initiated an assessment process with a view to implementation of the measures contained in the Regulation.

Organizational structure and personnel

With a view to exploiting potential synergies within the Poste Italiane Group, and with the aim of ensuring an increasingly effective response to the needs of the business and the Group's principal market, during the year, the Parent Company, Poste Vita, began the process of redesigning and streamlining its operating model in order to boost efficiency. This has resulted in the centralisation of technical support for sales force training and the procurement of goods and services within the Parent Company, following on from adoption of the same solution for communication activities.

The Parent Company, Poste Vita, continues to carry out certain activities relating to administration, IT systems, marketing and internal controls (internal auditing, compliance and risk management), and staff functions (human resources, legal affairs and administration, etc.). Since December 2017, the Parent Company, Poste Vita, also provides administrative and tax advisory services to the subsidiary, Poste Welfare Servizi.

The Poste Vita Insurance Group employs a total of 553 people at 31 December 2018, compared with 535 at 31 December 2017.

Workforce breakdown	At 31 December 2018	At 31 December 2017	Increase/ (decrease)
Executives	35	36	-1
Middle managers	206	191	15
Operational staff	308	302	7
Personnel on fixed-term contracts	4	6	-2
Direct employees	**553**	**535**	**18**

The programme launched in the second half of 2017, designed to exploit existing expertise within the Poste Italiane Group with the aim of encouraging internal mobility, continued in 2018. New staff, hired primarily through internal selection processes within the Poste Italiane Group (job posting), were recruited, on the one hand, to provide support for the business and existing development projects, partly with a view to strengthening technical and specialist expertise, and, on the other, in order to boost governance and control activities.

In addition, the Poste Vita Group's staff and management training initiatives in 2018 not only aimed to update and develop the technical skills of its staff, but also to enrich the Group's human capital. In this sense, in addition to obligatory training in compliance matters (Consolidated Law 81/08 on Occupational Safety, the new European Data Protection legislation, GDPR 2016/679, Anti-money laundering), specialist training in insurance was also provided, focusing particularly on regulatory issues and on new Life, Savings, Non-life and risk protection products.

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 primarily regard:

- the sale and distribution of insurance products at post offices and related activities;
- post office current accounts;
- the secondment of personnel to and from the parent;
- 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 2018, subordinated loan notes, totalling €250 million, issued by the Company, have been subscribed for by the parent. The notes provide a market rate of return reflecting the Company's creditworthiness. In November 2018, the Company entered into a refinancing agreement with the parent, Poste Italiane, for inclusion in its AOFs (ancillary own funds), formalised with Poste Italiane's signature of a Commitment Letter with a five-year term, committing the parent to subscribe for ordinary shares to be issued in future by Poste Vita.

The Parent Company, Poste Vita, also provides services to its subsidiary, Poste Assicura SpA. The transactions are all 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;
- Term Life Insurance policies.

Poste Vita conducts transactions with the subsidiary, Poste Welfare Servizi, primarily in relation to the secondment of personnel, the provision of services and centralised administrative and tax management and the sub-let of office space.

In addition to the relationship with the parent and the subsidiaries, Poste Assicura and Poste Welfare Servizi, the Company also maintains operational relations with other Poste Italiane Group companies, with regard to:

- printing, enveloping and mail delivery through information systems; management of incoming mail, the dematerialization and filing of printed documentation (Postel);
- mobile telephone services (Postepay);
- advice on obligations pertaining to occupational health and safety (Poste Tutela);
- Term Life Insurance policies (Postel, EGI, Postepay, Poste Tributi, Mistral Air and Bancoposta Fondi SGR);
- the supply of electricity (EGI).

These transactions are also conducted on an arm's length basis. Details of the above transactions are provided in the notes to the financial statements.

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 2018, the Poste Vita Group holds bonds issued by Cassa Depositi e Prestiti with a total fair value of €1,653.5 million, acquired under market conditions. In addition, during the fourth quarter of 2016, the Parent Company, Poste Vita, 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, or as a connected party with CDP and/or other shareholders of FSI SGR.

Research and development activities

During the period, the Poste Vita Insurance Group did not incur any research and development expenses, except for costs related to new products and those relating to the capitalised direct costs incurred in relation to internal software development.

Legal disputes

Pending civil actions involving the Parent Company, Poste Vita, primarily regard issues directly or indirectly connected to insurance contracts.

Approximately 50% of the disputes regard issues surrounding so-called "dormant policies", whilst the remaining disputes generally regard problems relating to i) the inability to settle claims due to a lack of documentation, ii) disputes between life policy beneficiaries and iii) problems regarding the payment of claims.

There has been an ongoing increase in the number of bankruptcy proceedings involving 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 the Parent Company, Poste Vita, in order to recover the amounts due, whilst covering the related expenses.

Criminal proceedings involving the Parent Company, Poste Vita, mostly regard alleged offences relating in general to the falsification of insurance documents by third parties and, in any event, by persons not employed by the Company.

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Disputes involving the subsidiary, Poste Assicura, primarily regard contested claims on Home, Accident and Condominium policies. They primarily regard cases where the claim is not covered by the policy and claims for amounts in excess of the estimate value of the damage incurred.

The likely outcome of disputes is taken into account in calculating outstanding claims provisions.

Criminal proceedings mostly regard alleged offences relating in general to the falsification of insurance documents by third parties and, in any event, by persons not employed by the company.

In addition, Poste Assicura has received a number of recurring claims on accident and home/householder insurance policies where fraud is suspected. The company is taking the appropriate initiatives.

An administrative action was brought before Lazio Regional Administrative Court in January 2019, challenging the decision to exclude Poste Assicura and co-insurers, AXA and HDI Assicurazioni from the call for tenders organised by the Italian Red Cross (and the contemporaneous award of the related contract to Generali) to provide accident insurance for the organisation's voluntary personnel over a three-year period 2019-2021 (an value of the tender submitted by the temporary consortium made up of Poste Assicura, AXA and HDI was approximately €7 million).

Principal proceedings pending and relations with the authorities

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

With regard to the inspection of the Company by IVASS that began on 20 March 2017 and ended on 28 June 2017, involving an audit of the best estimate of liabilities and the assumptions used in computing such liabilities and solvency capital requirements (SCR), including on a prospective basis, implementation of the actions to be taken by Poste Vita, in order to make the improvements requested by the regulator, has been completed on schedule.

A proceeding launched by the regulator in respect of Poste Vita SpA's alleged violation of art. 183, paragraph 1.a) of the *Codice delle Assicurazioni Private* (Private Insurance Code or CAP), as a result of the payment of a life insurance claim beyond the term provided for in the related contract, is pending at 31 December 2018. The proceeding was resolved with an injunction notified in January 2019, which applied a civil fine of €2,697.

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

The Bank of Italy's Financial Intelligence Unit (*UIF*) conducted a number of inspections of the Company in 2015 and 2016, in relation to money laundering prevention as per art. 47 and art. 53, paragraph 4, of Legislative Decree 231 of 2007. 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 may result in a fine of up to €0.4 million).

Poste Vita has sent the Ministry of the Economy and Finance a defence memorandum and is awaiting a final decision from the regulator.

c) COVIP - *Commissione di Vigilanza sui Fondi Pensione* (the pensions regulator)
With regard to the inspections carried out by the pensions regulator between October 2016 and July 2017, focusing on the *PostaPrevidenza Valore* individual pension plan, the Company has yet to receive any feedback from the regulator regarding the inspectors' findings.

Tax disputes

In 2009, the Regional Tax Office for Large Taxpayers (*Agenzia delle Entrate - Direzione Regionale del Lazio - Ufficio Grandi Contribuenti*) notified the Parent Company, Poste Vita SpA, of an alleged violation of the VAT regulations in the 2004 tax year, resulting in fines of approximately €2.3 million for the alleged failure to pay VAT on invoices for service commissions. The Company appealed the above findings before the Provincial Tax Tribunal of Rome within the statutory deadline. In December 2010 and September 2011, the tax authorities sent notices of two further small fines for the same violation in fiscal years 2005 and 2006. These fines were also appealed. The Provincial Tax Tribunal of Rome has in every case found in the Company's favour, ruling that the tax authorities' allegations are without grounds. The tax authorities then appealed these rulings. The Regional Tax Tribunal of Rome has rejected all the appeals and confirmed the lack of grounds for the claims against Poste Vita. On 23 October 2015, the State Attorney's Office challenged the rulings regarding the disputes for 2004 and 2006 and summoned the Company to appear before the Court of Cassation. 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. Regarding, on the other hand, the disputes relating to 2005, the appeal before the Court of Cassation was notified to the company in November 2017. The counterclaim filed by Poste Vita was served to the tax authorities on 13 December 2017, and subsequently entered in the Cassation's registry on 29 December 2017. The likely outcome of this tax dispute continues to be taken into account in determining provisions for risks and charges.

Tax consolidation arrangement

The three-year period (2016-2018) covered by Poste Vita's tax consolidation arrangement, headed by the consolidating entity, Poste Italiane, came to an end on 31 December 2018, after the option to join the arrangement was exercised on 30 September 2016.
In December 2018, the consolidating entity notified its willingness to allow the Company to continue to participate in the Poste Italiane Group's tax consolidation arrangement for the three-year period 2019-2021, thereby not revoking the option of a tax consolidation arrangement with Poste Vita. The Company will therefore sign the new consolidation terms and conditions for the above period by the end of 2019.
From the 2018 tax year and for the three-year period 2018-2020, the subsidiary, Poste Assicura, has also opted to participate in the Group tax consolidation arrangement governed by art. 117 *et seq.* of Presidential Decree 917/86, headed by the consolidating entity, Poste Italiane.
An agreement has been entered into with the consolidating entity, setting out the financial and procedural terms and conditions for the subsidiary's participation.

Exemption from preparation of the Non-financial Statement

Poste Vita's Directors have elected to apply the exemption from the obligation to prepare the non-financial statement, pursuant to art. 6, paragraph 1 (art. 6, paragraph 2) of Legislative Decree 254 of 30 December 2016.

Regulatory developments

Regulatory developments during the period or prior to the date of presentation of this report, having an impact, or that might have an impact, on the Company's business and/or on the sector in which it operates are as follows:

- On 3 July 2018, IVASS issued Regulation 38 - This Regulation contains provisions regarding the corporate governance system for both undertakings and groups, in implementation of the articles from 29-*bis* to 30-*septies* and article 215-*bis* of Legislative Decree 209/2005, as amended by Legislative Decree 74/2015, implementing EU Directive 2009/138/EC (the Solvency II Directive) and articles 258-275 of Delegated Regulation (EU) 35/2015 (the "Delegated acts"). The new regulations implement the EIOPA guidelines on corporate governance and, where compatible with the new primary regulations, also apply the provisions of ISVAP Regulation 20 of 26 March 2008, containing provisions regarding internal controls, risk management, compliance and outsourcing, ISVAP Regulation 39 of 9 June 2011 regarding remuneration policies, and ISVAP Circular 574/2005 relating to passive reinsurance, which have therefore been repealed (from the date of entry into force of the Regulation, the above Circular applies only to the local undertakings referred to in Title IV, Chapter II of the Private Insurance Code). The provisions in the Regulation should be interpreted alongside the Letter to the Market dated 5 July 2018, in which the regulator puts forward the first concrete attempt to apply the principle of proportionality, in line with the Solvency II standards, which call for prudential provisions to be applied on the basis of the risk profile of the undertaking, determined with respect to the nature, significance and complexity of its business risks.
- On 2 August 2018, IVASS issued Regulation 39 - This Regulation redefines the procedure for imposing administrative sanctions by IVASS and follows on from an overall revision of the structure of sanctions in the Private Insurance Code (Title XVIII) contained in Legislative Decree 68 of 21 May 2018, issued in implementation of EU Directive 2016/97 on insurance distribution (the "IDD"), and Legislative Decree 90 of 25 May 2017, which amended Legislative Decree 231 of 21 November 2007, regarding measures designed to prevent use of the financial system for money laundering or to finance terrorism. The new regulations apply to violations committed from 1 October 2018. For violations committed before this date, the previous arrangements contained in IVASS regulations 1/2013 and 2/2013 (respectively regarding financial and disciplinary sanctions for intermediaries) will continue to apply.
- On 2 August 2018, IVASS issued Regulation 42 - This Regulation was issued in implementation of articles 47-*septies*, paragraphs 7 and 191, paragraph 1.b), points 2 and 3 of Legislative Decree 209 of 7 September 2005 containing the Private Insurance Code (the "Code"). It sets out the disclosures to be included in solvency and financial condition reports ("SFCRs") by undertakings and groups. The Regulation also establishes that the disclosures must be subject to an external audit by independent or statutory auditors and sets out the form that the audits must take. The

above Regulation primarily aims to boost the confidence of potential users of the reports with regard to the quality and reliability of a major part of the disclosures contained in an SFCR.

- On 19 February 2019, IVASS issued Regulation 43 – On 12 February 2019, IVASS published Regulation 43 concerning implementation of the provisions on the temporary suspension of capital losses on current securities, introduced by Law Decree 119 of 23 October 2018, converted into Law 136 of 17 December 2018. The measures introduced by this Decree provide for a temporary exemption from application of the norms contained in the Italian Civil Code. The exemption was introduced in response to turbulence in the financial markets during 2018. For the purposes of the preparation of Local GAAP financial statements for 2018, an entity that has elected to adopt the exemption measures its current securities on the basis of the carrying amount reported in its financial statements for 2017 or, in the case of securities not held at 31 December 2017, at cost, with the exception of permanent impairments.
- On 19 February 2019, IVASS issued Regulation 44 – This Regulation contains measures implementing Legislative Decree 231 of 21 November 2007, as amended by Legislative Decree 90 of 25 May 2017 implementing Directive (EU) 2015/849, concerning the organisation, procedures, internal controls and customer due diligence, and taking into account the Joint Guidelines of the European Supervisory Authorities on simplified and enhanced customer due diligence and the factors to be considered when assessing the money laundering and financing of terrorism risks associated with ongoing relationships and occasional transactions.
- On 14 February 2018, IVASS issued Ruling 68, containing amendments to ISVAP Regulation 38 of 3 June 2011, concerning the establishment and administration of separately managed accounts by life insurance undertakings pursuant to article 191, paragraph 1.e) of Legislative Decree 209 of 7 September 2005 – the private insurance code; 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; containing amendments and additions to ISVAP Regulation 14 of 18 February 2008, concerning the definition of the procedures for the approval of changes to the articles of association and to the scheme of operations, for the authorisation of the portfolio transfers and mergers and demergers, as referred to in Chapter xiv of Legislative Decree 209 of 7 September 2005 – the Code.
- On 8 May 2018, IVASS issued Ruling 74, containing amendments to ISVAP Regulation 7 of 13 July 2007, concerning formats for the financial statements of insurance and reinsurance undertakings required to adopt international accounting 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, rendered necessary following the entry into effect of IFRS 9 (Financial instruments) which, from the financial statements for 2018, has replaced the previous IAS 39 (Financial Instruments).

New tax legislation

- Law 205 of 27 December 2017 (the "2018 Budget Law"): among the various measures, the law exempts natural disaster insurance policies from taxation; changes the rules governing group VAT arrangements for intra-group transactions; has expanded the scope of tax relief for welfare initiatives benefitting employees; introduces a specific tax treatment for payments resulting from early access to second-pillar pension schemes (*rendita integrativa temporanea anticipata* or *RITA*); has introduced a general obligation regarding electronic invoicing for all entities registered for VAT from 1 January 2019. The obligation regarding electronic invoicing applies to sales of goods and services (including the relate changes) between persons resident, established or identified in Italy. The new measures apply to transactions with both VAT taxpayers and private persons.

- Ministerial Decree of 28 November 2017 in effect from 21 February 2018 (Decree implementing the so-called Patent Box regime): in making general changes to the legislation governing the tax relief, art. 13 of the Decree governs the period in which the option to apply the regime to trademarks, exercised previously in order to take advantage of the benefits, is valid (the so-called grandfathering provision). Exercise of the option for trademarks for the first two tax years after the year in progress at 31 December 2014 (2015 and 2016 for calendar-year taxpayers) is valid for 5 years and, in any event, not beyond 30 June 2021. The option is non-renewable.

- Law Decree 87 of 12 July 2018 (the so-called Dignity Decree): among the various measures, the addition of a specific provision (1-*sexies*) to art. 17-*ter* of Presidential Decree 633/1972 has reintroduced the previous exemption from application of the split payment mechanism to remuneration for services rendered subject to withholding tax in accordance with art. 25 of Presidential Decree 600/1973. The change applies to transactions for which the related invoice is issued after the date of entry into force of the Decree, being 15 July 2018.

- Law Decree 119 of 23 October 2018 (the so-called 2018 Tax Decree): among other measures, art. 6 of the Decree introduces the possibility of settling disputes with the tax authorities in return for a reduction in the amount payable. These disputes, relating to tax breaches (notices of assessment, penalties and any other claims) and pending at any stage of the proceedings, including before the Court of Cassation and including those that have been adjourned, may be settled with payment of a sum equal to the disputed amount and, in the case of a pending appeal at first instance, with payment of 90% of the disputed amount. Settlement on reduced terms is only available for disputes where the appeal at first instance was notified by 24 October 2018 (the date of entry into force of the Decree) and for which, at the date of presentation of an application for a settlement on reduced terms, the appeal has not concluded with a final judgement. The "disputed amount" is the tax payable after interest and any penalties imposed by the disputed notice. In the case of disputes over penalties alone, the amount consists of the sum of such penalties. Paragraph 2 of art. 6 also provides that, should the tax tribunal find against the tax authority in the last or sole non-injunctive ruling filed by 24 October 2018, disputes may be settled in return for payment of 40% of the disputed amount, in the case of a negative outcome at first instance, or 15% of the disputed amount, in the case of a negative outcome at second instance. Finally, the third paragraph of art. 6 provides that disputes relating solely to penalties not connected with taxation may be settled with the payment of 15% of the disputed amount should the tax tribunal find against the tax authority in the last or sole non-injunctive ruling.

- Law 145 of 30 December 2018 (the "2019 Budget Law"): among the various measures, the Budget Law has introduced a new form of tax relief (so-called "mini-IRES") to come into effect from the 2019 tax year. This provides for a 9-percentage point reduction in IRES (corporation tax) to 15%, applied to an amount calculated as the lower of revenue reserves other than those that are undistributable, and the sum of investment in new fixed assets used in operations and the cost of personnel hired on a fixed-term and permanent basis. Qualifying investments in new operating assets include the construction of new plants, the completion of work already in progress, the recommissioning of existing plants and its modernisation or expansion, and the purchase of new operating assets to be used within such plants. Personnel expenses include the cost incurred to employ personnel on fixed-term and permanent contracts; to this end, it is necessary that there is an increase in the average number of workers employed, for most of the tax year, in operating facilities located in Italy. As a result of the introduction of this relief, again with effect from the 2019 tax year, the relief provided by *ACE* (*Aiuto alla crescita economica*, a form of relief introduced by art. 1 of Law Decree 201/2011) has been abolished as it is incompatible with the so-called mini-IRES, which also applies to the reinvestment of earnings. The 2019 Budget Law has also introduced changes to payments on account of tax on insurance premiums, raising the rates to be paid in accordance with art. 9, paragraph 1-*bis* of Law 1216 of 1961 to 85% for 2019, 90% for 2020 and 100% from 2021.

Accounting standards and interpretations soon to be effective

The following are applicable from 1 January 2019:

IFRS 16 - *Leases*, adopted with Regulation (EU) no. 1986/2017. The new standard intends to improve the accounting treatment of lease contracts, giving a basis for users of financial statements to assess the effect that leases have on the financial position, operating performance and cash flows of an entity**.** These provisions entail a substantial revision of the current accounting treatment of lease contracts by lessees, introducing for lessors a unified model for the different types of lease (finance and operating).

The main provisions for the lessee's financial statements include:

a) for the contracts in scope, the lessee recognises a right-of-use asset in its statement of financial position (in the same way as an owned asset) and a financial liability;

b) at the commencement date, the lessee will recognise the financial liability for an amount equal to the present value of the periodic contractual payments for the lease in return for the right to use the asset;

c) at the end of the reporting periods after the commencement date, and throughout the term of the lease contract, the asset is amortised systematically, while the financial liability increases by the amount of interest accrued, as calculated on the basis of the internal rate indicated in the lease contract;

d) when a lease payment is made, the liability is reduced by the amount of the payment.

The scope of the standard does not include short-term contracts (for up to 12 months) and low-value contracts (where the underlying asset does not exceed US$5,000). For these contracts, the lessor may elect not to apply IFRS 16, and to continue with the current accounting treatment.

Amendments to IFRS 9 - *Financial Instruments - Prepayment Features with Negative Compensation* adopted with Regulation (EU) no. 498/2018. The amendments to this standard aim to clarify the classification of certain financial assets with prepayment features when IFRS 9 applies.

Interpretation IFRIC 23 - *Uncertainty over Income Tax Treatments*, adopted with Regulation (EU) 1595/2018. This interpretation aims to clarify how to reflect uncertainty in accounting for income tax.

EVENTS AFTER 31 DECEMBER 2018

Composition of corporate bodies

Following the Board of Directors' meeting held on 26 February 2019, the below changes were made to the composition of the Board of Directors of the Parent Company, Poste Vita:

- Director: Vladimiro Ceci *in place of Antonio Nervi;*
- Director: Maria Cristina Vismara *in place of Dario Frigerio*.

The same Board of Directors' meeting also appointed:

- Vladimiro Ceci as Chairman of the Internal Audit and Related Party Transactions Committee in place of Guido Maria Nola;
- Guido Maria Nola as Chairman of the Remuneration Committee in place of Antonio Nervi.

The composition of both the above committees also changed with the appointment of Maria Cristina Vismara as an independent member in place of Dario Frigerio.

In addition, in relation to the subsidiary, Poste Assicura, following the Ordinary General Meeting of shareholder held on 20 February 2019, the following changes were made to the composition of the subsidiary's Board of Directors:

- Chairman of the Board of Directors: Vladimiro Ceci in place of Maria Bianca Farina;
- Director: Benedetta Sanesi in place of Giacomo Riccitelli.

The Board of Directors, meeting on the same date, and without prejudice to the powers provided for by law and the articles of association, granted the Chairman of the Board of Directors authority with regard to Corporate Governance and Corporate Affairs.

Authorisation to use ancillary own funds

On 13 February 2019, Poste Vita requested and was granted authorisation to include an unconditional, irrevocable commitment, with a five-year term, from the parent, Poste Italiane, to subscribe for ordinary shares amounting to up to €1,750 million in its Tier 2 ancillary own funds.

OUTLOOK

In keeping with the previous year and the strategic plan, the Poste Vita Group will continue to offer its customers an innovative, effective response to their insurance needs in 2019, combining savings and protection products in simple and highly professional solutions. In the Life segment, the goal is to consolidate our market leadership, backed up by a rebalancing of the offering towards products adding more value (multiclass and unit-linked products) and with risk-return profiles that are still moderate, in keeping with the type of customer served by the Group, but potentially providing more attractive returns on investment. The focus in the Non-life segment will be on the welfare and non-vehicle non-life sectors, with the aim of taking advantage of their unrealised potential.

Rome, 29 March 2019

The Board of Directors

Gruppo Postevita

Posteitaliane

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

The financial statements for the year ended 31 December 2018 are provided below, together with comparatives for the year ended 31 December 2017.

STATEMENT OF FINANCIAL POSITION - ASSETS

at 31 December

(€000)		2018	2017
1	**INTANGIBLE ASSETS**	**48,157**	**43,363**
1.1	Goodwill	17,823	17,823
1.2	Other intangible assets	30,333	25,539
2	**TANGIBLE ASSETS**	**11,810**	**8,794**
2.1	Land and buildings	-	-
2.2	Other tangible assets	11,810	8,794
3	**TECHNICAL PROVISIONS CEDED TO REINSURERS**	**72,361**	**71,243**
4	**INVESTMENTS**	**126,652,207**	**125,962,414**
4.1	Investment property	-	-
4.2	Investments in subsidiaries, associates and joint ventures	106,953	106,768
4.3	Financial assets measured at amortised cost	1,584,135	46,762
4.4	Financial assets measured at fair value through other comprehensive income	95,147,290	96,078,864
4.5	Financial assets measured at fair value through profit or loss	29,813,829	29,730,020
4.5.1	Financial assets held for trading	26,682,261	-
4.5.2	Financial assets designated at fair value	-	-
4.5.3	Financial assets measured at fair value through profit or loss	3,131,568	-
5	**SUNDRY RECEIVABLES**	**132,569**	**85,417**
5.1	Receivables arising from direct insurance transactions	28,213	44,880
5.2	Receivables arising from reinsurance transactions	7,523	3,601
5.3	Other receivables	96,833	36,936
6	**OTHER ASSETS**	**2,742,827**	**1,954,177**
6.1	Non-current assets or disposal groups held for sale	-	-
6.2	Deferred acquisition costs	59,710	61,785
6.3	Deferred tax assets	395,769	12,906
6.4	Current tax assets	2,287,223	1,878,796
6.5	Sundry assets	126	689
7	**CASH AND CASH EQUIVALENTS**	**1,574,065**	**907,025**
	TOTAL ASSETS	**131,233,995**	**129,032,433**

STATEMENT OF FINANCIAL POSITION - EQUITY AND LIABILITIES

at 31 December

(€000)		2018	2017
1	**EQUITY**	**3,951,311**	**3,369,331**
1.1	**attributable to the owners of the Parent**	**3,951,311**	**3,369,331**
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	1,732,649	1,427,722
1.1.5	(Treasury shares)	-	-
1.1.6	Reserve for currency translation differences	-	-
1.1.7	Gains or losses on financial assets at fair value through other comprehensive	(1,382.6)	178,871
1.1.8	Other valuation reserves	(51.8)	(63.3)
1.1.9	Net profit/(loss) for the year attributable to owners of the Parent	1,003,488	546,193
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	Net profit/(loss) for the year attributable to non-controlling interests	-	-
2	**PROVISIONS**	**10,600**	**11,393**
3	**TECHNICAL PROVISIONS**	**125,146,103**	**123,650,644**
4	**FINANCIAL LIABILITIES**	**1,020,595**	**1,011,964**
4.1	Financial liabilities measured at fair value through profit or loss	155	-
4.1.1	Financial liabilities held for trading	-	-
4.1.2	Financial liabilities designated at fair value	-	-
4.2	Financial liabilities measured at amortised cost	1,020,440	1,011,964
5	**PAYABLES**	**222,934**	**199,449**
5.1	Payables arising from direct insurance transactions	152,923	144,148
5.2	Payables arising from reinsurance transactions	5,336	2,587
5.3	Other payables	64,675	52,714
6	**OTHER LIABILITIES**	**882,452**	**789,651**
6.1	Liabilities included in disposal groups held for sale	-	-
6.2	Deferred tax liabilities	288,901	202,182
6.3	Current tax liabilities	587,222	578,015
6.4	Other liabilities	6,329	9,454
	TOTAL EQUITY AND LIABILITIES	**131,233,995**	**129,032,433**

INCOME STATEMENT

for the year ended 31 December

(€000)		2018	2017
1.1	Net premium revenue	16,720,291	20,342,941
1.1.1	Gross premium revenue	16,778,060	20,394,462
1.1.2	Outward reinsurance premiums	(57,769)	(51,520)
1.2	Fee and commission income	19,844	11,468
1.3	Net income (expenses) from financial assets at fair value through profit or loss	(914,488)	1,004,288
1.3 bis	Reclassification in accordance with overlay approach (*)	-	0
1.4	Income from investments in subsidiaries, associates and joint ventures	194	829
1.5	Income from other financial instruments and investment property	2,880,878	2,719,817
1.5.1	Interest income	2,633,221	2,382,083
1.5.2	Other income	-	54,212
1.5.3	Realised gains	247,658	283,522
1.5.4	Unrealised gains	-	0
1.6	Other revenue	14,575	14,327
1	**TOTAL REVENUE**	**18,721,294**	**24,093,671**
2.1	Net claims expenses	(17,125,126)	(22,351,461)
2.1.1	Claims paid and change in technical provisions	(17,146,728.7)	(22,370,598)
2.1.2	Share attributable to reinsurers	21,602.3	19,136
2.2	Commission expenses	(703)	0
2.3	Expenses arising from investments in subsidiaries, associates and joint ventu	-	0
2.4	Expenses arising from other financial instruments and investment property	(65,214)	(229,659)
2.4.1	Interest expense	(35,968)	(27,641)
2.4.2	Other expenses	(3,692)	(7,674)
2.4.3	Realised losses	(27,385)	(89,569)
2.4.4	Unrealised losses	1,831	(104,775)
2.5	Operating costs	(505,227)	(577,555)
2.5.1	Commissions and other acquisition costs	(398,314)	(464,419)
2.5.2	Investment management expenses	(42,805)	(45,472)
2.5.3	Other administrative expenses	(64,108)	(67,664)
2.6	Other costs	(106,422)	(91,808)
2	**TOTAL COSTS AND EXPENSES**	**(17,802,692)**	**(23,250,483)**
	PROFIT/(LOSS) BEFORE TAX	**918,602**	**843,188**
3	Income tax expense	84,886	(296,995)
	PROFIT/(LOSS) FOR THE YEAR AFTER TAX	1,003,488	546,193
4	PROFIT/(LOSS) FROM DISCONTINUED OPERATIONS	-	0
	CONSOLIDATED NET PROFIT/(LOSS)	**1,003,488**	**546,193**
	of which attributable to owners of the Parent	1,003,488	546,193
	of which attributable to non-controlling interests	-	-

(*) Only for undertakings who elect to adopt the overlay approach described in paragraph 35B of IFRS 4.

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December

(€000)	2018	2017
CONSOLIDATED NET PROFIT/(LOSS)	**1,003,488**	**546,193**
Other comprehensive income after tax not to be reclassified to profit or loss	**11**	**85**
Change in equity of investees	-	-
Change in revaluation reserve for intangible assets	-	-
Change in revaluation reserve for property, plant and equipment	-	-
Profits and losses on non-current assets or disposal groups held for sale	-	-
Actuarial gains/(losses) and adjustments to defined benefit plans	11	85
Gains or losses on equity instruments designated at fair value through other comprehensive income	-	-
Change in own credit rating for financial liabilities designated at fair value	-	-
Other items	-	-
Other comprehensive income after tax to be reclassified to profit or loss	**(180,254)**	**(8,899)**
Change in reserve for currency translation differences	-	-
Gains or losses on financial assets (other than equity instruments) measured at fair value through other comprehensive income	(180,254)	(8,899)
Gains or losses on cash flow hedges	-	-
Gains or losses on hedges of a net investment in a foreign operation	-	-
Change in equity of investees	-	-
Profits and losses on non-current assets or disposal groups held for sale	-	-
Reclassification in accordance with overlay approach (*)	-	-
Other items	-	-
TOTAL OTHER COMPREHENSIVE INCOME	**(180,242)**	**(8,815)**
TOTAL CONSOLIDATED COMPREHENSIVE INCOME FOR THE YEAR	**823,246**	**537,379**
of which attributable to owners of the Parent	**823,246**	**537,379**
of which attributable to non-controlling interests	**-**	**-**

STATEMENT OF CHANGES IN EQUITY

(€000)		At 31 December 2017	Change to closing balances	Appropria-tions	Adjustments due to reclassification to profit or loss	Transfers	Changes in investments	At 31 December 2018
Equity attributable to the owners of the Parent	Share capital	1,216,608	-	-	-	-	-	1,216,608
	Other equity instruments	-	-	-	-	-	-	-
	Capital reserves	-	-	-	-	-	-	-
	Retained earnings and other reserves	1,427,722	-	304,928	-	-	-	1,732,649
	(Treasury shares)	-	-	-	-	-	-	-
	Net profit/(loss) for the year	546,193	-	457,295	-	-	-	1,003,488
	Other comprehensive income	178,808	(140,653)	(32,984)	(6,605)	-	-	(1,434.4)
	Total attributable to the owners of the Parent	**3,369,331**	**(140,653)**	**729,239**	**(6,605)**	**-**	**-**	**3,951,311**
Equity attributable to non-controlling interests	Share capital and reserves attributable to non-controlling interests	-	-	-	-	-	-	-
	Net profit/(loss) for the year	-	-	-	-	-	-	-
	Other comprehensive income	-	-	-	-	-	-	-
	Total attributable to non-controlling interests	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total		**3,369,331**	**(140,653)**	**729,239**	**(6,605)**	**-**	**-**	**3,951,311**

STATEMENT OF CASH FLOWS

for the year ended 31 December

(€000)	2018	2017
Profit/(Loss) before tax	**918,602**	**843,188**
Movement in non-cash items	**3,014,610**	**9,693,809**
Change in Non-life premium reserve	22,144	7,977
Change in outstanding claims provisions and other Non-life technical provisions	1,793	6,860
Change in mathematical provisions and other Life technical provisions	1,470,405	9,952,612
Change in deferred acquisition costs	2,075	(996)
Change in provisions	(793)	190
Non-cash income and expense from financial instruments, investment property and investments	1,501,650	(290,516)
Other changes	17,337	17,682
Change in receivables and payables generated by operating activities	**(30,601)**	**40,764**
Change in receivables and payables arising from direct insurance and reinsurance transactions	24,202	1,074
Change in other receivables and payables	(54,802)	39,690
Income tax paid	(695,363)	(257,099)
Net cash from/for cash items attributable to investing and financing activities	**(83,654)**	**(4,385,450)**
Liabilities arising from investment contracts issued by insurance companies	-	-
Payables due to bank and interbank customers	-	-
Loans and receivables due from bank and interbank customers	-	-
Other financial assets at fair value through profit or loss	(83,654)	(4,385,450)
TOTAL NET CASH FROM OPERATING ACTIVITIES	**3,123,595**	**5,935,212**
	-	
Net cash from/for investment property	-	
Net cash from/for investments in subsidiaries, associates and joint ventures	(185)	(837)
Net cash from/for financial assets measured at amortised cost	(1,533,204)	(179,683)
Net cash from/for financial assets measured at fair value through other comprehensive income	(570,076)	(5,382,991)
Net cash from/for property, plant and equipment and intangible assets	(24,945)	(15,056)
Other net cash from/for investing activities	-	-
TOTAL NET CASH FOR INVESTING ACTIVITIES	**(2,128,410)**	**(5,578,566)**
Net cash from/for equity instruments attributable to owners of the Parent	(98,822)	(305,809)
Net cash from/for treasury shares	0	0
Payment of dividends attributable to owners of the Parent	(237,800)	(470,000)
Net cash from/for capital and reserves attributable to non-controlling interests	0	0
Net cash from/for subordinated liabilities and participating financial instruments	8,476	1,531
Net cash from/for sundry financial liabilities	0	0
TOTAL NET CASH FOR FINANCING ACTIVITIES	**(328,145)**	**(774,278)**
Effect of translation differences on cash and cash equivalents	-	-
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	907,025	1,324,657
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	667,039	(417,632)
CASH AND CASH EQUIVALENTS AT END OF YEAR	**1,574,065**	**907,025**

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 2018, 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 2007[1]. 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 2018 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 for 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.

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;

[1] Amended by ISVAP ruling 2784 of 8 March 2010, IVASS ruling 14 of 28 January 2014, IVASS ruling 21 of 21 October 2014, IVASS ruling 29 of 27 January 2015, IVASS ruling 53 of 6 December 2016 and IVASS ruling 74 of 8 May 2018.

- 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%
Internal software	5 years	20%
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 is recognised by category, either on the date on which the Group commits to purchase or sell the asset at the settlement date. Any changes in fair value between the transaction date and the settlement date are recognised in the financial statements. Trade receivables are recognised at their transaction price, in accordance with IFRS 15 - Revenue from Contracts with Customers.

Financial assets

On initial recognition, financial assets are classified in one of the following categories, based on the business model adopted to manage them and the characteristics of their contractual cash flows:

- Financial assets measured at amortised cost

  This category reflects financial assets held to collect the contractual cash flows (the held to collect or HTC business model) representing solely payments of principal and interest (SPPI). These assets are recognised at amortised cost, that is the amount of the asset on initial recognition, less principal repayments, plus or minus the accumulated amortisation, using the effective interest method on the difference between the initial principal and principal at maturity, after deducting any impairments. The business model on which the classification of financial assets is based permits the sale of such assets; if the sales are not occasional, and are not immaterial in terms of value, consistency with the HTC business model should be assessed.

- Financial assets measured at fair value through other comprehensive income (FVTOCI)

  This category includes financial assets held both to collect the relevant contractual cash flows and for sale (the held to collect and sell or HTC&S business model), with the contractual cash flows representing solely payments of principal and interest. These assets are recognised at fair value through other comprehensive income – except for impairment losses and revaluations and foreign exchange gains and losses – until the financial asset is derecognised or reclassified. If the financial asset is derecognised, the accumulated gains/(losses) recognised in OCI are recycled to profit or loss. This category includes debt securities that meet the above characteristics as well as equity instruments that would otherwise be recognised through profit or loss, for which the irrevocable election was made to recognise changes in fair value through OCI (the FVTOCI option). This option entails the recognition of dividends alone through profit or loss.

- Financial assets measured at fair value through profit or loss

  This category, identified as residual, includes: (a) financial assets primarily held for trading; (b) those that qualify for designation at fair value through profit or loss, exercising the fair value option; (c) financial assets that must be recognised at fair value through profit or loss; (d) derivative instruments, with the exception of the effective portion of those designated as cash flow hedges; and (e) equity instruments for which the Company has not elected for the FVTOCI option. Financial assets belonging to this category are measured at fair value and the related changes recognised in profit or loss. Financial instruments in this category are classified as short-term if they are held for trading or if they are expected to be realised within twelve months of the end of the reporting period. Derivative instruments at fair value through profit or loss are recognised as assets or liabilities depending on whether the fair value is positive or negative. Fair value gains and losses on outstanding transactions with the same counterparty are offset, where contractually permitted.

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.

IMPAIRMENT E STAGE ALLOCATION

An expected credit loss (ECL) provision must be made for financial assets recognised at amortised cost and financial assets at fair value through OCI. The method utilised is the “General impairment model”, whereby:

- if on the reporting date the credit risk of a financial instrument has not increased significantly since initial recognition, a 12-month ECL is recognised (stage 1). Interest on the instrument is calculated on the gross carrying amount (amortised cost inclusive of the ECL);
- if on the reporting date the credit risk of the financial instrument has increased significantly since initial recognition, a lifetime ECL is recognised (stage 2). Interest on the instrument is calculated on the gross carrying amount (amortised cost inclusive of the ECL);
- if a financial instrument is already impaired on initial recognition or shows objective evidence of impairment as at the reporting date, lifetime expected losses are recognised. Interest is calculated on amortised cost (stage 3).

In determining whether credit risk has increased significantly, it is necessary to compare the risk of default of the financial instrument as at the reporting date with the risk of default of the financial instrument on initial recognition.

However, there is a rebuttable default presumption if the financial instrument is more than 90 days past due, unless there is reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate. In the case of issuers of debt securities, the risk of default is triggered by:

- a 90-day delay in payment by corporate and bank counterparties;
- a delay in payment of even just one day or debt renegotiation in the case of sovereign counterparties.

Regarding trade receivables, a simplified approach is applied to measure the expected credit loss, if these receivables do not contain a significant financing component pursuant to IFRS 15. Under the simplified approach, use is made of a provision matrix based on observed historical losses.

In addition, the risk of default for trade receivables is based on historical collection experience, on the specific nature of the Group’s business and its customers and taking into account the assessment of past due positions, ignoring the default presumption for receivables more than 90 days past due. The Group has not elected to adopt the Low Credit Risk Exemption.

DERIVATIVE INSTRUMENTS

Derivatives are initially recognised at fair value on the date the derivative contract is executed and if they do not qualify for hedge accounting treatment, gains and losses arising from changes in fair value after initial recognition are accounted for in profit or loss for the period. If, on the other hand, derivative financial instruments qualify for hedge accounting, gains and losses arising from changes in fair value after initial recognition are accounted for in accordance with the specific criteria described below. Derivative instruments designated as hedges continue to be accounted for in accordance with IAS 39. The relationship between each hedging instrument and the hedged item is documented, as well as the risk management objective, the strategy for undertaking the hedge transaction and the methods used to assess effectiveness. Assessment of whether the hedging derivative is effective takes place both at inception of the hedge and throughout the term of the hedge.

- ***Fair value hedges***[2]

  When the hedge is related to recognised assets or liabilities, or an unrecognised firm commitment, the changes in fair value of both the hedging instrument and the hedged item are recognised in profit or loss. When the hedging transaction is not fully effective, resulting in differences between the above changes, the ineffective portion represents a loss or gain recognised separately in profit or loss for the period. IAS 39 allows, in addition to individual assets and liabilities, the designation of a cash amount, representing a group of financial assets and liabilities (or portions thereof) as the hedged item in such a way that a group of derivative instruments may be used to reduce exposure to fair value interest rate risk (a so-called macro hedge). Macro hedges cannot be used for net amounts deriving from differences between assets and liabilities. Like micro hedges, macro hedges are deemed highly effective if, at their inception and throughout the term of the hedge, changes in the fair value of the cash amount are offset by changes in the fair value of the hedges, and if the effective results fall within the interval required by IAS 39.

- ***Cash flow hedges***[3]

  The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges after initial recognition is recognised in a specific equity reserve, with movements in the reserve accounted for in other comprehensive income (the "Cash flow hedge reserve"). A hedging transaction is generally considered highly effective if, both at inception of the hedge and on an ongoing basis, changes in the expected future cash flows of the hedged item are substantially offset by changes in the fair value of the hedging instrument. Amounts accumulated in equity are recycled to profit or loss in the period in which the hedged item affects profit or loss. in the case of hedges associated with a highly probable forecast transaction (such as the purchase of fixed income debt securities), the reserve is reclassified to profit or loss in the period or in the periods in which the asset or liability, subsequently accounted for and connected to the aforementioned transaction, will affect profit or loss (for example, an adjustment to the return on the security).

[2] A hedge of the exposure to a change in fair value of a recognised asset or liability or of an unrecognised firm commitment attributable to a particular risk, and that could have an impact on profit or loss.
[3] A hedge of the exposure to the variability of cash flows attributable to a particular risk associated with an asset or liability or with a highly probable forecast transaction, and that could have an impact on profit or loss.

If the hedging transaction is not fully effective, the gain or loss arising from a change in fair value relating to the ineffective portion is recognised in profit or loss for the period. If, during the life of the derivative, the forecast hedged transaction is no longer expected to occur, the related gains and losses accumulated in the cash flow hedge reserve are immediately reclassified to profit or loss for the period. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, the related gains and losses accumulated in the cash flow hedge reserve at that time remain in equity and are recognised in profit or loss at the same time as the original underlying.

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.

With regard to deferred taxation, in 2018 the Parent Company, Poste Vita, recognised deferred tax income on the non-deductible movement in technical provisions, totalling approximately €384.6 million (including €350 million attributable to previous years).

Recognition of the tax assets is based on the provisions in paragraph 1-*bis* of art. 111 of the Consolidated Law on Income Tax (introduced by art. 38, paragraph 13-*bis* of Law Decree 78 of 31 May 2010), which provide for a partial exemption (based on a specific percentage deduction) of the positive or negative movement in the obligatory technical provisions relating to the Life business from taxation, where such movement was previously included in full in the IRES tax base. In Poste Vita's case, the percentage deduction is 98.5%. The obligatory technical provisions covered by the legislation exclusively relate to classes I, IV (excluding provisions for individual pension plans) and V.

During the second half of 2018, the Parent Company, Poste Vita, completed system testing prior to release of the algorithm for use in calculating deferred tax assets on the non-deductible movement in technical provisions. Completion of the tests, accompanied by an opinion, issued by a leading independent expert, confirming the legitimacy of the recognition of deferred tax assets on the non-deductible movement in technical provisions, enabled the Company to proceed with recognition of the assets in the financial statements for the year ended 31 December 2018.

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;

- 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

Financial liabilities, including borrowings, trade payables and other payment obligations, are measured at amortised cost using the effective interest method. If there is a change in the expected cash flows and they can be reliably estimated, the value of borrowings is recalculated to reflect the change on the basis of the present value of estimated future cash flows and the internal rate of return initially applied. Financial liabilities are classified as current liabilities, unless there is an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period. When required by the applicable IFRS (e.g. in case of derivative liabilities), or when the irrevocable fair value option is exercised, financial liabilities are recognised at fair value through profit or loss. In this case, changes in fair value attributable to changes in own credit risk are recognised directly in equity, unless this treatment creates or enhances an accounting asymmetry, whilst the residual amount of the changes in the fair value of liabilities is recognised through profit or loss. Financial liabilities are derecognised when they are extinguished or when all the related risks and rewards have been transferred.

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 IFRS 9 or IFRS 15, 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.

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 IFRS 9, 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 2018 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 – IFRS 13

IFRS 13[4] - Fair Value Measurement, endorsed by EU Regulation 1255/2012 of 11 December 2012, introduced a single framework to be used in determining fair value, when required or

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[4] 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 has been overcome. The standard also defines the minimum disclosures required.

permitted by other IFRS, and established the related disclosures. The standard was effective from 1 January 2013. A description of the fair value measurement techniques used by the Poste Vita Group is provided below.
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 the 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 12.00 noon 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, private equity funds*,* private debt funds and infrastructure investment funds: 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.

Disclosure of interests in other entities - 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 2018, Poste Vita's interests in the funds described below fall within the above definition.

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. Quantitative disclosures for these 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)

ISIN	Name	Nature of entity	Activity of the Fund	% investment	NAV At	NAV Amount
LU1081427665	SHOPPING PROPERTY FUND 2	Closed-end harmonised fund	Master fund which invests primarily in commercial properties and, marginally, in office	63.8%	30 September 2018	89,734
IT0004597396	ADVANCE CAPITAL ENERGY FUND	Closed-end non-harmonised fund of funds	Investments in energy companies to achieve capital appreciation and realise relevant gains,	86.2%	30 September 2018	27,335
QU0006738854	PrimA Credit Opportunity Fund	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100.0%	30 November 2018	126,332
LU1581282842	Indaco SICAV SIF - Indaco CIFC US Loan	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds, loans and equities)	100.0%	30 November 2018	80,792
QU0006738052	Prima EU Private Debt Opportunity Fund	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100.0%	30 November 2018	138,143
QU0006742476	PRIMA GLOBAL EQUITY PRTNERS FUND	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100.0%	30 November 2018	27,223
IT0004937691	TAGES PLATINUM GROWTH	Open-end harmonised UCITS	Perseguimento di rendimenti assoluti, con un basso livello di volatilità e di correlazione di lungo termine rispetto ai principali mercati finanziari	100.0%	30 November 2018	426,468
LU1500341752	MULTIFLEX-DYNAMIC LT M/A-CM	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100.0%	30 November 2018	339,614
LU1500341240	MULTIFLEX-LT OPTIMAL M/A-CM	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100.0%	31 December 2018	383,578
LU1808839242	MULTIFLEX-OLYMP INSURN MA-CM	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100.0%	31 December 2018	533,073
LU1808838863	MULTIFLEX-OLYMPIUM OPT MA-CM	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100.0%	31 December 2018	538,166
LU1379774190	MULTIFLEX-DIVERSIFIED DIS-CM	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100.0%	31 December 2018	5,462,972
LU1407711800	MULTIFLEX-DYN MLT/AST FD-CM	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100.0%	31 December 2018	3,481,905
LU1193254122	MULTIFLEX-GLB MA INC-CM	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100.0%	31 December 2018	3,816,260
LU1407712014	MULTIFLEX-GLB OPT M/A FD-CM	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100.0%	31 December 2018	4,649,943
LU1407712287	MULTIFLEX-STRAT INS DIST-CM	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100.0%	31 December 2018	4,383,009
IT0005247819	Fondo Diamond Value Added Properties	Italian-registered, closed-end alternative real estate investment	Investment in real estate assets and real property rights, including those resulting from property	100.0%	30 June 2018	53,817
IT0005210387	DIAMOND EUROZONE RETAIL PROPERTY	Italian-registered, closed-end alternative real estate investment	Investment in "core" and "core plus" real estate assets for office use, located in the Eurozone	100.0%	30 September 2018	102,359
IT0005210593	DIAMOND OTHER SECTORS 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	100.0%	30 September 2018	58,590
IT0005215113	FONDO CBRE DIAMOND	Italian-registered, closed-end alternative real estate investment funds	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	100.0%	30 September 2018	67,515
IT0005174450	FONDO DIAMOND EUROZONE OFFICE UB	Italian-registered, closed-end alternative real estate investment	Investment in "core" and "core plus" real estate assets for retail use, located in the Eurozone	100.0%	30 September 2018	195,417
IT0005212193	FONDO DIAMOND ITALIAN PROPERTIES	fondi di investimento alternativiimmobiliar i chiusi di diritto italiano	Investment in real estate assets, real property rights, including those resulting from property	100.0%	30 June 2018	157,027

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)

ISIN	Name	Classification	Carrying amount	Maximum loss exposure	Difference between carrying amount and maximum loss exposure	Method to determine maximum loss exposure
LU1081427665	SHOPPING PROPERTY FUND 2	FVTPL	57,223	23,558	33,666	VaR 99.5% over a 1-year time horizon
IT0004597396	ADVANCE CAPITAL ENERGY FUND	FVTPL	23,564	12,566	10,998	VaR 99.5% over a 1-year time horizon
QU0006738854	PrimA Credit Opportunity Fund	FVTPL	126,332	53,897	72,435	VaR 99.5% over a 1-year time horizon
LU1581282842	Indaco SICAV SIF - Indaco CIFC US Loan	FVTPL	80,792	34,186	46,606	VaR 99.5% over a 1-year time horizon
QU0006738052	Prima EU Private Debt Opportunity Fund	FVTPL	138,143	58,936	79,207	VaR 99.5% over a 1-year time horizon
QU0006742476	PRIMA GLOBAL EQUITY PRTNERS FUND	FVTPL	27,223	8,887	18,336	VaR 99.5% over a 1-year time horizon
IT0004937691	TAGES PLATINUM GROWTH	FVTPL	426,468	35,567	390,901	Value received from fund management company
LU1500341752	MULTIFLEX-DYNAMIC LT M/A-CM	FVTPL	339,614	20,241	319,373	Value received from fund management company
LU1500341240	MULTIFLEX-LT OPTIMAL M/A-CM	FVTPL	383,578	26,122	357,457	Value received from fund management company
LU1808839242	MULTIFLEX-OLYMP INSURN MA-CM	FVTPL	533,073	49,522	483,550	Value received from fund management company
LU1808838863	MULTIFLEX-OLYMPIUM OPT MA-CM	FVTPL	538,166	32,774	505,391	Value received from fund management company
LU1379774190	MULTIFLEX-DIVERSIFIED DIS-CM	FVTPL	5,462,972	695,436	4,767,535	Value received from fund management company
LU1407711800	MULTIFLEX-DYN MLT/AST FD-CM	FVTPL	3,481,905	209,959	3,271,946	Value received from fund management company
LU1193254122	MULTIFLEX-GLB MA INC-CM	FVTPL	3,816,260	377,810	3,438,451	Value received from fund management company
LU1407712014	MULTIFLEX-GLB OPT M/A FD-CM	FVTPL	4,649,943	237,612	4,412,331	Value received from fund management company
LU1407712287	MULTIFLEX-STRAT INS DIST-CM	FVTPL	4,383,009	388,773	3,994,236	Value received from fund management company
IT0005247819	Fondo Diamond Value Added Properties	FVTPL	53,817	13,210	40,607	VaR 99.5% over a 1-year time horizon
IT0005210387	DIAMOND EUROZONE RETAIL PROPERTY	FVTPL	102,359	25,078	77,281	VaR 99.5% over a 1-year time horizon
IT0005210593	DIAMOND OTHER SECTORS ITALIA	FVTPL	58,590	14,062	44,528	VaR 99.5% over a 1-year time horizon
IT0005215113	FONDO CBRE DIAMOND	FVTPL	67,515	24,810	42,705	VaR 99.5% over a 1-year time horizon
IT0005174450	FONDO DIAMOND EUROZONE OFFICE UB	FVTPL	195,417	72,390	123,027	VaR 99.5% over a 1-year time horizon
IT0005212193	FONDO DIAMOND ITALIAN PROPERTIES	FVTPL	157,027	46,329	110,698	VaR 99.5% over a 1-year time horizon

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.

Share-based payment arrangements - 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 shareholder value 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 grant date for the phantom stocks or at the end of a retention period (as specified below). The key characteristics of the Plan are described below.

Plan terms and conditions

The Performance Targets for Beneficiaries included among personnel belonging to the Poste Vita insurance group, to which receipt of the cash bonus is subject, regard the RORAC (Return On

Risk Adjusted Capital) registered by the Poste Vita insurance group over a three-year period, with the aim of taking into account the continuity and sustainability of the long-term performance after appropriately adjusting for risk.

All Beneficiaries must be measured against an indicator of shareholder value creation, based on the Total Shareholder Return, used to measure performance based on the value created for Poste Italiane's shareholders compared with other FTSE MIB-listed companies.

Vesting of the Phantom Stocks is subject to achievement of the Performance Hurdle, designed to ensure sustainability of the Plan at Group level. The Performance Hurdle corresponds with achievement of a certain target for the Group's cumulative EBIT over a three-year period at the end of each Performance Period. In addition to the Performance Hurdle (the Group's cumulative EBIT over a three-year period), vesting of the Phantom Stocks is subject to achievement of the 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 immediately converted into cash. They are subject to a one-year retention period, before they can be converted into cash, following confirmation that the Qualifying Conditions for each plan have been met.

Determination of fair value and effects on profit or loss

Measurement, using Monte Carlo simulations, is carried out by an independent expert. The impact of recognition and measurement on profit or loss and the financial position is shown below.

First Cycle 2016-2018

The total number of phantom stocks awarded to the 4 Beneficiaries of the First Cycle of the Plan outstanding at 31 December 2018 amount to 34,910. The cost recognised for 2018 is €175,373, whilst the liability recognised in amounts due to staff is €237,039.

Second Cycle 2016-2018

The total number of phantom stocks awarded to the 5 Beneficiaries of the Second Cycle of the Plan at 31 December 2018 amount to 44,810. The cost recognised for 2018 is €152,656, whilst the liability recognised in amounts due to staff is €199,554.

Third Cycle 2017-2019

The total number of phantom stocks awarded to the 6 Beneficiaries of the Third Cycle of the Plan amount to 48,677. The cost recognised for 2018 is €95,569, equivalent to the liability recognised in amounts due to staff.

FINANCIAL RISK MANAGEMENT – IFRS 7

Information on financial risk management at 31 December 2018 is provided below, in accordance with the requirements of the new international financial reporting standard, IFRS 7 – *Financial Instruments: Disclosures*.

Financial instruments held by the Parent Company, **Poste Vita SpA**, primarily relate to investments designed to cover its contractual obligations to policyholders on traditional life policies and index-linked and unit-linked policies. Other investments in financial instruments regard investment of the Company's free capital.

Traditional Life policies, classified under Class I and V, primarily include products whose benefits are revaluated based on the return generated through the management of pools of financial assets, which are separately identifiable in accounting terms only, within the company's assets (so-called separately managed accounts). In the case of these policies, the Company guarantees a minimum return payable at maturity on such products (at 31 December 2018, this minimum return on existing policies ranged between 0% and 1.5%). Gains and losses resulting from measurement are attributed in full to policyholders and accounted for in specific technical provisions under the shadow accounting method. The calculation technique used in applying this method is based on the prospective yield on each separately managed account, considering a hypothetical realisation of unrealised gains and losses over a period of time that matches the assets and liabilities held in the portfolio.

The impact of financial risk on investment performance can be absorbed in full or in part by the insurance provisions based on the level and structure of the guaranteed minimum returns and the profit-sharing mechanisms of the "separate portfolio" for the policyholder. The Company determines the sustainability of minimum returns through periodic analyses using an internal financial-actuarial (Asset-Liability Management) model which simulates, for each separate portfolio, the change in value of the financial assets and the expected returns under a "central scenario" (based on current financial and commercial assumptions) and under stress and other scenarios based on different sets of assumptions. This model makes it possible to manage the risks assumed by Poste Vita SpA on a quantitative basis, thereby fostering reduced earnings volatility and optimal allocation of financial resources.

Index-linked and unit-linked products, relating to Class III insurance products, regard policies where the premium is invested in Italian government securities, warrants and mutual investment funds. In the case of index-linked policies issued, the Company assumes sole liability for solvency risk associated with the instruments in which premiums are invested, providing a guaranteed minimum return when called for by contract. The Company continuously monitors changes in the risk profile of individual products, focusing especially on the risk linked to the insolvency of issuers.

The subsidiary, Poste Assicura SpA's investment policies are designed to preserve the company's financial strength, as outlined in the framework resolution approved by the board of directors on 24 October 2018. Regular analyses of the macroeconomic context and market trends for the different asset classes, with the relevant effects on asset-liability management, are conducted. For the Non-life business, the assessment does not take into account the above restrictions relating to guarantee minimum returns, but focuses on the management of liquidity in order to meet claims.

Within the above context, balanced financial management and monitoring of the main risk/return profiles are carried out and ensured by dedicated organisational structures that operate separately and independently. In addition, specific processes are in place governing the assumption and management of and control over financial risks, including the progressive introduction of appropriate information systems.

The main forms of financial risk to which the Poste Vita Group is exposed at the end of 2018 are described below:

Price risk

This is the risk that the value of a financial instrument fluctuates as a result of market price movements, deriving from factors specific to the individual instrument or the issuer, and factors that influence all instruments traded on the market.

The following analysis relates to financial assets classified as measured at fair value through other comprehensive income ("FVTOCI") or as measured at fair value through profit or loss ("FVTPL"), and certain derivative financial instruments where changes in value are recognised in profit or loss.

The sensitivity analysis at 31 December 2018 took into account positions potentially exposed to fluctuations in value. Financial statement balances have been subjected to a stress test, based on actual volatility during the year, considered to be representative of potential market movements. The results of the sensitivity analysis carried out as at 31 December 2018 for the Poste Vita Group are shown in the following table.

		Change in value		Effect on deferred liabilities		Pre-tax profit		Equity reserves before taxation	
€000	Exposure	+vol	-vol	+vol	-vol	+vol	-vol	+vol	-vol
Financial assets									
Financial assets at FVTOCI	-	-	-	-	-	-	-	-	-
APRE00061 - Equity instruments at FVTOCI		-	-	-	-	-	-	-	-
APRE00063 - Other investments at FVTOCI		-	-	-	-	-	-	-	-
APRE00064 - Structured bonds at FVTOCI		-	-	-	-	-	-	-	-
Financial assets at FVTPL	**27,503,336**	**1,082,173**	**(1,082,173)**	**1,082,173**	**(1,082,173)**	**608**	**(608)**	**-**	**-**
APRE00071 - Structured bonds at FVTPL		-	-	-	-	-	-	-	-
APRE00073 - Other investments at FVTPL	27,337,056	1,037,043	(1,037,043)	1,037,043	(1,037,043)	608	(608)	-	-
APRE00074 - Equity instruments at FVTPL	166,279	45,130	(45,130)	45,130	(45,130)	-	-	-	-
Derivative financial instruments	44,619	7,611	(7,611)	7,611	(7,611)	-	-	-	-
APRE00113 - FVTPL	44,619	7,611	(7,611)	7,611	(7,611)	-	-	-	-
PPRE00093 - FVTPL liabilities	-	-	-	-	-	-	-	-	-
Variability at end of period	**27,547,955**	**1,089,784**	**(1,089,784)**	**1,089,784**	**(1,089,784)**	**608**	**(608)**	**-**	**-**

In relation to financial assets recognised at fair value through profit or loss, price risk concerns the following:

- investments in units of mutual investment funds with a fair value of €27,337 million, including approximately €25,992 million used to cover Class I policies and approximately €1,345 million used to cover Class III policies;
- equity instruments, totalling €166 million, used to cover Class I policies linked to separately managed accounts and to cover Class III policies;

In relation to derivative financial instruments, price risk concerns investments in warrants held by the Parent Company, Poste Vita SpA, used to cover Class III policies. These instruments have a fair value of €45 million at the end of the period.

Price risk does not involve fixed income financial instruments (debt securities) as the risk in question is only considered in relation to the equity market volatility.

Foreign exchange risk

This is the risk that the value of a financial instrument fluctuates as a result of movements in exchange rates for currencies other than the functional currency.

Sensitivity analysis of the items subject to foreign exchange risk was based on the most significant positions, assuming a stress scenario determined by the levels of exchange rate volatility applicable to each foreign currency position. The test applies an exchange rate movement based on volatility during the year, which was considered to be representative of potential market movements.

The table below shows the sensitivity to foreign exchange risk of the Poste Vita Group's most significant positions at 31 December 2018.

			Change in value		Pre-tax profit	
€000	Position in CURRENCY/000	Position in €000	+260gg	-260gg	+260gg	-260gg
Financial assets						
Financial assets at FVTOCI	999	872	63	(63)	63	(63)
APRE00061 - Equity instruments at FVTOCI	-	-	-	-	-	-
APRE00063 - Other investments at FVTOCI	999	872	63	(63)	63	(63)
APRE00064 - Structured bonds at FVTOCI	-	-	-	-	-	-
Financial assets at FVTPL	64,883	56,666	4,094	(4,094)	4,094	(4,094)
APRE00074 - Equity instruments at FVTPL	-	-	-	-	-	-
APRE00073 - Other investments at FVTPL	64,883	56,666	4,094	(4,094)	4,094	(4,094)
Variability at end of period	**65,882**	**57,539**	**4,158**	**(4,158)**	**4,158**	**(4,158)**

The risk in question regards units in certain alternative investment funds and a US government security held by the Poste Vita Group at the end of 2018.

Fair value interest rate risk

This is the risk that the value of a financial instrument fluctuates as a result of movements in market interest rates.

This refers to the effects of changes in interest rates on the price of fixed rate financial instruments or variable rate financial instruments converted to fixed rate via cash flow hedges and, to a lesser degree, the effects of changes in interest rates on the fixed components of floating rate financial instruments or fixed rate financial instruments converted to variable rate via fair value hedges. The impact of these effects is directly related to the financial instrument's duration.

The following interest rate sensitivity analysis was based on changes in fair value with a parallel shift in the forward yield curve of +/- 100 bps. The measures of sensitivity shown in the following analysis provide a reference point which is useful in assessing potential changes in fair value in the event of greater movements in interest rates.

The table below shows the sensitivity analysis for the fair value interest rate risk at 31 December 2018 for the Poste Vita Group's positions.

	Risk exposure		Change in value		Effect on deferred liabilities		Pre-tax profit		Equity reserves before taxation	
€000	Nominal exposure	Fair value exposure	+100bps	-100bps	+100bps	-100bps	+100bps	-100bps	+100bps	-100bps
Financial assets	-	-	-	-	-	-	-	-	-	-
Financial assets at FVTOCI	92,933,151	95,147,290	(5,166,098)	5,166,098	(5,132,320)	5,132,320	-	-	(33,778)	33,778
APRE00062 - Fixed income instruments at FVTOCI	92,433,151	94,622,623	(5,163,669)	5,163,669	(5,129,891)	5,129,891	-	-	(33,778)	33,778
APRE00063 - Other investments at FVTOCI	-	-	-	-	-	-	-	-	-	-
APRE00064 - Structured bonds at FVTOCI	500,000	524,667	(2,429)	2,429	(2,429)	2,429	-	-	-	-
Financial assets at FVTPL	1,577,870	2,206,817	(232,666)	232,666	(231,952)	231,952	(713)	713		
APRE00072 - Fixed income instruments at FVTPL	1,548,175	1,570,985	(29,260)	29,260	(28,546)	28,546	(713)	713		
APRE00071 - Structured bonds at FVTPL	22,000	21,356	(42)	42	(42)	42	-	-	-	-
APRE00073 - Other investments at FVTPL	7,695	614,476	(203,364)	203,364	(203,364)	203,364	-	-	-	-
Derivative assets	-	-	-	-	-	-	-	-	-	-
APRE00111 - Cash flow hedges	-	-	-	-	-	-	-	-	-	-
APRE00112 - Fair Value hedges	-	-	-	-	-	-	-	-	-	-
Financial liabilities	-	-	-	-	-	-	-	-	-	-
Derivative liabilities	-	-	-	-	-	-	-	-	-	-
PPRE00093 - FVTPL liabilities	-	-	-	-	-	-	-	-	-	-
PPRE00091 - Cash flow hedge liabilities	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-
Variability at end of period	94,511,021	97,354,107	(5,398,764)	5,398,764	(5,364,272)	5,364,272	(713)	713	(33,833)	33,833

In terms of **financial assets recognised at fair value through other comprehensive income**, the risk in question primarily regards:

- fixed income government bonds held by the Poste Vita Group, totalling €79,288 million; of this amount, €77,296 million is used to cover Class I and V policies linked to separately managed funds and €1,992 million relates to the company's free capital;
- €15,335 million in other, non-government bonds held by the Poste Vita Group, used mainly to meet obligations towards policyholders in relation to separately managed Class I and V policies, including bonds issued by CDP SpA, totalling €1,634 million, mainly to cover Class I policies.

Within the context of **financial assets at fair value through profit or loss**, fair value interest rate risk concerns a portion of the fixed rate investments of the Poste Vita Group, totalling €2,207 million (consisting of investments with a fair value of €825 million, relating to coupon stripped[5] BTPs and zero coupon bonds primarily covering obligations associated with Class III insurance products, investments with a fair value of €746 million, relating to corporate bonds primarily covering Class I, III and V and to a lesser extent investments of the company's free capital), to "Other investments", represented by mutual funds amounting to €614 million, and bonds issued by CDP SpA with a fair value of €21 million.

With respect to Class I and Class V policies sold by the Parent Company, Poste Vita SpA, the duration of the matching assets went from 6.13 at 31 December 2017 at 6.18 at 31 December 2018, whilst the duration of the liabilities went from 7.84 to 8.18 (assessment of the duration was carried out using the new Coherent Duration method[6]). The financial instruments intended to cover the technical provisions for Class III policies have maturities that match those of the liabilities.

[5] Coupon stripping consists in detaching the interest payment coupons from a note or bond. Coupon stripping transforms each government security into a series of zero-coupon bonds. Each component may be traded separately.

[6] The Coherent Duration of assets and liabilities is defined as changes in the value of assets and liabilities, in proportion to the total amount of assets exposed to interest rate risk, following parallel shocks raising and lowering interest rates by 10 basis points.

Spread risk

This is the risk of a potential fall in the value of bonds held, following deterioration in the creditworthiness of issuers. This is due to the importance that the impact of the spread of returns on government securities had on the fair value of euro zone government and corporate securities, reflecting the market's perception of the credit rating of issuers.

The value of the portfolio of bonds issued or guaranteed by the Italian government is much more sensitive to the credit risk associated with the Italian Republic than to changes in so-called risk-free interest rates. This is due to the fact that changes in credit spreads are not hedged and regard the entire securities portfolio, meaning both the fixed and variable rate components. In this latter case, in fact, fair value derivatives, used to convert variable rate instruments, hedge only the risk-free interest rate risk and not credit risk. This means that a change in the credit spread has an equal impact on both fixed and variable instruments.

2018 witnessed an average increase in the yields on Italian government bonds compared with the previous year and, at 31 December 2018, the spread between ten-year Italian government bonds and German bunds is approximately 250 bps, up on the figure for the previous year (159 bps at 31 December 2017).

The performance of the Poste Vita Group's portfolio in the period under review is as follows:

	Risk exposure		Change in value		Effect on deferred liabilities		Pre-tax profit		Equity reserves before taxation	
€000	Nominal exposure	Fair value exposure	+100bps	-100bps	+100bps	-100bps	+100bps	-100bps	+100bps	-100bps
Financial assets										
Financial assets at FVTOCI	**92,933,151**	**95,147,290**	**(5,805,801)**	**5,805,801**	**(5,752,904)**	**5,752,904**	**(12,232)**	**-**	**(52,897)**	**52,897**
APRE00062 - Fixed income instruments at FVTOCI	92,433,151	94,622,623	(5,779,725)	5,779,725	(5,726,828)	5,726,828	(12,232)	-	(52,897)	52,897
APRE00063 - Other investments at FVTOCI	-	-	-	-	-	-	-	-	-	-
APRE00064 - Structured bonds at FVTOCI	500,000	524,667	(26,076)	26,076	(26,076)	26,076	-	-	-	-
Financial assets at FVTPL	**1,577,870**	**2,206,817**	**(234,960)**	**234,960**	**(234,244)**	**234,244**	**(716)**	**716**	**-**	**-**
APRE00072 - Fixed income instruments at FVTPL	1,548,175	1,570,985	(29,843)	29,843	(29,127)	29,127	(716)	716	-	-
APRE00071 - Structured bonds at FVTPL	22,000	21,356	(1,753)	1,753	(1,753)	1,753	-	-	-	-
APRE00073 - Other investments at FVTPL	7,695	614,476	(203,364)	203,364	(203,364)	203,364	-	-	-	-
Derivative assets	-	-	-	-	-	-	-	-	-	-
APRE00111 - Cash flow hedges	-	-	-	-	-	-	-	-	-	-
APRE00112 - Fair Value hedges	-	-	-	-	-	-	-	-	-	-
Financial liabilities	-	-	-	-	-	-	-	-	-	-
Derivative liabilities	-	-	-	-	-	-	-	-	-	-
PPRE00093 - FVTPL liabilities	-	-	-	-	-	-	-	-	-	-
PPRE00091 - Cash flow hedge liabilities	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-
Variability at end of period	**94,511,021**	**97,354,107**	**(6,040,761)**	**6,040,761**	**(5,987,148)**	**5,987,148**	**(12,948)**	**716**	**(52,897)**	**52,897**

With regard to the Poste Vita Group, the portfolio exposed to this risk amounts to a total fair value of €97,354 million at 31 December 2018, consisting of €95,147 million in financial assets at fair value through other comprehensive income and a remaining €2,207 million in financial assets at fair value through profit or loss. The sensitivity analysis conducted on the overall portfolio shows that a potential 100 bps increase in the spread would generate a reduction in fair value of approximately €6,041 million. Of this change, €5,987 million would be attributed to deferred liabilities due to policyholders under the shadow accounting mechanism, €53 million would be taken to the fair value reserve for securities forming part of free capital and €0.7 million would be recognised in profit or loss.

For the purposes of full disclosure, following an increase in the spread of 100 bps, the Poste Vita Group's fixed income instruments measured at amortised cost, which at 31 December 2018 amount to €1,467 million and have a fair value of €1,578 million, would be reduced in fair value by approximately €99 million, with the change not reflected in the accounts.

In addition to using the above sensitivity analysis, the Poste Vita Group monitors spread risk by calculating its maximum potential losses, through an estimate of Value at Risk (VAR) on statistical bases, over a 1-day time horizon and at a 99% confidence level. Risk analysis performed through VaR takes into account the historical variability of the risk (spread) in question, in addition to modelling parallel shifts of the yield curve.

The following table shows the maximum potential loss computed at 31 December 2018, limited, in terms of materiality, to the financial assets held by the Poste Vita Group.

	Risk exposure		
€000	Nominal exposure	Fair value exposure	SpreadVaR
Financial assets			
Financial assets at FVTOCI	**92,933,151**	**95,147,290**	**1,655,222**
APRE00062 - Fixed income instruments at FVTOCI	92,433,151	94,622,623	1,654,985
APRE00063 - Other investments at FVTOCI			
APRE00064 - Structured bonds at FVTOCI	500,000	524,667	1,391
Financial assets at FVTPL	**1,577,870**	**2,206,817**	**2,821**
APRE00071 - Structured bonds at FVTPL	22,000	21,356	94
APRE00072 - Fixed income instruments at FVTPL	1,548,175	1,570,985	1,774
APRE00073 - Other investments at FVTPL	7,695	614,476	1,035
Derivative assets			
APRE00111 - Cash flow hedges			
APRE00112 - Fair Value hedges			
Derivative liabilities			
PPRE00093 - FVTPL liabilities			
PPRE00091 - Cash flow hedge liabilities			
Variability at end of period	**94,511,021**	**97,354,107**	**1,656,671**

Credit risk

This is the risk of default of one of the counterparties to which there is an exposure, with the exception of equities and units of mutual funds.

Exposure to credit risk

With regard to the financial assets exposed to this risk and to which the accounting rules governing impairment apply, the following table shows the exposure at 31 December 2018, relating to financial assets measured at amortised cost and at fair value through other comprehensive income, for which general deterioration model was used. The analysis shows the exposure by financial asset class by stages. The amounts refer to the gross carrying amount (amortised cost before ECL), unless otherwise indicated, and do not take into account guarantees or other credit enhancements.

Credit risk - Internal ratings

€000

Item	from AAA to AA-			from A+ to BBB-			from BB+ to C			Total			Not rated (carrying amount)	Total carrying amount
	Stage 1			Stage 1			Stage 1							
	Amortised cost before ECLs (GCA)	Fair value	ECL provision	Amortised cost before ECLs (GCA)	Fair value	ECL provision	Amortised cost before ECLs (GCA)	Fair value	ECL provision	Amortised cost before ECLs (GCA)	Fair value	ECL provision		
Financial assets at amortised cost														
Loans										-		-		-
Receivables										-		-		-
Fixed income instruments	-		-	1.460.257	-	(625)	-		-	1.460.257	-	(625)		-
Other investments				-	-	-				-		-		-
Total	-		-	1.460.257	-	(625)	-		-	1.460.257		(625)	-	-
Financial assets at FVTOCI														
Loans										-	-	-		-
Receivables										-	-	-		-
Fixed income instruments	916.126	957.516	(73)	82.274.567	85.203.301	(33.624)	75.599	74.913	(102)	83.266.292	86.235.731	(33.799)		86.235.731
Other investments	-	-	-	500.443	524.667	(264)	-	-	-	500.443	524.667	(264)		524.667
Total	916.126	957.516	(73)	82.775.010	85.727.968	(33.888)	75.599	74.913	(102)	83.766.735	86.760.398	(34.063)	-	86.760.398

Poste Vita Group - Credit risk - External ratings

€000

Item	from AAA to AA-			from A+ to BBB--						from BB+ to C						Totale			Not rated (carrying	Total carrying amount
	Stage 1			Stage 1			Stage 2			Stage 1			Stage 2							
	Amortised cost before ECLs (GCA)	Fair value	ECL provision	Amortised cost before ECLs (GCA)	Fair value	ECL provision	Amortised cost before ECLs (GCA)	Fair value	ECL provision	Amortised cost before ECLs (GCA)	Fair value	ECL provision	Amortised cost before ECLs (GCA)	Fair value	ECL provision	Amortised cost before ECLs (GCA)	Fair value	ECL provision		
Financial assets at amortised cost																				
Loans																-		-		-
Receivables																-		-		-
Fixed income instruments	-		-	7.845	-	(5)	-		-	-		-	-		-	7.845	-	(5)		-
Other investments				-	-	-										-		-		-
Total	-		-	7.845	-	(5)	-		-	-		-	-		-	7.845		(5)	-	-
Financial assets at FVTOCI																				
Loans																-	-	-		-
Receivables																-	-	-		-
Fixed income instruments	674.537	730.223	(36)	6.867.069	6.951.877	(3.462)	35.398	35.532	(53)	666.603	649.580	(2.828)	21.452	19.680	(690)	8.229.661	8.386.892	(7.069)		8.386.892
Other investments																-	-	-		-
Total	674.537	730.223	(36)	6.867.069	6.951.877	(3.462)	35.398	35.532	(53)	666.603	649.580	(2.828)	21.452	19.680	(690)	8.229.661	8.386.892	(7.069)	-	8.386.892

Accounting standards and interpretations applied from 1 January 2018

The following were 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*, 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 reflect the timely recognition of expected impairment losses on financial assets. A detailed description of the main changes introduced by the standard is provided in the paragraph, “Impact of the adoption of IFRS 9 and IFRS 15”.

IFRS 15 - *Revenue from Contracts with Customers*, adopted with Regulation (EU) 1905/2016. The new standard, which will replace IAS 18 - *Revenue*, IAS 11 – *Construction Contracts* and IFRIC 13 – *Customer Loyalty Programmes*, introduces an innovative, single framework that substantially changes the definitions, criteria and methods used for measuring and recognising revenue in the financial statements. A detailed description of the main changes introduced by the standard is provided in the paragraph, “Changes to accounting policies”.

Amendments to IFRS 15 - *Revenue from Contracts with Customers - Clarifications to IFRS 15*, adopted with Regulation (EU) 1987/2017. Certain clarifications are introduced regarding the new treatment of revenue and further application relief is provided to entities that adopt the standard on the basis of the modified retrospective method.

Amendments to IFRS 4 - *Applying IFRS 9 – Financial Instruments with IFRS 4 - Insurance Contracts*, adopted with Regulation (EU) 1988/2017. These amendments aim to address the temporary accounting consequences of the different effective dates of IFRS 9 and the new standard for insurance contracts (IFRS 17), which will replace IFRS 4 presumably starting from 1 January 2041.

Annual Improvements Cycle to IFRSs 2014 - 2016, adopted with Regulation (EU) 182/2018 in connection with the annual projects to improve and revise international accounting standards. The accounting standard affected by the amendments introduced by this Regulation, applicable from 1 January 2018 are IAS 28 – *Investments in Associates and Joint Ventures* and IFRS 1 – *First-time Adoption of International Financial Reporting Standards*.

Amendments to IFRS 2 – *Share-based Payment* adopted with Regulation (EU) 289/2018. The Regulation introduces certain formal amendments and examples, to facilitate an understanding of the situations covered by the standard; it also provides specific indications on the accounting treatment of vesting and non-vesting conditions in case of cash-settled share-based payment transactions. In addition, the Regulation again illustrates the rules on *Share-based Payment Transactions with a Net Settlement Feature for Withholding Tax Obligations*.

Amendments to IAS 40 – *Investment Property* adopted with Regulation (EU) 400/2018. The amendments introduced clarify when an entity is authorised to change the designation of a property that was not an “investment property” as such and vice versa.

Accounting standards and interpretations soon to be effective

The following are applicable from 1 January 2019:

IFRS 16 - *Leases*, adopted with Regulation (EU) no. 1986/2017. The new standard intends to improve the accounting treatment of lease contracts, giving a basis for users of financial statements to assess the effect that leases have on the financial position, operating performance and cash flows of lessees**.** These provisions entail a substantial revision of the current accounting treatment of lease contracts, introducing for lessors a unified model for the different types of lease (finance and operating).

The main provisions for the lessee's financial statements include:

a) for the contracts in scope, the lessee recognises a right-of-use asset in its statement of financial position (in the same way as an owned asset) and a financial liability;

b) at the commencement date, the lessee will recognise the asset for an amount equal to the present value of all future lease payments;

c) at the end of the reporting periods after the commencement date, and throughout the term of the lease contract, the asset is amortised systematically, while the financial liability increases by the amount of interest accrued, as calculated on the basis of the internal rate indicated in the lease contract;

d) when a lease payment is made, the liability is reduced by the amount of the payment.

The scope of the standard does not include short-term contracts (for up to 12 months) and low-value contracts (where the underlying asset does not exceed US$5,000). For these contracts, the lessor may elect not to apply IFRS 16, and to continue with the current accounting treatment.

In this regard, the Group does not currently expect the approaching application of IFRS 16 to have a significant impact.

Amendments to IFRS 9 – *Financial Instruments – Prepayment Features with Negative Compensation* adopted with Regulation (EU) no. 498/2018. The amendments to this standard aim to clarify the classification of certain financial assets with prepayment features when IFRS 9 applies.

Interpretation IFRIC 22 - *Foreign Currency Transactions and Advance Consideration*, adopted with Regulation (EU) 519/2018. This interpretation clarifies the accounting treatment of transactions involving advance receipts or payments in foreign currency.

Interpretation IFRIC 23 - *Uncertainty over Income Tax Treatments*, adopted with Regulation (EU) 1595/2018. This interpretation aims to clarify how to reflect uncertainty in accounting for income tax.

Lastly, as of the reporting date, the IASB has issued certain financial reporting standards, amendments and interpretations not yet endorsed by the European Commission:

- IFRS 17 - *Insurance Contracts*;

- Amendments to IAS 28: *Long-term Interests in Associates and Joint Ventures*;
- Annual improvements cycle to IFRS 2015 - 2017;
- Amendments to IAS 19: *Plan Amendment, Curtailment or Settlement;*
- Amendments to the Conceptual Framework;
- Amendments to IFRS 3: *Business Combinations*;
- Amendments to IAS 1 and IAS 8: *Definition of Material*.

The potential impact on the Poste Vita Group's financial reporting of the accounting standards, amendments and interpretations due to come into effect is currently being assessed.

Adoption of IFRS 9 and IFRS 15

The Poste Vita Group elected to apply IFRS 9 and IFRS 15 as of its effective date, 1 January 2018, without early adoption. Regarding the methods allowed for the transition, it was decided:

- for the transition to IFRS 9, to use the exemption under IFRS 9.7.2.15 whereby the retrospective cumulative effect of the change in accounting standard is recognised as of 1 January 2018 in retained earnings and in the fair value reserve, where appropriate, without restating the comparative prior year accounts;
- for the transition to IFRS 15, to adopt the simplified transition method, whereby the cumulative effect of the change of accounting standard is recognised as of 1 January 2018 in retained earnings, without any restatement of the comparative year-earlier accounts. It also opted not to take into account the so-called "completed contracts" at the transition date, which continue to be recognised in accordance with IAS 18 and related interpretations.

IMPACT OF ADOPTION OF IFRS 9 AND IFRS 15

The Poste Vita Group, in line with the approach adopted at Poste Italiane Group level, elected to apply IFRS 9 – *Financial Instruments* (adopted with Regulation (EU) no. 2067/2016), as of its effective date, 1 January 2018. Regarding the methods allowed for the transition, it was decided to use the exemption under IFRS 9.7.2.15 regarding the effects of the new rules for Classification and Measurement and Impairment, whereby the cumulative effect of the change in accounting standard is recognised as of 1 January 2018 in retained earnings and in the fair value reserve, without restating the comparative prior year accounts.

With regard to Classification and Measurement, based on the provisions of the new accounting standard relating to financial assets, the following business models were identified*:*

• Hold to collect ("HTC"): where the financial asset is held to collect contractual cash flows, in the form of principal and interest, with rare sales and/or limited volumes;

• Hold to collect & sell (“HTC&S”): where the financial asset is held to collect contractual cash flows, in the form of principal and interest, and well as proceeds from its sale;
• Other: this is a residual category which includes financial assets with a business model other than the previous ones, including held-for-trading financial assets.

Equity instruments account for a residual portion of the portfolio compared with the debt securities and shares/units of mutual investment funds held by the Company. Nearly all the shares held are reported at fair value through profit or loss.

With regard to application of the provisions relating to the impairment of financial assets, Poste Vita, in line with the approach adopted at Group level, applies the general impairment model, on the basis of the estimated risk associated with the counterparty:

- Securities/deposits with sovereign and banking counterparties: internal risk rating estimation models;
- Other corporate securities: risk ratings provided by an external provider.

In the case of trade receivables, the simplified approach is applied, with provisions set aside for lifetime expected credit losses.
In line with the approach adopted at Group level, Poste Vita uses stage allocation to assess the degree to which the credit quality of financial instruments has deteriorated, based on ratings of the issuer and other technical and statistical criteria, as well as all other forward looking information of a qualitative and quantitative nature available at the measurement date. This model is defined in keeping with the risk parameters adopted in determining impairment criteria.
In addition, the following criteria are applied in defining default in relation to the issuers of debt securities:

- a 90-day delay in payment by corporate and bank counterparties;
- a delay in payment of even just one day or debt renegotiation in the case of sovereign counterparties.

The risk of default for trade receivables is based on historical collection experience, on the specific nature of the Group’s business and its customers and taking into account the assessment of past due positions, ignoring the default presumption for receivables more than 90 days past due, as indicated in IFRS 9. Poste Vita has not elected to adopt the Low Credit Risk Exemption.

Following the reclassifications carried out, financial assets break down as follows:

- Financial instruments measured at amortised cost, totalling €1,412,393 thousand;
- Financial instruments measured at FVTOCI, totalling €97,131,321 thousand, exclusively relating to debt securities;
- Financial instruments measured at FVTPL, totalling €26,669,439 thousand.

Below, details are provided of the main effects, as of the transition date, resulting from application of the new classification, measurement and expected loss rules.

	Note	BALANCE AT 31 DECEMBER 2017 (IAS 39)	Reclassifications and adjustments				
			Amortised cost	FVTOCI	FVTPL	FVTPL equities	FVTOCI equities
Available-for-sale financial assets		**96,078,863**					
Reclassifications from AFS to amortised cost	i) a)	(1,616,170)	1,616,170				
Effect of reclassifications on carrying amount			(203,162)				
Effect of ECL provisions			(615)				
Reclassifications from AFS to FVTPL	i) c	(1,678,027)			1,678,027		
Effect of reclassifications on carrying amount							
Reclassifications from AFS to FVTOCI	i) b)	(92,784,667)		92,784,667			
Effect of reclassifications on carrying amount							
Held-to-maturity financial assets and loans and receivables							
Reclassifications from HTM to FVTOCI							
Effect of reclassifications on carrying amount							
Reclassifications from loans and receivables to FVTPL							
Effect of reclassifications on carrying amount							
Reclassifications from HTM and loans and receivables to amortised cost							
Effect of ECL provisions							
Financial instruments at FVTPL		**29,338,066**					
Reclassifications from FVTPL to FVTOCI	ii) a)	(4,346,654)		4,346,654			
Effect of reclassifications on carrying amount							
FVTPL	ii) b)	(24,991,412)			24,991,412		
Effect of reclassifications on carrying amount							
Balance of financial assets at 1 January 2018 (IFRS 9)			**1,412,393**	**97,131,321**	**26,669,439**	**-**	**-**

Based on the above-identified business models and the nature of the cash flows resulting from the financial instruments, financial assets have been reclassified as follows:

(i) Reclassification from the available-for-sale category (IAS 39)

a) From AFS to amortised cost: a part of the AFS portfolio (€1,616,170 thousand) has been transferred to the amortised cost category, as these assets are held to collect cash flows representing solely payments of principal and interest. This reclassification has resulted in a reduction in the fair value reserve of €203,162 thousand and an expected credit loss provision of €615 thousand.

b) From AFS to FVTOCI: in full compliance with the HTC&S business model and having passed the SPPI test, the Company opted to continue to measure a part of the AFS portfolio at fair value through other comprehensive income (€92,784,667 thousand), with the related assets reclassified to instruments measured at FVTOCI. This reclassification did not have an impact on either the fair value reserve or retained earnings;

c) From AFS to FVTPL: a part of the AFS portfolio, totalling €1,678,027 thousand, has been reclassified to the FVTPL category as they do not qualify for inclusion in the HTC and HTC&S business models and have not passed the SPPI test or, to a residual extent, they are equity instruments that the Company has not elected to measure at FVOTCI; this reclassification has resulted in a reduction of €498 thousand in the fair value reserve.

ii) Reclassification of financial instruments at fair value through profit or loss (IAS 39)

a) From FVTPL to FVTOCI: this reclassification, totalling €4,346,654 thousand, regards debt securities included in the HTC&S business model and that have passed the SPPI test. This reclassification has resulted in an increase of €1,233 thousand in the fair value reserve.

b) Instruments of €24,991,412 thousand continue to be measured at FVTPL.

iii) Trade and other receivables and other assets

Trade receivables are recognised at their transaction price, in accordance with IFRS 15, whilst other receivables and assets are measured at amortised cost. First-time adoption of IFRS 9 did not entail reclassifications of these items or of derivative financial instruments or of cash. The balance of provisions for doubtful debts was recalculated on the basis of the new impairment model.

	Note	BALANCE AT 31 DECEMBER 2017 (IAS 39)	Reclassifications and adjustments				
			Amortised cost	FVTOCI	FVTPL	FVTPL equities	FVTOCI equities
Derivative financial instruments	iii	183,739			183,739		
Balance at 1 January 2018 (IFRS 9)			-	-	183,739	-	-

	Note	BALANCE AT 31 DECEMBER 2017 (IAS 39)	Reclassifications and adjustments				
			Amortised cost	FVTOCI	FVTPL	FVTPL equities	FVTOCI equities
Other assets	iii	2,358,011	2,358,011				
Effect of ECL provisions	iii		(36)				
Balance at 1 January 2018 (IFRS 9)			2,357,975	-	-	-	-

	Note	BALANCE AT 31 DECEMBER 2017 (IAS 39)	Reclassifications and adjustments				
			Amortised cost	FVTOCI	FVTPL	FVTPL equities	FVTOCI equities
Cash and cash equivalents							
Cash (bank current accounts)	iii	362,831					
Postal current accounts and buffer account	iii	543,974					
Effect of ECL provisions	iii		(14)				
Balance at 1 January 2018 (IFRS 9)			(14)	-	-	-	-

iv) Expected credit losses on financial instruments

The effects of application of the new impairment model, which during the transition had a contra-entry in retained earnings, are outlined below:

a. instruments classified on transition at amortised cost, totalling €1,616,170 thousand, included an expected credit loss provision of €615 thousand. This impairment is applied to the gross value of the financial instrument at amortised cost.

b. trade receivables and other receivables and assets include an expected credit loss provision that has increased provisions for doubtful debts by €50 thousand;

c. impairment losses on instruments classified at FVTOCI, amounting to €1,043 thousand, have been recognised as a change in the fair value reserve.

Impact on the fair value reserve

Reconciliation of the fair value reserve	Note	
Fair value reserve at 31 December 2017 - IAS 39 (AFS) before tax		**257,517**
Tax effects		**(78,627)**
Fair value reserve at 31 December 2017 - IAS 39 (AFS) after tax		**178,890**
Reclassifications from AFS to amortised cost		(203,162)
Reclassification of equity instruments from AFS to FVTPL		
Reclassification of debt securities from AFS to FVTPL		(498)
Reclassification of HTM instruments to FVTOCI		
Reclassification of debt securities from FVTPL to FVTOCI		1,233
Expected credit losses on debt securities at FVTOCI		1,043
Tax effects of change during the period		61,713
Fair value reserve at 1 January 2018 - IFRS 9 (FVTOCI)		**39,219**

Impact on retained earnings of first-time adoption of IFRS 9

The effects of first-time adoption have been recognised in the opening balance of retained earnings at 1 January 2018. Reconciliations between the balances at 31 December 2017 and those at 1 January 2018 are shown below:

Reconciliation of retained earnings	Note	
Retained earnings at 31 December 2017		**1,303,599**
Reclassification of equity instruments from AFS to FVTPL		
Reclassification of debt securities from AFS to FVTPL		498
Reclassification of debt securities from FVTPL to FVTOCI		(2,580)
Reduction due to expected credit losses on debt securities at FVTOCI	**iv) c**	(1,043)
Reduction due to increase in expected credit losses on trade and other receivables and on cash	**iv) b**	(50)
Reduction due to increase in expected credit losses on financial assets at amortised cost	**iv) a**	(615)
Effect of first-time adoption of IFRS 15		
Tax effects		260
Retained earnings at 1 January 2018		**1,300,070**

Impact of first-time adoption of IFRS 15 – Revenue from Contracts with Customers

First-time adoption of IFRS 15 has not had a significant impact on the Poste Vita Group. In this regard, the only reclassification of trade payables, totalling approximately €828 thousand, regarded liabilities resulting from contracts with customers previously accounted for in other liabilities.

PART B – SCOPE OF CONSOLIDATION

The Poste Vita Group's annual report for the year ended 31 December 2017 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 2018, intangible assets amount to €48,157 thousand, compared with €43,363 thousand at 31 December 2017.

(€000)	At 31 December 2018	At 31 December 2017	Increase/(decrease)	
Gross amount	115,998	96,329	19,669	20%
Accumulated amortisation	67,841	52,966	14,875	28%
Carrying amount	**48,157**	**43,363**	**4,794**	**11%**

The following table provides a breakdown:

(€000)	At 31 December 2018	At 31 December 2017	Increase/(decrease)	
Software	93,391	75,720	17,671	23%
Goodwill	17,823	17,823	0	0%
Intangibles in progress	3,896	2,254	1,642	73%
Start-up and expansion costs	888	532	356	67%
Carrying amount	**115,998**	**96,329**	**19,669**	**20%**

This item mainly comprises unamortized long-term software programme licenses, totalling €93,391 thousand.

Software licenses have finite useful lives and are amortised at a rate of 33%, except for internally produced software, amortised over 5 years. No impairment losses were recognised during the year. As required by IAS 36 ("Impairment of Assets"), goodwill, resulting from the difference between the cost of the investment in Poste Welfare Servizi and the corresponding share of equity following Posta Vita's acquisition of this company in November 2015, was tested for impairment to assess whether or not there had 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 2017	Increases	Decreases	At 31 December 2018
Software	75,720	17,671		93,391
- Accumulated amortisation	(52,434)	(14,519)		(66,953)
Goodwill	17,823			17,823
Intangibles in progress	2,254	1,642		3,896
- Accumulated amortisation	-			-
Start-up and expansion costs	532	356		888
- Accumulated amortisation	(532)	(356)		(888)
Total	**43,362**	**4,794**	**-**	**48,157**

2. TANGIBLE ASSETS

Tangible assets total €11,810 thousand, an increase of €3,017 thousand compared with 31 December 2017.

(€000)	At 31 December 2018	At 31 December 2017	Increase/(decrease)	
Gross amount	24,315	18,665	5,650	30%
Accumulated amortisation	12,504	9,871	2,633	27%
Carrying amount	**11,810**	**8,794**	**3,017**	**34%**

The following table shows a breakdown:

(€000)	At 31 December 2018	At 31 December 2017	Increase/(decrease)	
Fixtures and fittings	1,688	1,752	(65)	-4%
Electronic equipment	6,543	4,603	1,940	42%
Telephone system	174	219	(45)	-20%
Motor vehicles	-	2	(2)	-100%
Leasehold improvements	489	514	(25)	-5%
Assets under construction	2,917	1,704	1,213	71%
Carrying amount	**11,810**	**8,794**	**3,017**	**34%**

Other tangible assets primarily relate to assets used in operations: i) fixtures and fittings amounting to €1,688 thousand, net of accumulated depreciation; ii) electronic equipment amounting to €6,543 thousand, net of accumulated depreciation; iii) the telephone system amounting to €174 thousand, net of accumulated depreciation; iv) leasehold improvements amounting to €489 thousand, net of accumulated depreciation, and v) capitalised costs incurred in the development of hardware still in progress and which did not, therefore, generated economic benefits during the period, totalling €2,917 thousand.

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

(€000)	At 31 December 2017	Incrementi	Decrementi	At 31 December 2018
Electronic equipment	12,391	4,007		16,398
- Accumulated depreciation	(7,788)	(2,067)		(9,855)
Fixtures and fittings	2,933	237		3,170
- Accumulated depreciation	(1,181)	(302)		(1,483)
Telephone system	698	50		747
- Accumulated depreciation	(479)	(94)		(573)
Motor vehicles	18			18
- Accumulated depreciation	(16)	(2)		(17)
Leasehold improvements	938	126		1,064
- Accumulated depreciation	(425)	(151)		(576)
Assets under construction	1,704	1,213		2,917
Total	**8,794**	**3,017**		**11,810**

3. TECHNICAL PROVISIONS CEDED TO REINSURERS

At 31 December 2018, these provisions total €72,361 thousand, an increase of €1,118 thousand compared with 31 December 2017 (€71,243 thousand).

(€000)	At 31 December 2018	At 31 December 2017	Increase/(decrease)	
Non-life provisions	**34,099**	**34,903**	**(803)**	**-2.3%**
Premium reserve	6,094	9,230	(3,136)	-34.0%
Outstanding claims provisions	28,006	25,673	2,333	9.1%
Other provisions				
Life provisions	**38,262**	**36,340**	**1,921**	**5.3%**
Outstanding claims provisions	4,645	5,162	(517)	-10.0%
Mathematical provisions	33,616	31,178	2,438	7.8%
Technical provisions where risk is borne by policyholders and pension fund provisions				
Other provisions				
Total	**72,361**	**71,243**	**1,118**	**1.6%**

4. INVESTMENTS

Investments total €126,652,207 thousand at 31 December 2018. This is broadly in line with the €125,962,414 thousand of the end of 2017, reflecting the commercial performance and financial market trends.

(€000)	At 31 December 2018	At 31 December 2017	Increase/(decrease)	
Investments in associates	106,953	106,768	185	0%
Financial assets measured at amortised cost	1,584,135	46,762	1,537,373	n/s
Financial assets at fair value through other comprehensive income	95,147,290	96,078,864	(931,574)	-1%
Financial assets at fair value through profit or loss	29,813,829	29,730,020	83,809	0%
Total investments	**126,652,207**	**125,962,414**	**689,793**	**1%**

Investments in subsidiaries, associates and joint ventures

Investments, amounting to €106,953 thousand (€106,768 thousand), regard the investment in the associate, EGI, accounted for using the equity method.

The Poste Vita Group accounts for its associate, Europa Gestioni Immobiliare SpA (EGI) – primarily a real estate company, 45% owned by the Group and tasked with the management and development of the parent's properties no longer used in operations – using the equity method.

The figures for 2018 show equity of €237,674 thousand and profit for the year of approximately €431 thousand.

The increase in the period is linked to the revaluation of the investment resulting from the Company's share of the associate's profit for the year.

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.

Financial assets measured at amortised cost

Financial instruments measured at amortised cost, consisting securities held to collect cash flows representing solely payments of principal and interest, amount to €1,584,135 thousand at the end of the period (prior to the entry into effect of IFRS 9, these securities were primarily classified as available-for-sale) and regard the Company's free capital.

This item breaks down as follows:

(€000)	**At 31 December 2018**	**At 31 December 2017**	**Increase/(decrease)**	
Equity instruments	-			
Debt securities	1,467,472	-	1,467,472	n/s
of which: government bonds	1,448,366	-	1,448,366	n/s
corporate bonds	19,106	-	19,106	n/s
UCITS units	-	-	-	
Receivables	116,663	46,762	69,901	149%
Total	**1,584,135**	**46,762**	**1,537,373**	**3288%**

Receivables included in this category (amounting to €116,663 thousand at the end of 2018) primarily regard: i) €78,845 thousand (€1,312 thousand at 31 December 2017) representing the balance on the intercompany current account with the parent), and ii) €19,531 thousand (€45,450 thousand at the end of 2017) in accrued coupon interest yet to be collected at 31 December 2018.

The impairment at 31 December 2018 regards loans and receivables measured at amortised cost, recognised as a direct adjustment to the carrying amounts of these assets, amounting to €51 thousand (€17 thousand at 1 January 2018).

Financial assets measured at fair value through other comprehensive income

This item breaks down as follows:

(€000)	At 31 December 2018	At 31 December 2017	Increase/(decrease)	
Equity instruments		18,277	(18,277)	-100%
Debt securities	95,147,290	94,708,554	438,736	0%
of which: government bonds	79,288,623	81,313,657	(2,025,035)	-2%
corporate bonds	15,858,667	13,394,897	2,463,771	18%
UCITS units		1,352,033	(1,352,033)	-100%
Total	**95,147,290**	**96,078,864**	**(931,574)**	**-1%**

Financial assets measured at FVTOCI amount to €95,147,290 thousand at 31 December 2018 (€96,078,864 thousand at 31 December 2017) and regard financial instruments attributable to separately managed accounts, totalling €92,850,464 thousand, and the Company's free capital, totalling €2,296,826 thousand. At the end of the period, these assets regard debt securities issued by European governments and European blue-chip companies. The corporate instruments include securities issued by Cassa Depositi e Prestiti with a fair value of €1,107,479 thousand at 31 December 2018.

The negative performances of the financial markets during the period, above all the increase in the spread between Italian and German government bonds, was reflected in an reduction in the fair value reserve for these instruments, with potential gains amounting to €3,156,629 thousand (€8,089,626 thousand at the end of 2017). These include €3,158,757 thousand relating to financial instruments included in separately managed accounts and therefore attributable to policyholders through the shadow accounting mechanism. The remaining amount of -€2,128 thousand refers to net gains on AFS securities attributable to the Company's free capital and therefore accounted for in a specific equity reserve (equal to -€1,401 thousand), after the related taxation.

The value of the fair value reserve is shown net of expected credit losses. The impairment at 31 December 2018 on fixed income instruments measured at FVTOCI amounts to €41,132 thousand (€43,013 thousand at 1 January 2018), including €40,185 thousand attributable to policyholders through the shadow accounting mechanism.

The Poste Vita Group does not hold shares classified in the FVTOCI category of financial assets. At 31 December 2017, these assets amounted to €18,277 thousand and regarded investments covering Class I products linked to separately managed accounts.

At 31 December 2018, the Parent Company, Poste Vita, does not hold UCITS units measured at FVTOCI. These investments have been reclassified as financial assets measured at FVTPL following first-time adoption of IFRS 9. At 31 December 2017, the fair value of these investments amounted to €1,352,033 thousand and included €833,902 thousand in mutual funds primarily invested in equities, €356,496 in real estate funds and €161,635 thousand in mutual funds 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.

Financial assets measured at fair value through profit or loss

At the end of the period, these assets amount to €29,813,829 thousand, compared with €29,730,020 thousand at the end of the previous year and consist of:

(€000)	At 31 December 2018	At 31 December 2017	Increase/(decrease)	
Equity instruments	166,279	57,174	109,106	191%
Debt securities	1,592,341	6,767,256	(5,174,915)	-76%
of which: government bonds	824,438	2,152,039	(1,327,601)	-62%
corporate bonds	767,903	4,615,217	(3,847,315)	-83%
UCITS units	27,951,533	22,513,637	5,437,895	24%
Derivatives	44,619	183,740	(139,120)	-76%
Receivables	59,056	208,212	(149,156)	-72%
Total	**29,813,829**	**29,730,020**	**83,809**	**0%**

Debt securities of €1,592,341 thousand are down compared with the €6,767,256 thousand of 31 December 2017, reflecting the negative performances of the financial markets. At the end of the period, this item consists of: i) fixed income securities amounting to €1,570,985 thousand (€6,220,333 thousand at 31 December 2017), including €824,438 thousand in coupon stripped BTPs and Zero Coupon bonds for the most part covering Class III policies and €746,547 thousand in corporate bonds issued by blue-chip companies, almost entirely linked to separately managed accounts (€745,348 thousand), with the remaining €1,198 thousand attributable to the Company’s free capital, and ii) structured bonds of €21,356 thousand (€546,516 thousand at 31 December 2017), consisting of securities issued by Cassa Depositi e Prestiti. The overall reduction in structured bonds compared with 31 December 2017 primarily reflects the reclassification, following first-time adoption of IFRS 9, of structured bonds previously classified as financial assets at FVTOCI.

Equity instruments classified in financial assets at FVTPL amount to €166,279 thousand and cover the contractual obligations arising on Class I products linked to separately managed accounts and Class III policies. The increase over the period reflects the combined effect of net investments of approximately €115,152 thousand, proceeds from sales of approximately €1,067 thousand and a fair value loss of approximately €25,390 thousand.

UCITS units total €27,951,533 thousand and regard units of mutual investment funds. Net investment in funds during the period amounts €5,463,345 thousand, with fair value losses amounting to approximately €1,371,308 thousand, transferred almost entirely to Class I policyholders under the shadow accounting mechanism.

At 31 December 2018, the investments primarily regard equity funds, totalling €26,289,688 thousand, units in real estate funds, totalling €1,047,369 thousand, and funds that primarily invest in bonds, totalling €614,476 thousand.

UCITS units totalling approximately €26,600,593 thousand are attributable to separately managed accounts, with €1,350,940 thousand attributable to the Company’s free capital.

In addition, this item includes €25,102,990 thousand in unconsolidated structured entities, whilst €1,503,687 thousand regards funds not included in unconsolidated structured entities, relating for the most part to alternative investment funds.
Derivatives amount to €44,619 thousand (€183,740 thousand at 31 December 2017) and consist of warrants backing index-linked products.
The reduction compared with the previous year reflects sales during the period of €119,351 thousand and a reduction in fair value of €19,924 thousand.

(€000)

Warrants	At 31 December 2018		At 31 December 2017		Increase/(decrease) in FV	
Policy	Nominal value	Fair value	Nominal value	Fair value	change	% change
Titanium	-	-	620,503	44,707	(44,707)	-100%
Arco	-	-	164,500	34,084	(34,084)	-100%
Prisma	-	-	165,785	29,390	(29,390)	-100%
6Speciale	-	-	200,000	0	(0)	-100%
6Aavanti	-	-	200,000	0	(0)	-100%
6Sereno	173,154	11,849	173,154	17,674	(5,825)	-33%
Primula	175,765	10,546	175,765	16,963	(6,417)	-38%
Top5	224,125	9,951	224,125	18,163	(8,212)	-45%
Top5 edizione II	225,625	12,273	225,615	22,758	(10,485)	-46%
Total	**798,669**	**44,619**	**2,149,447**	**183,740**	**(139,121)**	**-76%**

Receivables of €59,056 thousand regard subscriptions and capital calls on mutual funds for which the corresponding units have not yet been issued.

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 €132,569 thousand at the end of the period, having risen €47,152 thousand compared with 31 December 2017, when the figure was €85,417 thousand. This item consists of the following.

(€000)	At 31 December 2018	At 31 December 2017	Increase/(decrease)	
Receivables arising from direct insurance transactions	28,213	44,880	(16,667)	-37%
Receivables arising from reinsurance transactions	7,523	3,601	3,922	109%
Other receivables	96,833	36,936	59,896	162%
Total sundry receivables	**132,569**	**85,417**	**47,152**	**55%**

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 2018, this item amounts to €28,213 thousand, compared with €44,880 thousand at the end of 2017, and consists of the following:

(€000)	At 31 December 2018	At 31 December 2017	Increase/(decrease)	
Due from policyholders	12,873	14,318	(1,446)	-10%
Premiums receivable from agents	14,795	30,263	(15,468)	-51%
Receivables arising from co-insurance agreements	546	299	247	83%
Total	**28,213**	**44,880**	**(16,667)**	**-37%**

Amounts due from policyholders, totalling €12,873 thousand, reflecting uncollected premiums due and payable on the basis of a prudent assessment.
Receivables due from policyholders include €5,925 thousand in uncollected non-life premiums for the year. The remaining €6,948 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 €14,795 thousand at 31 December 2018 (€30,263 at 31 December 2017), 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 2019.
Receivables from co-insurance agreements amount to €546 thousand (€299 thousand at 31 December 2017) 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 €7,523 thousand at the end of the period, compared with €3,601 thousand at the end of the previous year.

This receivable consists of amounts to be recovered from reinsurers for claims and commissions.

Other receivables

Other receivables, amounting to €96,833 thousand at the end of 2018 (€36,936 thousand at 31 December 2017), consist of:

(€000)	At 31 December 2018	At 31 December 2017	Increase/(decrease)	
Due from policyholders for stamp duty	85,288	23,634	61,654	261%
Amounts due from the parent, Poste Italiane	810	450	361	80%
Due from other Group companies	2,905	2,342	563	24%
Miscellaneous receivables	7,830	10,511	(2,681)	-26%
Total	**96,833**	**36,936**	**59,896**	**162%**

Due from policyholders for stamp duty, amounting to €85,288 thousand at the end of 2018, includes €9,080 thousand in amounts due from policyholders as duty provided for in art. 13, paragraph 2-*ter* of the Tariff, part one, annexed to Presidential Decree 642/1972 and payable on Class III and Class V policies (€23,634 thousand at 31 December 2017). The remaining amount of €76,208 thousand refers to the amount due from the tax authorities due to the fact that payments on account made in 2018 exceeded the duty payable on claims paid.

The item, “Amounts due from the parent, Poste Italiane”, totalling €810 thousand, primarily regards invoices to be issued for secondments (€602 thousand) and transfers of personnel (€142 thousand) to the subsidiaries, Poste Vita and Poste Assicura.

The item “Due from other Group companies”, amounting to €2,905 thousand, primarily regards amounts due from Bancoposta Fondi SGR for VAT paid in 2014 on invoices issued for management fees on the investment of insurance assets. This sum has yet to be settled and amounts to €2,006 thousand. This item also relates to the recovery of costs incurred for property rentals, utilities and ancillary services (€241 thousand), amounts due in relation to the transfer of personnel to Postel (€54 thousand), SDA (€1 thousand), Poste Mobile (€48 thousand) and Mistral Air (€13 thousand), and invoices to be issued for secondments of personnel to Poste Italiane (€536 thousand).

“Miscellaneous receivables”, totalling €7,830 thousand, primarily regard: i) the guarantee deposit paid under the lease arrangement for the Group’s head office, totalling €2,984 thousand; ii) amounts due from customers, totalling €1,409 thousand; iii) amounts in the form of premiums collected and yet to be allocated to the related policy, totalling €2,313 thousand, and iv) amounts due from health funds for the uncollected portion of amounts receivable on services provided by the subsidiary, Poste Welfare Servizi (€1,311 thousand).

6. OTHER ASSETS

Other assets total €2,742,827 thousand, an increase of €788,650 thousand compared with 31 December 2017, and include the following:

(€000)	At 31 December 2018	At 31 December 2017	Increase/(decrease)	
Deferred acquisition costs	59,710	61,785	(2,075)	-3%
Deferred tax assets	395,769	12,906	382,862	2966%
Current tax assets	2,287,223	1,878,796	408,427	22%
Sundry assets	126	689	(564)	-82%
Total	**2,742,827**	**1,954,177**	**788,650**	**40%**

Deferred acquisition costs amount to €59,710 thousand at the end of the period (€61,785 at 31 December 2017). They regard unamortised deferred management fees attributable to individual pension plans (*FIP - Forme Individuali di Previdenza*).

Deferred tax assets, amounting to €395,769 thousand, 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.

Movements in deferred tax assets in 2018 are shown below:

(€000)

	At 31 December 2018
Deferred tax assets at 31 December 2017	**12,906**
- change accounted for in the income statement	381,591
- change accounted for in equity	1,272
Deferred tax assets at 31 December 2018	**395,769**

Temporary differences accounted for in the income statement mainly regard the deferred tax assets recognised by Poste Vita, at 31 December 2018, on the basis of the provisions of paragraph 1-*bis* of art. 111 of Presidential Decree 917/1986 (the Consolidated Law on Income Tax), which provides for a partial exemption of movements in the obligatory technical provisions relating to the Life business from taxation. The amount recognised represents the deferred tax assets accruing since the 2010 tax period but recognised in full in the reporting period due to a change during the year in the method of determining such assets, which now uses a calculation process that takes into account each policy, and classified by OIC 29 as "changes in accounting estimates".
Further temporary differences have resulted in the recognition of deferred tax assets on provisions for risks, 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.
Current tax assets, amounting to €2,287,223 thousand (€1,878,796 thousand), primarily regard: i) tax credits on Poste Vita's mathematical provisions under Law 191/2004, totalling approximately €2,139,915 thousand; ii) payments on account for corporate income tax (IRES) and regional income tax (IRAP) for 2018, totalling €139,382 thousand, and iii) payments on account of tax on insurance policies, totalling €6,282 thousand.

(€000)	At 31 December 2018	At 31 December 2017	Increase/(decrease)	
Tax credits on mathematical provisions under Law Decree 209/2002	2,139,915	1,858,430	281,485	15.1%
Payments on account for IRES and IRAP	139,382	16,331	123,052	753.5%
Payments on account of tax on insurance policies	6,282	3,744	2,538	67.8%
Other	1,643	292	1,352	463.3%
Total	**2,287,223**	**1,878,796**	**408,427**	**21.7%**

7. CASH AND CASH EQUIVALENTS

Cash and cash equivalents amounts to €1,574,065 thousand, compared with €907,025 thousand at the end of the previous year.

This item breaks down as follows:

(€000)	At 31 December 2018	At 31 December 2017	Increase/(decrease)	
Bank deposits	1,035,020	366,061	668,959	183%
Post office deposits	539,051	540,960	(1,910)	0%
Cash and other cash equivalents	(6)	4	(10)	-233%
Total	**1,574,065**	**907,025**	**667,039**	**74%**

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 amounts to €3,951,311 thousand at 31 December 2018, an increase of €581,980 thousand compared with the end of 2017. In this respect, the adoption of IFRS 9 from 1 January 2018 reduced equity overall by €143,110 thousand. In particular, the reduction in equity primarily reflects (€139,671 thousand) the reclassification of securities previously classified as "Available-for-sale" to "Financial assets at amortised cost". The reduction is thus due to the loss of unrealised gains on investments included in the Company's free capital and previously reflected in movements in the AFS reserves.

A comparison of equity at 31 December 2018 with the figure at 31 December 2017, after adjusting for IFRS 9, shows an increase of €725,090 thousand. This primarily reflects: i) net profit for the period of €1,003,488 thousand; ii) a reduction in the valuation reserve for assets classified as FVTOCI, including an expected credit loss provision, totalling €40,582 thousand, and iii) distribution of retained earnings of €237,800 thousand to the shareholder, Poste Italiane, in implementation of the shareholder resolution of 22 June 2018. Changes in equity during the period are shown below:

Patrimonio netto

(€000)	At 31 December 2017	Effects of IFRS 9 transition at 1 January 2018	Equity at 1 January 2018	Appropriation of net profit for 2017	Distribution of retained earnings	ECL reserve	FVTOCI reserve	Other gains or losses recognised directly in equity	Net profit for 2018	At 31 December 2018
Share capital	**1,216,608**		**1,216,608**							**1,216,608**
Revenue reserves and other equity reserves:	**1,427,722**	**(3,439)**	**1,424,283**	**546,193**	**(237,800)**			**(26)**	**-**	**1,732,649**
Legal reserve	118,488		118,488	23,772						142,260
Extraordinary reserve	648		648							648
Organisation fund	2,582		2,582							2,582
Negative goodwill	426		426							426
Other reserves	15		15					(7)		8
Retained earnings	**1,305,562**	**(3,439)**	**1,302,123**	**522,421**	**(237,800)**			**(19)**		**1,586,725**
of which: Retained earnings	1,305,562		1,305,562	522,421	(237,800)			(19)		1,590,164
of which: FTA reserve		(3,439)	(3,439)							(3,439)
Reserve for financial assets at FVTOCI	**178,871**	**(139,671)**	**39,200**			**(37)**	**(40,545)**			**(1,382)**
of which: AFS/FVTOCI reserve	178,871	(140,656)	38,215				(40,545)			(2,331)
of which: ECL reserve		985	985			(37)				948
Other gains or losses recognised directly through equity	**(63)**		**(63)**					**11**		**(52)**
Net profit for the period	**546,193**		**546,193**	**(546,193)**					**1,003,488**	**1,003,488**
Total	**3,369,331**	**(143,110)**	**3,226,221**	**0**	**(237,800)**	**(37)**	**(40,545)**	**(15)**	**1,003,488**	**3,951,311**

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

	Net profit/(Loss)	Changes in equity	Equity	Net profit/(Loss)	Changes in equity	Equity
(€000)	*At 31 December 2017*	*At 31 December 2017*	*At 31 December 2017*	*At 31 December 2018*	*At 31 December 2018*	*At 31 December 2018*
Italian GAAP financial statements	**475,505**	**(470,000)**	**2,906,101**	**580,802**	**(237,800)**	**3,249,102**
Measurement of financial assets	34,270	-	249,239	372,301	(3,380)	618,160
Measurement of FVTOCI financial assets less deferred policyholder liabilities	-	(8,542)	170,839	-	(170,025)	814
Actuarial gains/(losses) on employee benefits	-	24	(62)	-	(19)	(82)
Adjustment for deferred acquisition costs	-	-	-	-	-	-
Other minor adjustments	(676)	-	(126)	126	-	-
Parent Company's IAS/IFRS financial statements	**509,100**	**(478,519)**	**3,325,992**	**953,228**	**(411,224)**	**3,867,995**
Consolidated subsidiary's undistributable retained earnings	30,817	53	72,110	48,584	(44)	120,650
Balance of subsidiary's FVTOCI reserve	-	(357)	8,032	-	(10,228)	(2,197)
Measurement of investment using the equity method	6,197	8	(36,803)	1,676	(12)	(35,138)
Elimination of effects of intercompany transactions	79	-	1	-	-	1
IAS/IFRS consolidated financial statements	**546,193**	**(478,815)**	**3,369,331**	**1,003,488**	**(421,508)**	**3,951,311**

2. PROVISIONS

This item includes provisions for risks and charges, totalling €10,600 thousand at 31 December 2018 (€11,393 thousand at the end of 2017), reflect amounts set aside to cover contingent liabilities primarily in relation to:

- outstanding legal disputes, amounting to approximately €5,500 thousand, with over half regarding dormant policies;
- tax liabilities which could arise from ongoing disputes, totalling approximately €2,800 thousand;
- other liabilities of €2,300 thousand.

The reduction in provisions for risks and charges primarily reflects use of a part of the provisions for legal disputes.

3. TECHNICAL PROVISIONS

Technical provisions total €125,146,103 thousand at 31 December 2018, up €1,495,459 thousand on the €123,650,644 thousand of 31 December 2017. Technical provisions break down as follows:

(€000)	At 31 December 2018	At 31 December 2017	Increase/(decrease)	
Non-life classes:				
Premium reserve	83,260	64,252	19,007	30%
Outstanding claims provisions	99,956	95,799	4,156	4%
Other technical provisions	143	174	(31)	-18%
Total Non-life classes	**183,358**	**160,225**	**23,133**	**14%**
Life classes:				
Mathematical provisions	119,416,284	111,013,106	8,403,178	8%
Technical provisions where risk is borne by policyholders	2,652,097	3,530,093	(877,996)	-25%
Outstanding claims provisions	780,186	631,188	148,998	24%
DPL provisions	2,006,689	8,225,030	(6,218,341)	-76%
Other technical provisions	107,489	91,002	16,486	18%
Total Life classes	**124,962,745**	**123,490,419**	**1,472,326**	**1%**
Total	**125,146,103**	**123,650,644**	**1,495,459**	**1%**

Non-life technical provisions

Non-life technical provisions, before provisions ceded to reinsurers, consist of: the premium reserve of €83,260 thousand, outstanding claims provisions of €99,956 thousand and other provisions relating solely to the aging reserve of €143 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 €20,391 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 €107,289 thousand, provisions for supplementary insurance premiums, totalling €30 thousand, and provisions for with-profits policies, amounting to €170 thousand. **Deferred Policyholder Liability (DPL) provisions**, amounting to €2,006,689 thousand at 31 December 2018, are down on the figure for the beginning of the year (€8,225,030 thousand). This reflects the reduction in fair value resulting from financial market trends with respect to the end of the previous year.

With specific regard to provisions for future expenses, during the year the Insurance Office, in prior agreement with the independent auditors, conducted an assessment to verify that the fees covering the cost of claims on new priced policies issued from June 2018 were sufficient. This was aimed at deciding on whether or not to make a non-retroactive change to the method for reserving and pricing, as described in the related technical pricing reports.

The process aimed to assess whether or not management fees, after taking into account the recurring fee passed on to Poste Italiane and the portion covering the additional claims expenses payable on pure life policies, were sufficient, using a deterministic approach based on representative age classes and type of premium. The results showed that, in terms of average portfolio, the available margins are sufficient.

Following the assessment, the Company decided not to make provisions to the additional reserve for future expenses on new priced policies sold from June 2018, whilst retaining the additional reserve for policies sold prior to this date.

4. FINANCIAL LIABILITIES

Financial liabilities break down as follows:

(€000)	At 31 December 2018	At 31 December 2017	Increase/(decrease)	
Financial liabilities at fair value through profit or loss	155	-	155	n/s
Financial liabilities measured at amortised cost	1,020,440	1,011,964	8,476	1%
Total	**1,020,595**	**1,011,964**	**8,631**	**1%**

Financial liabilities measured at amortised cost, totalling €1,020,440 thousand at 31 December 2018, primarily regard: i) €761,145 thousand relating to subordinated bonds issued by the Company in May 2014, including accrued interest on the bonds and the issue discount due in May 2019, and ii) €251,419 thousand regarding subordinated debt with an undefined maturity, issued by Poste Vita and placed in its entirety with the parent, 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.

Financial liabilities measured at fair-value through profit or loss at 31 December 2018 regard a forward sale transaction entered into for hedging purposes and which will be unwound in March 2019. Fair value losses on this transaction at the end of the period amount to €0.2 million.

5. PAYABLES

Payables amount to €222,934 thousand at 31 December 2018 (€199,449 thousand at 31 December 2017). The following table shows a breakdown and movements with respect to the previous year:

(€000)	At 31 December 2018	At 31 December 2017	Increase/(decrease)	
Payables arising from direct insurance transactions	152,923	144,148	8,775	6%
Payables arising from reinsurance transactions	5,336	2,587	2,749	106%
Other payables	64,675	52,714	11,960	23%
Total	**222,934**	**199,449**	**23,485**	**12%**

Payables arising from direct insurance transactions:

(€000)	At 31 December 2018	At 31 December 2017	Increase/(decrease)	
Commissions payable to agents	146,661	141,894	4,767	3%
Amounts due to policyholders	5,444	2,028	3,416	168%
Payables arising from co-insurance agreements	819	226	592	262%
Total	**152,923**	**144,148**	**8,775**	**6%**

Commissions payable to agents, totalling €146,661 thousand (€141,894 thousand at 31 December 2017), refer almost entirely to invoices to be received from the parent, Poste Italiane, for commissions earned on the sale of insurance products in late 2018 and to be settled in the first quarter of 2019.

Amounts due to policyholders, totalling €5,444 thousand (€2,028 thousand at 31 December 2017), 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 €819 thousand (€226 thousand at 31 December 2017), 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 2018 amount to €5,336 thousand (€2,587 thousand at 31 December 2017). This item includes amounts payable for premiums ceded under reinsurance treaties in effect at the date of presentation of the financial statements and attributable to the fourth quarter of 2018.

Other payables

This item, totalling €64,675 thousand at the end of 2018 (€52,714 thousand at 31 December 2017), breaks down as follows:

(€000)	At 31 December 2018	At 31 December 2017	Increase/(decrease)	
Trade payables	31,735	29,069	2,666.3	9.2%
Due to Poste Italiane Group suppliers	11,450	11,740	(289.9)	-2.5%
Due to employees	6,492	5,050	1,442.5	28.6%
of which post-employment benefits	2,883	2,681	202.3	7.5%
Due to MEF	4,000	938	3,061.6	326.3%
Payables arising from fund purchases	9,986	2,406	7,579.8	315.0%
Sundry payables	1,011	3,511	(2,499.9)	-71.2%
Total	**64,675**	**52,714**	**11,960.5**	**22.7%**

Trade payables of €31,735 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 (€11,450 thousand) relates to the following: i) amounts payable to the parent, Poste Italiane (€5,345 thousand) primarily for IT services (€2,220 thousand), Call Centre services (€547 thousand), secondments (€519 thousand) and transfers of personnel (€150 thousand) and other expenses for employees (€1,006 thousand); II) amounts due to other investees of Poste Italiane, primarily relating to services rendered by Postel (€1,858 thousand), Postepay (€118 thousand), SDA (€1 thousand), EGI (€93 thousand), Bancoposta Fondi SGR (€756 thousand) and Anima SGR (€2,721 thousand), the secondment of personnel to SDA (€7 thousand) and Mistral Air (€28 thousand) and, finally, transfers of personnel to Postepay (€22 thousand).
Further details of 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 €4,000 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 2019.

The amount of payables arising from fund purchases, amounting to €9,986 thousand, refers to funds purchased and not yet paid for at the end of 2018, totalling €4,045 thousand, and fees payable to internal fund managers, amounting to €5,941 thousand.

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.

Under this method, the accrued benefit is measured on a pro-rated on service basis at the measurement date, considering each period of service as giving rise to an additional unit of benefit entitlement and measuring each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligation and the related current service cost, plan benefits are attributed to periods of service under the plan’s benefit formula. This obligation arises as employees render services in return for post-employment benefits which an entity expects to pay in future reporting periods. The expected benefits are then discounted to present value at the measurement date using the assumed discount rate.

Actuarial gains and losses result from changes in the assumptions used or from movements in the relevant population in the observed period, as illustrated below. In accordance with IAS 19, actuarial gains and losses are recognised in other comprehensive income (OCI).

The interest cost for 2017 has been recognised in finance costs, whilst other provisions for the year have been accounted for in personnel expenses.

Movements in this liability during the year are summarised as follows:

(€000)	**At 31 December 2018**	**At 31 December 2017**	**Increase/(decrease)**	
Opening balance*	**2,681**	**2,560**	**121**	**5%**
Merger				
Service cost	226	236	(10)	-4%
Interest cost	33	33	0	-1%
Benefits paid	(88)	(59)	(29)	50%
Transfers in/(out)	50	21	29	138%
Actuarial (gains)/losses	(18)	(109)	91	-83%
Closing balance	**2,883**	**2,681**	**202**	**8%**

Actuarial gains recognised during the period are based on the sum of the following components:

Details of actuarial gains/losses	**At 31 December 2018**
Actuarial gains/(losses) due to movements in the relevant population	16
Actuarial gains/(losses) due to changes in financial assumptions	2
Total	**18**

The main actuarial assumptions applied in calculating provisions for post-employment benefits ("*TFR*") at 31 December 2018 are shown below and compared with those used at the end of 2017:

Economic and financial assumptions	At 31 December 2018	At 31 December 2017
Discount rate	1.250%	1.250%
Inflation rate	1.500%	1.500%
Nominal rate of future salary increases	0% - 2.346%	1.000% - 2.388%
Date of survey of participants	1 December 2018	31 December 2017

Demographic assumptions	At 31 December 2018
Mortality	ISTAT 2017 differentiated by gender
Disability	INPS 1998 differentiated by gender
Rate of employee turnover	from 1% to 2% per annum for all ages
Advance rate	from 1% to 2% per annum for all ages
Pensionable age	In accordance with INPS rules

6. OTHER LIABILITIES

These items amount to €882,452 thousand at the end of 2018, compared with €789,651 thousand at the end of the previous year, and break down as follows:

(€000)	At 31 December 2018	At 31 December 2017	Increase/(decrease)	
Deferred tax liabilities	288,901	202,182	86,719	43%
Current tax liabilities	587,222	578,015	9,207	2%
Other liabilities	6,329	9,454	(3,125)	-33%
Total	**882,452**	**789,651**	**92,801**	**12%**

Movements in deferred tax liabilities in 2018 are shown below:

	At 31 December 2018
Deferred tax liabilities at 31 December 2017	**202,182**
- change accounted for in the income statement	165,274
- change accounted for in equity	(78,555)
Deferred tax liabilities at 31 December 2018	**288,901**

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 financial assets measured at fair value through other comprehensive income belonging to Poste Vita and Poste Assicura.

Current tax liabilities amount to €587,222 thousand at 31 December 2018 (€578,015 thousand at the end of 31 December 2017).

(€000)	At 31 December 2018	At 31 December 2017	Increase/(decrease)	
Advance payment in relation to reserve for Law Decree 209/2002	517,781	488,974	28,807	6%
Stamp duty payable	9,080	54,686	(45,605)	-83%
Withholding tax payable on individual pension plans (FIP) and on Life policies	46,997	23,005	23,992	104%
Current tax expense	5,719	8,409	(2,690)	-32%
Other	7,645	2,941	4,703	160%
Total	**587,222**	**578,015**	**9,207**	**2%**

This item refers primarily to tax due on mathematical provisions for 2018, amounting to €517,781 thousand, up 6% on the beginning of the year due to the increase in mathematical provisions during the period, and stamp duty payable at 31 December 2018 on financial policies included in Life Classes III and V, totalling €9,080 thousand. This latter amount is down on the figure for the end of 2017 (€54,686 thousand) due to Class III reaching maturity during the period.
Withholding taxes payable on amounts paid out on life policies amount to €46,997 thousand at 31 December 2018. These taxes are payable for the month of December and will be paid in the following month.
Current tax liabilities of €5,719 thousand regard IRES and IRAP due after payments on account during the period.

Other liabilities

Other liabilities amount to €6,329 thousand at 31 December 2018 (€9,454 thousand at 31 December 2017) and primarily regard unpaid salaries and accrued vacation pay due to personnel.

PART D – NOTES TO THE CONSOLIDATED INCOME STATEMENT

1.1 NET PREMIUM REVENUE

Consolidated net premium revenue amounts to €16,720,291 thousand, down €3,622,651 thousand on the €20,342,941 thousand of last year.

Gross premium revenue amounts to €16,797,067 thousand, an 18% reduction compared with 2017 (€20,404,611 thousand). Total outward reinsurance premiums amount to €55,026 thousand for 2018, compared with €54,048 thousand in 2017.

for the year ended 31 December (€000)	**2018**	**2017**	**Increase/(decrease)**	
Gross Life premium revenue	16,609,903	20,263,362	(3,653,459)	-18%
Gross Non-life premium revenue	187,164	141,249	45,915	33%
Total gross premium revenue	16,797,067	20,404,611	(3,607,543)	-18%
Change in gross premium reserve	(19,007)	(10,149)	(8,858)	87%
Gross premium revenue	16,778,060	20,394,461	(3,616,401)	-18%
Outward Life reinsurance premiums	(17,645)	(19,751)	2,105	-11%
Outward Non-life reinsurance premiums	(37,381)	(34,297)	(3,084)	9%
Total outward reinsurance premiums	(55,026)	(54,048)	(978)	2%
Change in share of premium reserve attributable to reinsurers	(2,743)	2,529	(5,272)	-208%
Outward reinsurance premiums	(57,769)	(51,520)	(6,250)	12%
Total net premium revenue	**16,720,291**	**20,342,941**	**(3,622,651)**	**-17.8%**

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

1.2 FEE AND COMMISSION INCOME

Fee and commission income is generated from the management of internal funds linked to unit-linked products and amounts to €19,844 thousand, an increase of €8,376 thousand compared with 2017 (€11,468 thousand) as a result of the increase in assets under management.

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

Financial assets at fair value through profit or loss generated a loss of €914,488 thousand, compared with net income of €1,004,288 thousand in 2017. The change in this item reflects net fair value losses in 2018 (€1,501,650 thousand), compared with net fair value gains (€467,905 thousand) recognised in the previous year, reflecting financial market trends.

(€000)					
Year ended 31 December 2018	**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	**81,689**	**521,574**	**(16,101)**	**(1,501,650)**	**(914,488)**
Year ended 31 December 2017					
Income and expenses from financial assets at fair value through profit or loss	**109,502**	**466,465**	**(39,584)**	**467,905**	**1,004,288**
Increase/(decrease)	**(27,813)**	**55,109**	**23,483**	**(1,969,555)**	**(1,918,776)**

1.4 - 1.5 - 2.4 NET INCOME FROM INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES, FROM OTHER FINANCIAL INSTRUMENTS AND INVESTMENT PROPERTY

This item totals €2,815,858 thousand, compared with €2,490,987 thousand in 2017, and breaks down as follows:

(€000)

Finance income/costs for year ended 31 December 2018	Interest	Other income (expenses), net	Total ordinary income	Net realised gains/(losses)	Net unrealised gains/(losses)	Total income (expenses), net for 2017
Income and expenses from financial assets at FVTOCI	2,221,847	(3,692)	2,218,155	220,272	1,881	2,440,308
Income and expenses from financial assets measured at amortised cost	411,365		411,365		(49)	411,315
Income from cash and cash equivalents	7		7			7
Income and expenses from other financial liabilities measured at amortised cost	(35,966)		(35,966)			(35,966)
Income and expenses from investments in associates					194	194
Total	**2,597,253**	**(3,692)**	**2,593,561**	**220,272**	**2,025**	**2,815,858**
Finance income/costs for year ended 31 December 2017	**Interest**	**Other income (expenses), net**	**Total ordinary income**	**Net realised gains/(losses)**	**Net unrealised gains/(losses)**	**Total income (expenses), net for 2017**
Income and expenses from financial assets at FVTOCI	2,382,083	46,538	2,428,621	193,953	(104,775)	2,517,799
Income from cash and cash equivalents	(288)		(288)			(288)
Income and expenses from other financial liabilities measured at amortised cost	(27,354)		(27,354)			(27,354)
Income and expenses from investments in associates					829	829
Total	**2,354,442**	**46,538**	**2,400,980**	**193,953**	**(103,946)**	**2,490,987**
Increase/(decrease)	242,812	(50,231)	192,581	26,319	105,971	324,871

Net income from investments classified as financial assets measured at fair value through other comprehensive income, totalling €2,440,308 thousand, is down on the figure for 2017 (€2,517,799 thousand).

Net unrealised losses of €104,775 thousand recognised in 2017 were entirely attributable to the impairment loss on the investment in the Atlante Fund recognised during the period, including:

- €92,686 thousand allocated to separately managed accounts and thus reflected in deferred liabilities due to policyholders;
- €12,089 thousand relating to the Company's free capital.

A small part of net expenses of approximately €35,966 thousand (€27,354 thousand in 2017) relates primarily to interest expense on subordinated debt, totalling €29,090 thousand, and commission expense payable to the parent, Poste Italiane, on ancillary own funds, totalling €5,070 thousand.

1.6 OTHER REVENUE

This item amounts to €14,575 thousand for 2018 (€14,327 thousand in 2017) and primarily regards: i) revenue from ordinary activities at Poste Welfare Servizi SRL, totalling €10,261 thousand; ii) the reversal of commissions for previous years, totalling €1,084 thousand; iii) the recovery of personnel expenses and rental expense on the Company's head office, totalling

€1,562 thousand; iv) the recovery of claims paid in previous years, totalling €83 thousand; and v) other expenses for employees (€132 thousand).

2.1 NET CLAIMS EXPENSES

Total claims expenses, after the share attributable to reinsurers, total €17,125,127 thousand, compared with €22,351,461 thousand in 2017.

Total amounts paid, including allocated settlement costs and the change in technical provisions, amount to €17,146,729 thousand for 2018, compared with €22,370,598 thousand for 2017. These expenses break down as follows:

for the year ended 31 December *(€000)*	2018	2017	Increase/(decrease)	
Non-life business				
Claims paid	30,980	22,518	8,462	38%
Change in outstanding claims provisions	4,099	6,704	(2,605)	-39%
Change in other technical provisions	(31)	(42)	12	-28%
Costs of settling claims	4,904	3,262	1,642	50%
Total Non-life business	**39,953**	**32,441**	**7,511**	**23%**
Life business				
Claims paid	10,883,104	10,830,518	52,585	0%
Change in mathematical provisions	8,417,430	14,693,171	(6,275,741)	-43%
Change in technical provisions where the investment risk is borne by policyholders and deriving from pension fund management	(877,996)	(3,369,672)	2,491,677	-74%
Change in other technical provisions	(1,328,466)	172,850	(1,501,316)	-869%
Costs of settling claims	12,704	11,290	1,414	13%
Total Life business	**17,106,776**	**22,338,157**	**(5,231,381)**	**-23%**
Total claims paid and change in technical provisions	**17,146,729**	**22,370,598**	**(5,223,869)**	**-23%**

The share attributable to reinsurers amounts to €21,602 thousand, compared with €19,136 thousand for the previous year, and breaks down as follows:

for the year ended 31 December *(€000)*	2018	2017	Increase/(decrease)	
Non-life business				
Claims paid	9,597	6,873	2,723.5	39.6%
Change in outstanding claims provisions	2,333	- 169	2,502.3	-1476.9%
Change in other technical provisions				
Costs of settling claims	334	196	138.6	70.8%
Total Non-life business	**12,264**	**6,900**	**5,364.4**	**77.7%**
Life business				
Claims paid	7,402	8,965	(1,563.0)	-17.4%
Change in outstanding claims provisions	(517)	(953)	435.7	-45.7%
Change in mathematical provisions	2,438	4,224	(1,785.8)	-42.3%
Costs of settling claims	15		14.6	n/s
Total Life business	**9,338**	**12,237**	**(2,898.5)**	**-23.7%**
Total claims paid and change in technical provisions	**21,602**	**19,136**	**2,466**	**12.9%**

2.5 OPERATING COSTS

Operating costs for the period amount to €505,227 thousand, down from €577,555 thousand in 2017.

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

for the year ended 31 December *(€000)*	2018	2017	Increase/(decrease)	
Non-life business				
Commissions and other acquisition costs:	36,499	29,652	6,847.6	23.1%
Acquisition commissions	32,244	25,067	7,176.4	28.6%
Other acquisition costs	4,256	4,585	(328.8)	-7.2%
Commissions and share of profit received from reinsurers	(19,864)	(16,353)	(3,511.0)	21.5%
Total Non-life business	**16,635**	**13,299**	**3,336.6**	**25.1%**
Life business				
Commissions and other acquisition costs:	383,700	452,999	(69,298.8)	-15.3%
Acquisition commissions	343,719	415,066	(71,346.7)	-17.2%
Other acquisition costs	39,981	37,933	2,047.9	5.4%
Commissions and share of profit received from reinsurers	(2,022)	(1,879)	(142.4)	7.6%
Total Life business	**381,679**	**451,120**	**(69,441.2)**	**-15.4%**
Investment management expenses	**42,805**	**45,472**	**(2,667.3)**	**-5.9%**
Other administrative expenses	**64,108**	**67,664**	**(3,556.1)**	**-5.3%**
Total operating costs	**505,227**	**577,555**	**(72,328)**	**-12.5%**

Acquisition commissions, net of the change in unamortised deferred acquisition costs, amounting to €375,963 thousand in 2018 (€440,133 thousand in 2017) reflect commissions related to the sale of insurance products. Commissions relating to long-term contracts are amortised in accordance with ISVAP Regulation 22 of 4 April 2008. The decrease on the comparable amount for the previous year is due mainly to the decline in premium revenue. Commissions are set on the basis of written arm's length agreements entered into with the parent, Poste Italiane SpA.

Other acquisition costs, amounting to €44,237 thousand (€42,518 in 2017), 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 €21,886 thousand (€18,232 thousand in 2017) 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 €64,108 for 2018, compared with €67,644 in 2017.

Investment management expenses amount to €42,805 thousand for 2018, compared with €45,472 for 2017. These include portfolio management fees of €26,289 thousand, fees for the custody of securities, totalling €2,218 thousand, and overheads of €14,298 thousand allocated to this item. The increase in these costs is due to growth in the portfolio.

2.6 OTHER COSTS

This item amounts to €106,422 thousand for 2018, compared with €91,808 thousand for 2017. These costs relate mainly to:

- maintenance commissions paid to the agent, totalling €62,750 thousand;
- withholding tax of €16,662 thousand payable on revaluations of mathematical provisions for pension products;
- €17,060 thousand relating to the reversal of premiums for previous years;
- €2,153 thousand in premiums ceded to reinsurers, relating to previous year;
- accrued charges incurred by the Company in relation to dormant policies, totalling €3,810 thousand;
- overheads of €1,511 thousand allocated to this item;
- the share of the profit passed on to policyholders under the terms of the relevant policies, totalling €159 thousand.

3 INCOME TAX EXPENSE

The income tax benefit for the period, amounting to €84,886 thousand, consists of current IRES and IRAP expense of €131,430 thousand and net deferred tax income of €216,316 thousand.

(€000)	**Year ended 31 December 2018**
Current taxation	131,430
- IRES	109,797
- IRAP	21,633
Deferred taxation:	**(216,316)**
- deferred tax liabilities arising during the period	165,754
- deferred tax liabilities used during the period	(480)
- deferred tax assets arising during the period	(387,280)
- deferred tax assets used during the period	5,689
Total	**(84,886)**

The table below reconciles the effective tax charge and the tax charge resulting from application of the statutory IRES tax rate of 24%. 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 2018	
	Amount	Tax rate
Profit before tax	918.602	
Income tax based on statutory tax rate (only IRES at 24%)	220.464	24%
Non-deductible interest expense	284	0,03%
Non-deductible extraordinary expenses	442	0,1%
Tax free dividends	(184)	0,0%
Deduction of IRAP from IRES	(520)	-0,1%
ACE (aid for economic growth) relief	(5.017)	-0,6%
Other	(358.911)	-39,1%
Corporate income tax (IRES)	**(143.443)**	**-15,62%**
IRAP (regional business tax)	58.557	6,37%
Income tax benefit for the period	**(84.886)**	**-9,24%**

The item "Other" primarily reflects income recognised following recognition, in 2018, of deferred tax assets accruing between 2010 and 2017 on the basis of the provisions of paragraph 1-*bis* of art. 111 of Presidential Decree 917/1986 (the Consolidated Law on Income Tax), which provides for a partial exemption of movements in the obligatory technical provisions relating to the Life business from taxation. These assets amount to €350,746 thousand.

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 2017.
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

(€000)

ASSETS	2017	2016
Non-current assets	**56,567,289**	**54,301,941**
Current assets	**19,241,304**	**19,243,242**
Non-current assets held for sale	**-**	**384,309**
TOTAL ASSETS	**75,808,593**	**73,929,492**

EQUITY AND LIABILITIES	2017	2016
Equity		
Share capital	1,306,110	1,306,110
Reserves	1,431,627	2,186,144
Retained earnings	2,774,353	2,667,931
Total	**5,512,090**	**6,160,185**
Non-current liabilities	**7,705,623**	**11,098,719**
Current liabilities	**62,590,880**	**56,670,588**
TOTAL EQUITY AND LIABILITIES	**75,808,593**	**73,929,492**

POSTE ITALIANE SpA

STATEMENT OF PROFIT OR LOSS
for the year ended 31 December

(€000)

	2017	2016
Revenue from sales and services	8,060,293	8,218,553
Other income from financial activities	645,722	598,784
Other operating income	584,162	477,863
Total revenue	**9,290,177**	**9,295,200**
Cost of goods and services	1,665,585	1,703,796
Other expenses from financial activities	40,429	44,350
Personnel expenses	5,877,140	5,992,142
Amortisation, depreciaton and impairments	480,482	504,355
Capitalised costs and expenses	(12,220)	(3,806)
Other operating costs	459,126	254,804
Operating profit/(loss)	**779,635**	**799,559**
Finance costs	149,743	65,166
Finance income	42,999	44,594
Profit before tax	**672,891**	**778,987**
Income tax expense	55,926	153,646
Net profit for the period	**616,965**	**625,341**

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 and claims management.
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 2018		At 31 December 2017	
	Assets	Liabilities	Assets	Liabilities
Associate	139,003	93	106,768	
Other related parties	1,267,565	420,414	1,210,379	406,107
Total	**1,406,568**	**420,507**	**1,317,147**	**406,107**

(€000)

Related party	At 31 December 2018		At 31 December 2017	
	Income	Costs	Income	Costs
Associate	431	376	829	224
Other related parties	19,360	492,355	16,335	530,950
Total	**19,791**	**492,731**	**17,164**	**531,174**

The term “Related parties within the Group” refers to companies within the Poste Italiane Group.

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 2018, subordinated loan notes, totalling €250 million (€250 million at 31 December 2017) and issued by the Company, have been subscribed for by the parent. The notes provide a market rate of return reflecting the creditworthiness of the Company.
At 31 December 2018, assets include the value of the investment in the associate, Europa Gestioni Immobiliare SpA (EGI), totalling €139,003 thousand, whilst revenue includes the Group's share of the associate's profit for the year, amounting to €431 thousand. In addition to the relations with the parent, Poste Italiane, 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, Anima SGR);
- printing, enveloping and mail delivery through information systems; management of incoming mail, the dematerialization and filing of printed documentation (Postel);
- courier services (SDA);
- mobile telephone and software rental (Postepay);
- Term Life Insurance (Postel, EGI, Postepay, Mistral Air, Poste Tributi) and Accident Insurance (Bancoposta Fondi SGR);
- electricity supply (EGI).

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

The term "Related parties external to the Group" refers primarily to unlisted securities issued by the Cassa Depositi e Prestiti group (€546,023 thousand) and the related finance income (€15,543 thousand); the amount payable to the MEF for dormant policies (€4,000 thousand) and the cost of the Enel group's share of profits (€128 thousand) under the Term Life Insurance policy obtained from Poste Vita.

PERSONNEL

The number of people directly employed by the Poste Vita Insurance Group (expressed in full-time equivalent terms) at 31 December 2018 is 553, compared with 535 at 31 December 2017.

Workforce breakdown	At 31 December 2018	At 31 December 2017	Increase/(decrease)
Executives	35	36	(1)
Middle managers	206	191	15
Operational staff	308	302	6
Personnel on fixed-term contracts	4	6	(2)
Direct employees	**553**	**535**	**18**

With a view to exploiting potential synergies within the Poste Italiane Group, and with the aim of ensuring an increasingly effective response to the needs of the business and the Group's principal market, during the year, the Parent Company, Poste Vita, began the process of redesigning and streamlining its operating model in order to boost efficiency. This has resulted in the centralisation of technical support for sales force training and the procurement of goods and services within the Parent Company, following on from adoption of the same solution for communication activities.

The Parent Company, Poste Vita, continues to carry out certain activities relating to administration, IT systems, marketing and internal controls (internal auditing, compliance and risk management and actuarial procedures), and staff functions (human resources, legal affairs, general services and administration, etc.). Since December 2017, the Parent Company, Poste Vita, also provides administrative and tax advisory services to the subsidiary, Poste Welfare Servizi.

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 amount to €186 thousand. Fees paid for services relating to the audit of reports for the separately managed accounts (€67 thousand), the conduct of compliance reviews for the annual reports prepared for internal insurance funds (€132 thousand) and the audit of the accounts of the investee, Poste Assicura SpA (€187 thousand), and of the subsidiary, Poste Welfare Servizi Spa (€22 thousand) are paid to the audit firm, PricewaterhouseCoopers SpA, which carries out these services.

Events after 31 December 2018

Composition of corporate bodies

Following the Board of Directors' meeting held on 26 February 2019, the below changes were made to the composition of the Board of Directors of the Parent Company, Poste Vita:

- Director: Vladimiro Ceci *in place of Antonio Nervi;*
- Director: Maria Cristina Vismara *in place of Dario Frigerio*.

The same Board of Directors' meeting also appointed:

- Vladimiro Ceci as Chairman of the Internal Audit and Related Party Transactions Committee in place of Guido Maria Nola;
- Guido Maria Nola as Chairman of the Remuneration Committee in place of Antonio Nervi.

The composition of both the above committees also changed with the appointment of Maria Cristina Vismara as an independent member in place of Dario Frigerio.

In addition, in relation to the subsidiary, Poste Assicura, following the Ordinary General Meeting of shareholder held on 20 February 2019, the following changes were made to the composition of the subsidiary's Board of Directors:

- Chairman of the Board of Directors: Vladimiro Ceci in place of Maria Bianca Farina;
- Director: Benedetta Sanesi in place of Giacomo Riccitelli.

The Board of Directors, meeting on the same date, and without prejudice to the powers provided for by law and the articles of association, granted the Chairman of the Board of Directors authority with regard to Corporate Governance and Corporate Affairs.

Authorisation to use ancillary own funds

On 13 February 2019, Poste Vita requested and was granted authorisation to include an unconditional, irrevocable commitment, with a five-year term, from the parent, Poste Italiane, to subscribe for ordinary shares amounting to up to €1,750 million in its Tier 2 ancillary own funds.

Rome, 29 March 2019

The Board of Directors