Gruppo Postevita

Posteitaliane

Single Solvency and Financial Condition Report of Poste Vita Group at 31 December 2018

Gruppo Postevita

Posteitaliane

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Summary and objectives of this report

This "Single Solvency and Financial Condition Report" is the annual public disclosure of the Poste Vita SpA Group for 2018, prepared as required by Chapter XII of Delegated Regulation (EU) no. 2015/35, by Commission Implementing Regulation (EU) 2015/2452 – supplementing the provisions of Directive no. 2009/138/EC on Solvency II - and by IVASS Regulation no. 33 of 6 December 2016. The Report was approved by the Company's Board of Directors on 30 April 2019.

Moreover, this report is consistent with the provisions of Legislative Decree no. 209 of 7 September 2005 (Code of Private Insurance), as subsequently amended by Legislative Decree no. 74 of 12 May 2015.

Pursuant to IVASS Regulation no. 42/2018, laying down provisions on the independent audit of Disclosure, this Single Report is accompanied by the reports of the auditing firms on the following information contained therein relating to Poste Vita SpA Group, Parent Company Poste Vita SpA and subsidiary Poste Assicura SpA:

- Balance sheet at current market value, as represented by template "S.02.01.02 Balance sheet" and related information in section "D Valuation for solvency purposes";
- Own funds, as represented by templates "S.23.01.22 – Own Funds" (except the Solvency capital requirement and the Minimum consolidated capital requirement) and Group level and "S.23.01.11 – Own Funds" at the individual level (except the Solvency capital requirement and the Minimum consolidated capital requirement) and the related information in section "E.1 Own funds".

Moreover, it is specified that, pursuant to articles 4 paragraph 1, sub-paragraph c) and 5 paragraph 1 sub-paragraph c) of IVASS Regulation no. 42/2018, the reports of the auditing firms contain also the audits of individual and Group Solvency Capital Requirements, through a limited audit, related to the following sections of this document:

- Solvency Capital Requirement (SCR) and Minimum Capital Requirement (MCR), included in templates "S.25.01.21 – Solvency requirement for undertakings on Standard Formula" (individual SCR), "S.25.01.22 – Solvency requirement for groups on Standard Formula" (group SCR), and "S.28.02.01 – Minimum capital requirement for both life and non-life insurance activity" (MCR of Poste Vita SpA), "S.28.01.01 – Minimum capital requirement" (MCR of Poste Assicura SpA) and the information contained in Section "E.2 – Solvency Capital Requirement and Minimum Capital Requirement".

In keeping with the previous year, the Poste Vita Group and Poste Vita SpA and Poste Assicura SpA, with the consent of their respective Boards of Statutory Auditors, appointed PricewaterhouseCoopers SpA as the independent auditor for 2018.

Lastly, attached herewith are all the quantitative reporting templates provided for by articles 4 and 5 of Implementing Regulation (EU) 2015/2542 for the individual Companies and or the Poste Vita Group.

The report, which is aimed at providing clear and exhaustive disclosures within the scope of Solvency II, is organised as follows:

- Section A illustrates the Group's activity, its composition and the underwriting and investment performance for the year.
- Section B provides an overview of the system of governance, including the requirements of the management and control bodies, as well as a description of the Group's Control Functions.
- Section C analyses the risks to which the Poste Vita Group is exposed, and the related assessment methods, with a description of the main mitigation techniques and the results of stress tests.
- Section D illustrates the valuation methods adopted to value assets and liabilities (including BEL and Risk Margin) for Solvency II purposes as opposed to local GAAP.
- Section E focuses on the representation of the Group's solvency, providing information on the composition and classification of own funds and on the individual risk sub-modules of the Solvency Capital Requirement (SCR).

In the report, monetary amounts are in thousands of euros, as this is the functional currency of the Poste Vita Group. As such, numbers expressed in thousands of euros may not add up due to rounding.

This report has been published on the website of Poste Vita Group www.postevita.poste.it.

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.

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 €112,125 thousand, with a slight decrease from the comparable amount for 2017, totalling €113,193 thousand, primarily due to the reduction in the cost of consultants' fees and of external professionals.

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] on the change in mathematical provisions, totalling €384.6 million, **net profit for the year** amounts to €1,003.5 million, compared with €546.2 million for 2017.

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[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.

As to **Solvency II indicators**, the Insurance Group's solvency position at 31 December 2018 showed eligible own funds of €8,259 million, down €263 million from €8,522 million at the end of 2017. By contrast, 2018 saw an increase in total capital requirements of approximately €860 million (up from €3,050 million at the end of 2017 to €3,910 million at 31 December 2018). These changes caused a decrease in the Solvency Ratio, from 279% at 31 December 2017 to 211% at 31 December 2018.

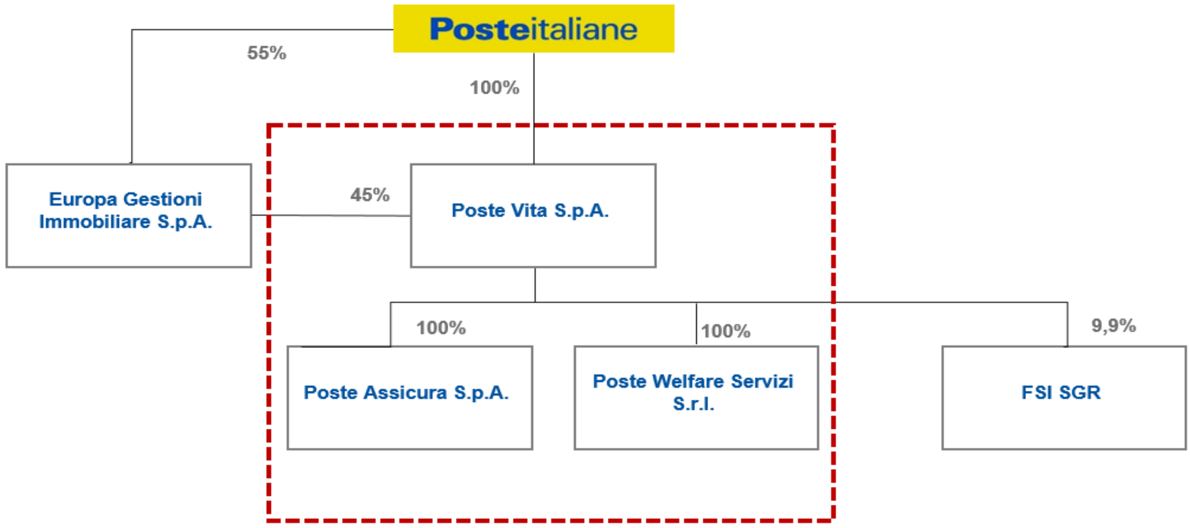
(€000)

Solvency II KPI	31/12/2018	31/12/2017	Change
Own funds eligible to cover SCR	8,259,119	8,522,237	-263,118
Own funds eligible to cover MCR	7,259,799	7,481,412	-221,613
Solvency Caital requirement (SCR)	3,909,824	3,050,385	859,439
Minimum Capital Requirement (MCR)	1,781,552	1,391,624	389,928
Solvency Ratio	211.24%	279.38%	-68.14%
Eligible Own Funds to MCR	427.50%	557.60%	-130.10%

The decrease in the Solvency Ratio was due, mainly, to trends in financial markets from May 2018, which had a negative impact on the fair value of the financial assets held by the Group.

A – BUSINESS AND PERFORMANCE

The Poste Vita insurance Group's current structure and 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.

Regarding the **Parent Company, Poste Vita**, in the year under review operational activities were mainly designed to consolidate market leadership in life insurance, with traditional life

policies and pension plans, whilst also developing Class III products. The Company's gross Life premium revenue for the year amounted to €16.6 billion, reflecting a slowdown from the previous year (€20.3 billion), which was accompanied however by a significant rebalancing of premium revenue by business. Class III revenue stood at €740.1 million, with a significant increase on the €537.2 million of 2017 (up 38%), driven by inflows into the *PIR* (*Piano Individuale di Risparmio*) and multiclass products.
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. Accordingly, 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.
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 €84.7 million, a sum that was in line with the €85.5 million for 2017. This resulted in EBITDA for the year of €310.0 million, reflecting a decrease with respect to the €743.1 million for 2017. Considering the applicable income tax, which in 2018 benefited from the recognition of deferred tax income on non-deductible changes in mathematical provisions, totalling €384.6 million, net profit for the period amounts to €580.8 million, compared with €475.5 million for 2017.

In terms of the subsidiary **Poste Assicura**, in 2018 the Company continued to operate in keeping with the strategic guidelines set in its business plan and promoting, in particular, products that would meet customers' requirements in the welfare and healthcare fields, the expansion of its offering and the optimization of the network's support model. The Company generated premium revenue of €187.2 million, up 33% on the comparable year-earlier amount (€141.3 million), driven by all its business lines. The positive commercial performance was accompanied also by an equally positive underwriting result, as incurred losses rose at a lower rate than premiums. Operating costs as a share of earned premiums fell from 17.5% for the previous year to 13.5% in 2018. The combined ratio stands at 56.5%, up 5 percentage points on 2017. Based on the above, net profit for the year was €42.5 million, up €28.6 million on the comparable amount for 2017.

Concerning the **subsidiary Poste Welfare Servizi**, during the period, in keeping with the previous years, the Company carried out its activity in keeping with its Articles of Association, providing mainly administrative, technical and contribution management services as well as handling services and agreements with healthcare facilities on behalf of the Health Funds. In addition, in view of the Group synergies achieved, during the year the company continued to provide claim payment services on behalf of Poste Assicura, in relation to the Health and Accident segment. Total revenue for the period amounted to €11.3 million, up €1.5 million on 2017 (€9.8 million). This was due mainly to the increase of approximately €1.1 million in revenue related to the handling of claims paid in relation to certain products on behalf of sister company Poste Assicura and the increase of approximately €0.3 million in revenue from the Health Funds.

With reference to the organisational aspects, during the period, the Company continued to carry out projects to support its business growth. Accordingly, operating costs totalled €6.9 million, an amount in line with the comparable figure for 2017 (€6.6 million).

Based on the above, net profit for the year ended 31 December 2018 amounted to €3.3 million, up €0.7 million on the €2.6 million for the year ended 31 December 2017.

Europa Gestioni Immobiliare is a company owned by Poste Vita SpA, with a 45% equity interest, and by Poste Italiane SpA, with a 55% equity interest, which engages in the management and improvement of the Parent Company's properties no longer used in operations. Moreover, following the takeover of Poste Energia, in 2015 the company began to operate in the electricity market as a specifically licenced "wholesale" buyer, continuing to supply power to the Poste Italiane Group, the activity previously carried out by Poste Energia. The figures for 2018 show equity of €237.7 million and net profit of approximately €0.4 million, down from the €1.8 million of 2017.

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.

Qualitative and quantitative information on significant intercompany transactions

The Parent Company, Poste Vita, is a wholly-owned subsidiary of Poste Italiane SpA, which performs direction and coordination activities for the Group.

Dealings with Poste Italiane SpA, which owns all the shares outstanding, are governed by written agreements and conducted on an arm's length basis and relate mainly to:

- the provision of a subordinated loan (€243,419 thousand) by Poste Italiane;
- bank deposits of approximately €604,636 thousand;
- policy sale commissions of €29,317 thousand.

With reference to Poste Assicura SpA, dealings with Poste Italiane relate mainly to:

- bank deposits of approximately €4,396 thousand;
- policy sale commissions of €29,317 thousand;

- software maintenance services of €657 thousand.

Lastly, Poste Vita and Poste Assicura have significant intercompany transactions, relating mainly to:

- seconded staff used by the Company;
- operational organisation activities and use of the equipment necessary to carry out activities;
- operational management of activities to comply with occupational health and safety obligations;
- operational management of activities to comply with privacy regulations;
- operational marketing and communication, development and management of information systems and administrative and accounting activities;
- centralisation of such functions as internal control, actuarial, human resources and organisation, legal and corporate affairs, procurement and general services, management planning and control, investment and treasury management, tax filings, training and support to network and program management of strategic projects.

Lastly, Poste Assicura had significant intercompany transactions with Postel SpA and Poste Welfare Servizi relating mainly to mail room management and the payment of claims.

A.1 Business

The Parent Company, Poste Vita SpA, a corporation with a Sole Shareholder, is an insurance company with registered office in Viale Beethoven, 11 – 00144 Rome, Tax code, VAT code and registration number in the Rome Companies Register 07066630638 and administrative and index (REA) number 934547. Poste Vita was authorised to engage in insurance and reinsurance activities pursuant to ISVAP measures no. 1144 of 12 March 1999, no. 1735 of 20 November 2000, no. 2462 of 14 September 2006 and no. 2987 of 27 June 2012 and is entered in section I of the Register of insurance undertakings under no. 1.00133.

The Company is the Parent of the “Poste Vita Insurance Group”, entered in the register of insurance groups under no. 043.

At the General Meeting of 29 April 2014, the Company’s shareholders approved the appointment as independent auditors of BDO Italia SpA, a firm with registered office in Milan, Viale Abruzzi, 94, share capital of €1,000,000, fully paid-in, Tax code, VAT Code and Milan Companies Register no. 07722780967, and Milan economic and administrative index (REA) number 1977842, entered in the Auditor Register under no. 167911 with Ministerial Decree of 15 March 2013, Official Gazette no. 26 of 2 April 2013.

BDO Italia SpA, a corporation organised under the laws of Italy, is a member of BDO International Limited, a company limited by guarantee organised under the laws of England and is part of the BDO international network, which is made up of independent companies.

Poste Vita SpA is an insurance company specialising in life insurance products and is authorised to engage in the following insurance classes:

Life business:

- Class I – Insurance on human life length;
- Class III – Insurance under class I linked to investment funds;
- Class IV – LTC and permanent health insurance;
- Class V – Capitalisation;
- Class VI – Pension funds.

Non-life business:

- Class 1 – Accident;
- Class 2 – Medical.

The Parent Company distributes, mainly, its products through Poste Italiane SpA - BancoPosta RFC, an insurance intermediary entered in section D of the Single Register of Insurance Intermediaries (RUI) which, in addition to placement activities, trains salespeople, with support from the Company, performing its activities in Italy.

As of the date of this report, there were no significant corporate changes and/or mergers and acquisitions that had a substantial impact on the business.

On 13 February 2019, IVASS authorised (protocol no. 0052335/19) the use of ancillary own funds (AOFs) in Tier 2 own funds to cover capital requirements. These AOFs are represented by an irrevocable and unconditional commitment by Poste Italiane SpA to subscribe for new ordinary shares to be issued by the Company in one or more tranches amounting to up to €1.75 billion over five years.

In addition, the regulator also approved (protocol no. 0052336/19) the amendment to article 6 of the Articles of Association – "Share capital and shares" – which attributes to the Board of Directors the power to increase - in whole or in part, for five years after the resolution date, in one or more issues – the share capital through the issue of ordinary shares ranking equally with existing shares, for a price, inclusive of a share premium, of €1.75 billion.

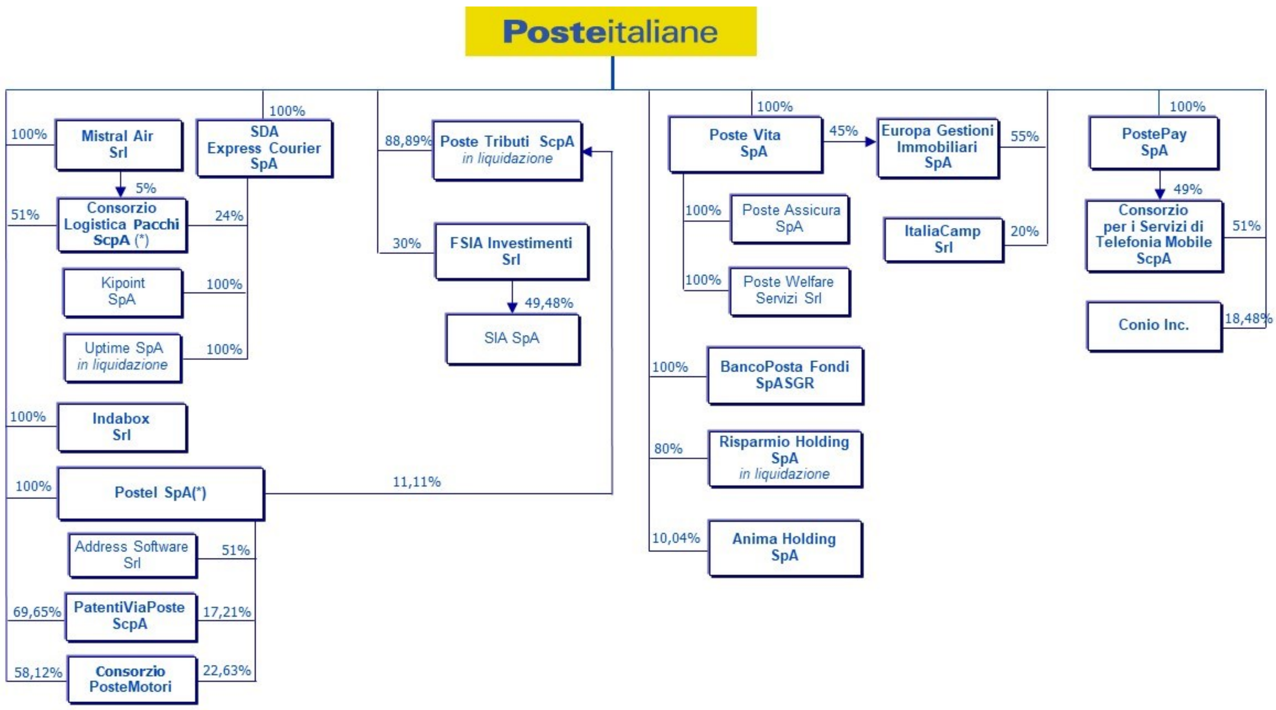
Poste Vita SpA is wholly owned by Poste Italiane SpA, an issuer listed on *Mercato Telematico Azionario* (MTA) organised and managed by Borsa Italiana SpA, with registered office in Viale Europa, 190, 00144 – Rome, Tax code and Rome Companies Register no. 97103880585, economic and administrative index number 842633 and VAT code 01114601006.

Poste Vita SpA, a Poste Italiane Group company, subject to the direction and coordination of Poste Italiane SpA, is the Parent Company of the "Poste Vita Insurance Group", which:

- in its capacity as Parent Company of the Poste Vita Insurance Group holds a 100% interest in Poste Assicura SpA, an insurance company registered in Italy;
- holds 45% of Europa Gestioni Immobiliari SpA, with the remaining 55% held by Poste Italiane, a company registered in Italy and engaged in the maintenance and improvement of the real estate portfolio transferred to it by Poste Italiane in 2001;
- holds 100% of Poste Welfare Servizi Srl, a company registered in Italy, which engages in the provision of services and payments on behalf, among others, of private healthcare funds, supplying supplementary health insurance, operating in the design, development and maintenance of software products and rendering professional IT services;
- lastly, for the sake of full disclosure, Poste Italiane SpA holds a non-qualifying, non-controlling 9.9% equity interest in FSI Società di Gestione del Risparmio SpA, or FSI S.G.R. SpA for short, a company headquartered in Italy which promotes and manages investment funds pursuant to Legislative Decree 58 of 24 February 1998, as subsequently amended (Consolidated Law on Finance) and the relevant implementing provisions.

The chart below depicts the structure of the Poste Italiane Group at 31 December 2018.

PRINCIPAL DIRECT AND INDIRECT INVESTMENTS HELD BY POSTE ITALIANE AT 31 DECEMBER 2018



(*) Il restante 20% del capitale sociale del Consorzio Logistica Pacchi S.c.p.A. è detenuto da Postel S.p.A

Without prejudice to the above regarding intercompany transactions, it is worthy of note that, based on Poste Vita's "Policy on Intercompany Transactions" (Document prepared pursuant to IVASS Regulation no. 30 of 26 October 2016):

a) in line with the stance of the Regulator, transactions entered into by Poste Vita and Poste Assicura with the Ministry of the Economy and Finances and its subsidiaries and investees that are not controlling shareholders or investees of Poste Vita and Poste Assicura do not qualify as intercompany transactions;

b) for the purposes of the foregoing Policy, transactions entered into by Poste Vita and Poste Assicura with Cassa Depositi e Prestiti SpA and the companies subject to its direction and coordination qualify as intercompany transactions, given the 35% equity interest of Cassa Depositi e Prestiti SpA in Poste Italiane;

c) in line with the approach adopted in the Scope of Related and Connected Parties of Poste Italiane at 31 December 2018, transactions with Anima Holding and its subsidiaries qualify, for the purposes of the above Policy, as intercompany transactions.

Poste Assicura SpA, a corporation with a Sole Shareholder, is an insurance company with registered office in Viale Beethoven, 11 – 00144 Rome, Tax code, VAT code and registration number in the Rome Companies Register 07140521001 and economic and administrative index (REA) number 1013058. Poste Assicura was authorised to engage in insurance activities pursuant to ISVAP measure no. 2788 of 25 March 2010 and is entered in section I of the register of insurance undertakings no. 1.00174. The Company is part of the "Poste Vita Insurance Group", which is entered in the register of insurance groups under no. 043 and is also supervised by IVASS, the Institute for Insurance Supervision;

With a resolution dated 22 April 2010, the General Meeting of Shareholders of Poste Assicura appointed PricewaterhouseCoopers SpA as independent auditor for the 2010-2018 period. This firm's registered office is in Milan at Via Monte Rosa 91, its share capital amounts to €6,890.000.00 fully paid in, its Tax Code, VAT Code and Milan Companies Register no. is 12979880155, and it is entered in the Register of Auditors under no. 119644;

Poste Assicura SpA is wholly owned by Poste Vita SpA and is subject to the direction and coordination of the Parent Company of the Poste Vita Insurance Group, which in turn is part of the Poste Italiane Group. As of the date of this report, the Company does not hold investments in other companies.

The subsidiary is an insurance undertaking specialising in the non-life business and is authorised (since March 2010) to engage in the following businesses:

- Class 1 – Accident;
- Class 2 – Medical;
- Class 8 – Fire and natural forces;

- Class 9 – Other damage to property;
- Class 13 – General liability;
- Class 16 – Financial loss;
- Class 17 – Legal expenses;
- Class 18 – Assistance.

Poste Assicura distributes its products through the post offices of the parent, Poste Italiane SpA – BancoPosta RFC which, in addition to performing placement activities, trains the sales force with support from the Company. The Company carries out its activities in Italy.

As of the date of this report there were no significant corporate actions and/or Mergers and Acquisitions with a substantial impact on the business and the Company.

A.2 Performance of underwriting activities

The results described below are contained in QRT S.05.01.02, where detailed information on premiums, claims and expenses by line of business (LoB) is provided, in accordance with Commission Delegated Regulation (EU) 2015/35, on the basis of local GAAP.

Underwriting results – Poste Vita SpA

Regarding the Life business, in 2018 the Parent Company, Poste Vita, acted in accordance with the business lines and priorities set out last year. In particular, it pursued the strengthening of its leadership in the life market and growth in the protection and welfare segment.

The Parent Company's total premium revenue amounted to €16.6 billion, which was 3% lower than budget. However, there was a rebalancing of the lines of business, with total premium revenue for the multiclass product of €1.0 billion, up on the €0.4 million budget target and up on the €0.4 billion recorded in 2017. There was a positive performance from pension products which, at €1.1 billion, came in 27% higher than budget. Traditional with-profits products generated premium revenue of €14.5 billion, which was 5% lower than budget, while unit-linked products generated premium revenue of €0.4 billion, which was 59% lower than budget.

As such, premium revenue for 2018 declined by 18.0% from the comparable amount in 2017. The table below shows premium revenue by LoB.

(€000)

Line of Business	2018	2017	change
Insurance with profit participation	15,770,984	19,657,213	-19.8%
Index-linked and unit-linked insurance	740,129	537,221	37.8%
Other life insurance	79,750	52,128	53.0%
Health insurance (direct business)	19,042	16,800	13.3%
Total	**16,609,905**	**20,263,362**	**-18.0%**

The year just ended saw a significant increase in pure risk products (up 53.0% on 2017) and index-linked and unit-linked products (up 37.8% on 2017). On the other hand, medical products increased moderately (up 13.3% on 2017), while savings products decreased (down 19.8% from 2017).

Claims paid in 2018, before those attributable to reinsurers, amount to €10.9 billion, compared with the €10.83 billion of 2017, as shown in the table below:

(€000)

Line of Business	2018	2017	change
Insurance with profit participation	9,369,864	6,810,132	37.6%
Index-linked and unit-linked insurance	1,487,411	4,005,466	-62.9%
Other life insurance	23,398	15,749	48.6%
Health insurance (direct business)	2,193	(824)	366.1%
Total	**10,882,866**	**10,830,523**	**0.5%**

In 2018 this item rose substantially for pure risk products (up 48.6% on 2017) and for savings products (up 37.6% on 2017).
Claims increased significantly in health insurance (up 366.1% on 2017) and decreased sharply in relation to index-linked and unit-linked products.

Total expenses by LoB in 2018 for the Parent Company, Poste Vita, still with reference to the figures reported in the QRT S.05.01, declined by approximately 13% from 2017, driven mainly by a decrease in acquisition commissions:

(€000)

Line of Business	2018	2017	change
Insurance with profit participation	443,142	458,707	-3.4%
Index-linked and unit-linked insurance	25,653	95,586	-73.2%
Other life insurance	13,259	1,435	824.2%
Health insurance (direct business)	388	462	-16.0%
Total	**482,443**	**556,190**	**-13.3%**

The table below provides an expense breakdown:

(€000)

	2018	2017	change
Administrative expenses	38,485	40,331	-4.6%
Investment management expenses	41,366	42,967	-3.7%
Claims management expenses	11,125	9,792	13.6%
Acquisition expenses	375,178	446,878	-16.0%
Overhead expenses	16,288	16,222	0.4%
Total	**482,443**	**556,190**	**-13.3%**

Information on any substantive risk mitigation techniques

The Parent Company, Poste Vita, ever mindful of the importance of sound and prudent business and risk management practices, chose to pursue a reinsurance policy in the life insurance business also in the year just ended. In particular, it chose to use the following techniques:

- Treaty reinsurance;
- Facultative reinsurance.

Within the two groups, treaties may be "proportional" or "non-proportional". Use of either technique is based on the characteristics of the portfolio in terms of size and homogeneity of the insured capital.

A sufficiently broad and homogeneous risk portfolio allowed Poste Vita not to use quota share proportional treaties in the retail market in 2019 and 2018.

On the other hand, the peculiarity of the Corporate portfolio requires flexibility regarding possible reinsurance choices, depending on the risks to be insured. The substantial homogeneity of insured capital in the individual collective contracts allows the Parent Company to act autonomously in such sectors as group life insurance and TPD (total permanent disability), thanks to its own internal technical competencies, which enable it to manage risks within the well-known confidence intervals with which such technical competencies were built. However, to mitigate group life insurance and TPD risks and to reduce the casual fluctuations determined by claims with very high insured capital in relation to the expected margins on the collective policy portfolio, Poste Vita deemed appropriate, after running a number of stress tests, to enter in surplus share treaties also in 2019, so as to cede risks that exceed, for individuals in group policies, €300,000.

The Parent Company's experience with Critical Illness and group LTC products (limited technical competencies and underwriting know-how) is not such as to allow it to operate autonomously and LTC risks, given the volume of premiums obtained, are ceded with proportional treaties. On the other hand, the reinsurance treaty for Critical Illness was terminated, given the small size of the portfolio.

Treaty reinsurance:

Currently, Poste Vita has the following treaties in place:

1. Catastrophe Life Insurance Treaty: for Retail (*Affetti Protetti*) and Group (including permanent disability – corporate market) life insurance products, Poste Vita entered into a catastrophe treaty with Swiss Re Europe SA, covering multiple deaths due to a single catastrophe for a year, effective 1 January 2019;
2. Excess of Loss Treaty: for Group life insurance products (including permanent disability) an excess of loss treaty was entered into, with the reinsurance of 100% of all insured capital in excess of €300,000, for up to €1,700,000 of insured capital, and with a profit-sharing provision in favour of the cedent equal to 50% of profit. The treaty's effective date is 1 January 2019 and will last indefinitely, with both parties entitled to terminate it by 30 September of each year. The treaty was signed with Swiss Re Europe SA;
3. Quota share LTC treaty: for Long Term Care policies sold to corporate customers a treaty was entered into, involving the reinsurance of a quota share of 50% of the premium, net of commissions, with a profit-sharing provision in favour of the cedent equal to 80% of profit. The treaty took effect on 1 March 2017 with expiration two years thereafter. The treaty was entered into with RGA International Reinsurance Company Limited;

As a consequence of the above, in terms of portfolio breadth and homogeneity, in January 2016 the proportional treaty signed with Swiss Re Europe SA for the *Affetti Protetti* life insurance portfolio (retail market). This treaty called for the cession of 50% of premiums and claims for capital insured up to €100,000 and 100% for amounts in excess thereof. As they are annual premium policies, the Parent Company continues to cede the premiums of the policies sold before termination of the treaty.

Then, at the end of 2017 the Parent Company terminated reinsurance treaties on single-premium loan and mortgage CPI policies, whereby the reinsurer will continue to participate for claims and unused premium returns, in case of early repayments. Other terminated treaties include those on LTC retail and the life insurance product Da Grande, for which, like life insurance products, the Parent Company will continue to cede the recurring premiums of the policies sold before termination of the treaties.

Facultative reinsurance

Generally speaking, this type of reinsurance makes it possible to reinsure special risks not provided for in other treaties, reinsure sums and values in excess of the limits set in existing treaties, reduce exposure in areas where the insurer has large exposures.

The rationale of facultative treaties is the same as that for reinsurance treaties. In particular, the facultative reinsurance policy is equally intended to seek a balance in the corporate portfolio through a prudential risk layoff to stabilize medium-term results.

In 2018 Poste Vita used the following facultative reinsurance treaties:

4. Coverage of "Class IV Group Long Term Care for CIPAG": the treaty, which called for quota share reinsurance for 50% of the premiums, was signed with RGA International Reinsurance Company Limited and expired on 15 April 2018.
5. As of July 2017, and until 31 January 2019, a facultative treaty for excess of loss for the head of the group that purchased a group life insurance policy for Seat (Managing Director of Seat Pagine Gialle), for which catastrophe and excess of loss treaties are in place. The treaty covers the amount in excess of €900,000, up to €1,500,000. The treaty was entered into with XL RE EUROPE SE.
6. Starting from 1 January 2018, for the life insurance and life insurance + TPD of Victor Insurance's Agency, purchased through Marsh SpA, the Parent Company ceded, based on the commercial arrangements signed, a portion of the quota share business pursuant to a facultative treaty. The portfolio covered is under co-insurance arrangements (80% Poste Vita and 20% Swiss Life). The part acquired by Poste Vita was then ceded to five reinsurers (Axa France Vie, 10%, Catlin Underwriting Agencies Limited, 10%, Scor Global Life SE, 22.50%, Mapfre Re Compañía De Reaseguros, 12.50%, S.A Toa Re Insurance Co. Ltd., 10%).

A necessary condition to operate in the various reinsurance areas with Poste Vita is a rating by one of the identified rating agencies - Standard & Poor's - Moody's – Fitch – not lower than:

- Standard & Poor's: [A-]
- Moody's: [A3]
- Fitch: [A-].

Impact of risk mitigation techniques

Reinsurance is a key instrument to manage and mitigate risk and to optimise capital requirements.

The former is obtained by transferring risk to reinsurers, thereby reducing the cedent's risk capital.

Capital requirements are optimised instead with the "stabilisation of results", which thanks to reinsurance minimise variances determined by a greater frequency of claims or catastrophic losses, limiting exposure to individual risks and reducing portfolio losses during the period in which policies are in force.

These results can be seen through an in-depth analysis of the premiums collected and ceded. The impact of reinsurance should be assessed for every line of business.

The analysis carried out on the two lines of business currently reinsured for the parent Company, Poste Vita, revealed a slight margin decrease, net of reinsurance, for Health Insurance (from 88% to 87%). However, the Company's experience in class IV products (limited availability of technical competencies and underwriting know-how) prevent it from proceeding autonomously and use of reinsurance is an effective method to be operational in this area, with

the possibility in the meantime to gain experience and expertise from the reinsurance partners, as described previously.
Regarding the “Other Life Insurance” segment, the higher net margin (from 71% to 75%) confirmed that the decision to use reinsurance for pure risk Class I products in 2018 was correct.

Indication of effectiveness of risk mitigation techniques
From time to time, the Parent Company, Poste Vita, tests the effectiveness of reinsurance techniques for profitability and need.
The tests performed are based on statistical and probabilistic methods, depending on the business to which they refer.
For example, to reinsure class I individual and collective policies tests are run to project premium revenue and claims and to evaluate profitability under pre- and post-reinsurance scenarios.
Through these tests the Parent Company determines constantly any amount to be ceded to reinsurance.

The analysis performed in 2017 on the retail treaties still in place led the Parent Company not to renew the expiring treaties (LTC *Postapersona SemprePresente* and life insurance of the *Postafuturo Da Grande* product) and to cancel those that are automatically renewed every year (loan and mortgage CPI *Postaprotezione*).
For CPI policies, in fact, as shown by simulations, Poste Vita ceded to reinsurance more profits and premiums than necessary to mitigate risks.
For 2019 it was deemed appropriate not to cede new portfolios; this decision was made following observation of the unwinding of the amounts ceded in run-off portfolios in 2018.
To evaluate the cession in reinsurance of LTC, a more recent product that Poste Vita had decided to cede in reinsurance as it did not have available its own demographic statistics, the Company simulated the performance of the product for the next 40 years, using the morbidity rates provided by the reinsurer. In the absence of further time series on LTC claims, assumptions on the duration of the annuity were made on the basis of the life tables of a non-self-sufficient person. A simulation was made also to compare claim trends, assuming that the Company will pay to each policyholder an annuity for at least 10 years (Poste Vita has an even more conservative assumption).
The results for both simulations showed that, also 40 years from now, in the absence of cession in reinsurance, the Poste Vita margin would still be positive, thanks to the good pricing set internally by the Company.
Hence, the decision not to renew the treaty, corroborated also by the fact that the portfolio did not increase over the past few years.

For the collective policy portfolio, in view of the expiration of the Excess of loss treaty on 31 December 2018, covering life insurance and life insurance + TPD in excess of €300,000, a new analysis of reinsurance requirements was performed. The Parent Company’s intention was to consider the renewal of the treaty considering the increase in rates proposed by Swiss Re on TPD insurance, following observation of claims associated with the portfolio in 2017.

The analysis was conducted on the policies sold in 2018.
Considering that, during the year, new contracts might be added to the portfolio for amounts much greater than €300,000, and that the stress tests, 99.5th percentiles, showed that Poste Vita's margin on these contracts would be higher with reinsurance, it was deemed appropriate to renew the Excess of loss treaty, despite the premium increase.

Underwriting results – Poste Assicura SpA

Regarding the **non-life business**, analysis of the 2018 technical indicators for Poste Assicura show:

- the continuing growth of premium revenue for the business as a whole, which was up 32.5% on the previous year;
- the substantial stability of the overall Loss Ratio, which stood at around 23.8%.

Comment on performance

At 31 December 2018, Poste Assicura's gross written premiums amounted to approximately €187.2 million (up 32.5% on 2017). The table below shows gross written premiums by line of business:

(€000)

Line of Business	GWP 31 December 2018	% dist.	GWP 31 December 2017	% dist.	Change	% change
Property and asset protection	37,563	20.1%	32,668	23.1%	4,895	15.0%
Personal protection	79,749	42.6%	73,405	52.0%	6,343	8.6%
Credit protection	44,409	23.7%	29,916	21.2%	14,493	48.4%
Professional indemnity	25,446	13.6%	5,260	3.7%	20,185	383.7%
Total	**187,166**	**100.0%**	**141,250**	**100.0%**	**45,916**	**32.5%**

It is noted that the premium volumes related to the Property and Asset Protection line rose by 15% on the previous year, thanks to the introduction of the new product *Posteprotezione Innova Casa Più*, which was replaced by Poste Casa 360 on 25 June 2018. The Personal Protection line saw an 8.6% increase on the previous year, thanks to the good performance of modular products for health and prevention, including *PosteProtezione Innova Salute*, *PosteProtezione Innova Infortuni* and *PosteProtezione InfortuniSenior Più*. Moreover, attention is called to the increase in premium revenue from the Credit Protection Line, which went up by 48% on the previous year. In addition, in 2017 an Employee benefits business was launched, with the sale of the first collective contracts to cover Death and Permanent Disability/Injury/illness and the reimbursement of medical expenses.

The table below shows the premium distribution by line of business. As can be seen, Income Protection accounts for 43.5% of total premiums while the Miscellaneous Financial Loss line of business increased as a share of the total. The Income Protection line of business includes obligations to provide compensation following illness, injury or disability while the Miscellaneous

Financial Loss line of business includes obligations arising from unemployment, insufficient income or loss of income.

(€000)

Line of Business	31 December 2018	% dist.	31 December 2017	% dist.	Change	%change
1 Medical expenses	46,250	24.7%	26,725	18.9%	19,526	73.1%
2 Income protection	81,063	43.3%	70,130	49.6%	10,933	15.6%
3 Workers' compensation	-	0.0%	0	0.0%	-0	-100.0%
7 Fire and other damage	15,236	8.1%	12,778	9.0%	2,458	19.2%
8 General Liability	18,292	9.8%	16,253	11.5%	2,039	12.5%
10 Legal expenses	2,848	1.5%	2,826	2.0%	21	0.8%
11 Assistance	359	0.2%	494	0.3%	-134	-27.2%
12 Miscellaneous	23,117	12.4%	12,043	8.5%	11,074	92.0%
Total	**187,166**	**100.0%**	**141,250**	**100.0%**	**45,916**	**32.5%**

Total commissions paid for distribution and collection activities in 2018 amounted to €32.2 million; these and other acquisition costs resulted in “Acquisition expenses” of approximately €37.6 million, with a 23.9% increase on 2017, due mainly to the increase of in Personal insurance products, given the growth in gross premiums.

(€000)

Commissions				
Line of Business	**31/12/2018**	**31/12/2017**	**Delta**	**Delta %**
1 Medical expenses	5.889	4.145	1.744	42,1%
2 Income protection	16.688	15.611	1.078	6,9%
3 Workers' compensation	-	-	-	0,0%
7 Fire and other damage	3.208	2.947	261	8,9%
8 General Liab	3.902	3.974	-72	-1,8%
10 Legal expenses	588	665	-77	-11,6%
11 Assistance	32	48	-16	-33,7%
12 Miscellaneous	7.285	3.105	4.180	134,6%
Total	**37.592**	**30.494**	**7.097**	**23,3%**

Main evidence

In 2018 Poste Assicura reviewed its injury offering. In particular, the Company restyled the *PosteProtezione Infortuni Senior* product, launching *PosteProtezione Infortuni Senior Più* which, compared with the previous version, has clearer language in describing its coverage and the associated compensation. In addition, steps were taken to simplify the activation of the assistance services related to the product.

Moreover, following monitoring and analysis of its portfolio products, Poste Assicura considered necessary to reprice its *PosteProtezione Innova Infortuni* product currently on offer.

In connection with the Property and Asset line, during the year Poste Assicura restyled its Home product, launching the new *Poste Casa 360* product. Compared with the previous version, the new product covers catastrophic losses related to earthquakes and, unlike the current offering available in the insurance market, collapse.

With reference to credit protection products, Poste Assicura expanded its offering to provide coverage associated with loans by introducing into the market *Posteprotezione Mutuo Flessibile*, *Incendio Mutui New*, *Incendio Mutui Flessibile* and *Posteprotezione Prestito Impresa*. The products have been marketed in connection with the expansion of the range of loan products offered by BancoPosta.

To complete the range of products offered, Poste Assicura developed and introduced an insurance product to cover family pets, *Posteamici 4Zampe*, and an insurance product to cover travels, *Posteviaggio Italia* and *Posteviaggio Mondo*.

Regarding Employee Benefits in the Corporate segment, Poste Assicura entered into collective agreement to cover Death and Permanent Disability from Injury/Medical and Medical Expense Reimbursement for employees of private-sector companies, chief of which in terms of premium revenue generated is the health plan for the employees of the Ericsson Group. Additionally, attention is called to the growing focus on the business with Government Authorities/Tenders, where the Company was awarded contracts by ATS Sardegna (Sardinian health system) and hospital organisations (ASL).

Furthermore, the Company created ad hoc insurance plans for the *Poste Vita Fondo Salute* to supplement the current standard coverage plans, regarding which emphasis is placed on the Health Plan for the Employees of the Poste Italiane Group.
Insurance coverage is provided in accordance with the sectorial National Labour Agreement and/or the Supplementary Company Agreement.

Claims performance

Claims expenses – which include the sufficiency of provisions for claims related to previous years, of €18.3 million (reflecting an increase on the sufficiency of €16.8 million of December 2017) - at the end of 2018 amounted to approximately €40.0 million, compared with €32.3 million in 2017. The table below shows the distribution of claim expenses by line of business at 31 December 2018:

(€000)

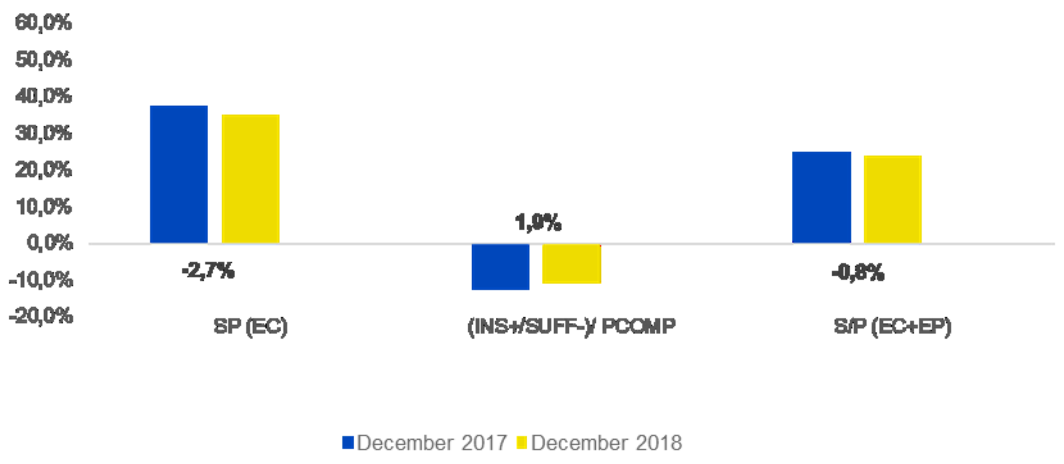
	31 December 2018			
Line of Business	**Total claims**	**(Sufficiency)/ Insufficiency**	**Claims expenses**	**% share**
1 Medical expenses	19,183	-3,032	16,151	40.4%
2 Income protection	25,322	-9,073	16,250	40.7%
3 Workers' compensation	0	0	0	0.0%
7 Fire and other damage	4,474	-1,930	2,544	6.4%
8 General Liability	4,139	-3,025	1,114	2.8%
10 Legal expenses	606	-153	453	1.1%
11 Assistance	69	-90	-21	-0.1%
12 Miscellaneous	4,492	-1,022	3,470	8.7%
Total	**58,286**	**-18,325**	**39,961**	**100.0%**

Claims expenses for the period, defined as settlement costs and provisions for claims occurred in the year, inclusive of provisions for late lodgements, totals €58.3 million, with an increase 18.8% on the previous year. The improved loss ratio for the year under review, in conjunction with a slight reduction of the adequacy of provisions for claims of previous years with respect to earned premiums, translated into a decrease in the loss ratio of approximately 0.8 percentage points from the previous year. The table below provides details by line of business.

	31 December 2018			31 December 2017			Change		
Line of Business	Current year loss ratio	Prior year loss ratio	Loss ratio (current + prior year)	Current year loss ratio	Prior year loss ratio	Loss ratio (current + prior year)	Current year	Prior year	TOTAL
1 Medical expenses	41.6%	-6.6%	35.0%	34.2%	-12.8%	21.4%	7.4%	6.2%	13.6%
2 Income protection	36.1%	-12.9%	23.2%	42.0%	-10.8%	31.1%	-5.8%	-2.1%	-7.9%
3 Workers' compensation	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
7 Fire and other damage	31.7%	-13.7%	18.0%	32.5%	-27.0%	5.5%	-0.8%	13.3%	12.5%
8 General Liability	22.9%	-16.7%	6.2%	33.4%	-14.1%	19.2%	-10.5%	-2.6%	-13.1%
10 Legal expenses	21.4%	-5.4%	16.0%	27.7%	-17.8%	10.0%	-6.4%	12.4%	6.0%
11 Assistance	17.6%	-22.9%	-5.3%	32.4%	-21.1%	11.2%	-14.8%	-1.7%	-16.5%
12 Miscellaneous	28.1%	-6.4%	21.7%	35.2%	-5.5%	29.6%	-7.1%	-0.9%	-8.0%
Total	34.8%	-10.9%	23.8%	37.5%	-12.8%	24.7%	-2.7%	1.9%	-0.8%

To understand the performance of this ratio, it is necessary to analyse separately its components. The table below provides a summary:

Comparison of the Company's total Loss Ratio 2018 vs 2017



Loss ratio (current + prior year)	December 2018	December 2017	% change
Loss ratio (current year)	34.8%	37.5%	-2.7%
INS+/SUFF-)/PREM. REV.	-10.9%	-12.8%	1.9%
Loss ratio (current + prior year)	23.9%	24.7%	-0.8%

The slight decrease in the loss ratio of approximately 0.8 percentage points is attributable to the decrease related to the current generation, which stood at 34.8%, down from the corresponding ratio at the end of 2017 (37.5%), while the adequacy of provisions recorded for the previous generations experienced a small reduction.

Regarding claims for the current generation, attention is called, in general, on the improvement of claims related to the retail business, which featured a decrease of both the frequency and the average cost, on one side, and an increase in the average premium, on the other. Part of this improvement is due to the effect of the important increase in premium revenue related to the Credit Protection line. In 2018, premiums for these policies rose on average by 19%, in the presence of an unchanged claim frequency and a reduction of average claim expenses. In addition, attention is called to the favourable performance of injury products, particularly *PosteProtezione Innova Infortuni*, which saw a decrease in the average cost of claims (down 15% compared with December 2017).

On the other hand, the adequacy of the preceding generations is attributable:

- ✓ for approximately €11.3 million to the wind-down of the provisions for claims reported in previous years, taking into account reopening expenses (down 6.7%);
- ✓ for approximately €7.0 million to the wind-down of IBNR claim provisions (down 4.2%).

Information on any substantial risk mitigation techniques

Regarding the main **retail** risks, related to Injuries, the reinsurance policy in place since 2013 calls for Poste Assicura to retain 100% of new business risks, thus without any quota share cession, with the adoption of excess of loss structures. Thus, excess of loss coverage was used again per risk and per event, to protect the company from any substantial claims, with a €200,000 priority at 100% and a capacity adequate to the growth of Poste Assicura's portfolio. For the main risks underwritten before 2013, the quota share treaties entered into still apply, on a risk attaching basis and a 50% cession rate. The XL treaty covers the share retained, with €100,000 priority on retained.

As to the telephone sales channel, for the Injury component and solely for the risks of *ProntoPoste Protezione-Infortuni*, the existing reinsurance policy is confirmed, with a 50% quota share treaty and cession of 50% of gross written premiums, commissions paid to Poste Assicura and risk attaching basis.

For the Medical component of risks underwritten with *Postaprotezione Sicura* and *Postaprotezione Dental*, whose portfolios/claims are in runoff, the reinsurance policy continues with the quota share treaty and 50% cession on a pure premium basis and on a risk attaching basis.

A similar quota share reinsurance structure and a 50% share rate is applied to the Medical component of the *PostaProtezione Innova Salute* and *Innova Salute più* products, but with the payment of a fixed commission and on a loss occurring basis.

Within the scope of **corporate** risks, to cover the Injury insurance and the ancillary Permanent Disability due to Medical, the reinsurance structure in on a loss occurring basis, involving a quota share treaty with commercial premiums, and excess of loss reinsurance on the retained share. The excess of loss reinsurance for the portion retained calls for a 100% priority of €500,000 per risk/event (€250,000 on the retained portion).

In addition, a Stop Loss treaty was introduced to cover Medical risks in the corporate segment, structured in a single layer with a trigger at 110% SP and capacity up to 150%.

Lastly, attention is called to the risks of *Fondo Sanitario Aperto*, which is covered by an 80% quota share treaty, based on the cession of gross written premiums and payment of a commission, on a risk attaching basis.

For risks related to Injuries and Medical insurance, relating to policies sold to corporate clients that do not meet the qualitative and quantitative requirements of the reinsurance treaties in place, but that are consistent with Poste Assicura's underwriting approach, use was made of facultative reinsurance. The share of the risk retained by Poste Assicura has been set, from time to time, in light of the applicable risk characteristics. If the exposure retained by Poste Assicura after the facultative treaty takes effect is still considered high, consideration was given to additional reinsurance in the form of specific coverage of excesses of loss.

Lob 1, 2 and 12 – Medical expense insurance, Income protection insurance and Miscellaneous financial loss (Credit Protection)

For new production in the credit protection segment, the share of risks retained is 100% while risks prior to 2018 continue to be covered by risk attaching reinsurance through a treaty per product with a 50% pure premium quota share.

Lob 7 and 8 - Fire and other damage to property insurance and General liability insurance

For risks related to Fire and other damage to property and General liability insurance, the reinsurance policy is implemented through a multi-line quota share treaty:

- structured as a bouquet treaty and cession of gross written premiums with commissions;
- on a loss occurring basis;
- 25% cession rates.

For catastrophe insurance (earthquake/collapse) alone, the proportional treaty is based on pure premium cession.

To cover the retained share of the multi-line quota share treaty, a non-proportional treaty per event and per risk has been added, with a priority of €250,000 at 100%. For fire coverage, a 100% priority of €1,000,000 per event was retained and catastrophe capacity of up to €45 million. This reinsurance structure is in line with the catastrophe component in portfolio.

For specific risks relating to *Postaprotezione Albo* (product in runoff) and *Postaprotezione Albo New*, considering that this is highly specialised insurance coverage (professional liability policy), use is made of proportional reinsurance in quota share with 90% cession. The cession basis is gross written premiums, with reinsurance commissions payable to Poste Assicura, while cover is on a risk attaching basis.

Specific risks underwritten with *Postaprotezione RC Colpa Grave* (managers and directors of the Poste Italiane Group), particularly plans A and B, are covered, in keeping with last year, by a dedicated section of the QS and XL Bouquet Multiline treaties:

- 75% proportional cession on the Bouquet QS Multiline treaty;
- cession of excess of loss on claims on the retained part through XL Multiline with 100% priority of €250,000 (€62,500 on retained portion).

Lob 1, 10, 11 - Medical expense insurance (Assistance), Legal expenses insurance and Assistance

Risks related to Legal expenses insurance and Assistance are covered by a quota share treaty on loss occurring basis, with cession rates of 50% and 55% and payment of reinsurance commissions (fixed commission and profit sharing) to Poste Assicura.

In essence, the reinsurance structure just described appears effective in terms of risk mitigation and the results obtained are consistent with expectations.

A.3 Performance of investment activities

Investment performance – Poste Vita Group

At 31 December 2018, total financial assets managed by the Poste Vita Group amounted to €126,469,849 thousand, up €879,697 thousand on 2017, due to positive commercial results, despite the unfavourable conditions in financial markets for the period.
Asset allocation was consistent with the previous year, with the continuing diversification of investments through a gradual increase in equities (which rose from 18.2% to 21.0% as a share of the total portfolio), especially, open harmonised multi-asset UCITS. Financial assets are recognised at fair value, which was based on quoted prices in active markets, where available, and calculated with alternative methods, in the absence of an active market.
The table below breaks down financial assets at 31 December 2018 and 31 December 2017.

(€000)

	Solvency II value 2018	Solvency II value 2017	Change
Equities	16,527	18,277	-1,750
Government Bonds	80,963,071	81,414,839	-451,768
Corporate Bonds	15,646,804	17,141,859	-1,495,054
Structured Bonds	546,023	567,200	-21,177
Collateralised securities	74,474	74,683	-209
Collective investments undertaking	26,606,678	22,836,113	3,770,565
Assets held for index - linked contacts	2,616,272	3,537,182	-920,910
Total	**126,469,849**	**125,590,152**	**879,697**

Over the period, the above investments posted a total loss of approximately €3,336,100, given the negative trends in financial markets which resulted in net unrealised losses of €5,997,483 thousand, partly offset by ordinary income of €2,837,090 thousand.

Investment performance – Poste Vita SpA

Regarding the investment management activities of the Parent Company, Poste Vita, during the period under review investment choices were based on a prudential approach, in keeping with the strategic guidelines set out by the Board of Directors, with a portfolio invested mainly in government and corporate bonds, which together account for 77.5% of the entire portfolio. Moreover, in 2018, even though its risk appetite continued to be moderate, the Company continued to pursue a gradual investment diversification, through the simultaneous increase of equity-linked securities, particularly shares/units of open harmonised multi-asset UCITS. In line with the strategic asset allocation, investments continued to be made in property funds (targeting mainly retail and office buildings mainly in Europe).

At 31 December 2018 financial assets, at Solvency II value, total €126,184,566 thousand, up €827,913 on 2017, given the positive inflows, despite unfavourable market conditions in the period. Financial assets have been recognised at fair value, which reflects the market price in active markets, where available, and is calculated with alternative methods, where no active market is available. The table below breaks down financial assets as of 31 December 2018 and 2017, as reported in the financial statements prepared on the basis of local GAAP:

(€000)

	31 December 2018			31 December 2017		
	Solvency II value	Statutory Account Value	Change	Solvency II value	Statutory Account Value	Change
Equities	16,527	16,527	0	18,277	18,232	45
Government Bonds	80,696,643	77,175,514	3,521,129	81,200,586	73,750,755	7,449,832
Corporate Bonds	15,627,950	15,263,662	364,288	17,122,612	16,191,078	931,534
Structured Notes	546,023	521,773	24,250	567,200	521,100	46,100
Collateralised securities	74,474	52,200	22,274	74,683	52,200	22,483
Collective investments undertaking	26,606,678	27,506,436	-899,758	22,836,113	22,430,336	405,777
Assets held for index - linked contacts	2,616,272	2,616,272	0	3,537,182	3,537,182	0
Total	**126,184,566**	**123,152,384**	**3,032,182**	**125,356,653**	**116,500,882**	**8,855,770**

With reference to the column "Statutory Account value", it should be noted that the carrying amount reflects the effects of the exercise of the option provided for by Law Decree no. 119 of 23 October 2018 and governed by IVASS Regulation 43 of 12 February 2019, for insurance

undertakings. Regarding short-term financial assets, the Parent Company elected, as permitted by the above Regulation, to recognize certain financial instruments at the same carrying amount as that reported in the latest approved financial statements, instead of the market value at 31 December 2018.
This departure from the prevailing accounting standards resulted in a positive effect of approximately €312,135 thousand (on an after-tax basis), in relation to the lower unrealised losses determine by the application of the departure. Pursuant to article 5 of said Regulation, the Parent Company will establish a reserve unavailable for distribution for the amount of such unrealised losses reported net of the relevant tax effect via transfer from other reserves.

Equities, amounting to €16,527 thousand at 31 December 2018 includes €16,230 thousand in listed shares, purchased for Class I products related to separately managed accounts.
Government bonds, amounting to €80.696,643 thousand (€81,200,586 thousand at 31 December 2017), refer mainly to listed fixed-income bonds issued by European States, with Italian government bonds accounting for 97.5% of the total.
Corporate bonds, amounting to €15,627,950 thousand (€17,122,612 thousand at 321 December 2017), refer mainly to listed fixed-income bonds issued by primary European companies.
Structured bonds, totalling €546,023 thousand at year-end 2017, refer solely to financial instruments covering index-linked products.
Collateralised securities, amounting to €74,683 thousand, relate to a zero-coupon bond maturing on 10 February 2020, collateralised by government bonds and other securities maturing on the same date.
Regarding collective investment undertakings, which amounted to €26,606,678 thousand at year-end (€22,836,113 thousand at 31 December 2017), the gradual diversification process of investments continued, though the simultaneous increase in equity-linked securities (which went for 18.2% to 21.2% of the total), particularly shares/units of open harmonised multi-asset UCITS. In line with the strategic asset allocation, investments continued to be made in property funds (targeting retail and office buildings) mainly in Europe.
Financial instruments purchased to cover index-linked or unit-linked policies, which are reported at the price prevailing on the last trading day of the year, amounted to €2,616,272 thousand at 31 December 2018 (€3,537,182 thousand at 31 December 2017).
The change from the beginning of the year was due to the expirations of class III products for the year. These are investments whose performance is linked to particular market indices.

The table below shows the change in the fair value of financial assets, except equity investments, occurred in 2018.

(€000)

	Solvency II value 2017	Purchases and sales 2018	Net Unrealised Gains 2018	P/M Amortised cost 2018	Solvency II value 2018
Equities	18,277	2,566	-4,315		16,527
Government Bonds	81,200,586	3,207,269	-3,928,102	216,890	80,696,643
Corporate Bonds	17,122,612	-924,725	-569,937		15,627,950
Structured Bonds	567,200		-21,177		546,023
Collateralised securities	74,682		-209		74,473
Collective investments undertaking	22,836,113	5,085,883	-1,315,318		26,606,678
Assets held for index - linked contacts	3,537,183	-819,720	-158,270	57,080	2,616,273
Total	**125,356,653**	**6,551,272**	**-5,997,328**	**273,970**	**126,184,566**

During the period under review, the above investment showed overall a net negative return for €3,296,882 thousand, given the negative trends in financial markets that resulted in unrealised losses for 5,951,883 thousand, partly offset by ordinary income of €2,833,054 thousand.

(€000)

	Net gains and losses	Interests/Dividends	Net Unrealised Gains	Total
Investments			45,599	**45,599**
Equities	1,067	5,264	-25,390	-19,059
Government Bonds	-100,472	1,891,280	-3,966,631	-2,175,823
Corporate Bonds	-77,262	378,778	-582,005	-280,489
Structured Notes	0	15,882	-21,177	-5,294
Collateralised securities	0	0	-209	-209
Collective investments undertaking	-6,174	541,850	-1,370,978	-835,302
Forwards	0	0	-155	-155
Call Options	11,169	0	-30,938	-19,769
Total	**-171,671**	**2,833,054**	**-5,951,883**	**-3,296,882**

Investments held by the Parent Company, amounting to €286,047 thousand at 31 December 2018, refer, as indicated previously:

- to the 100% interest held in Poste Assicura, of €170,714 thousand, which engages in non-life insurance, excluding motor insurance;
- to the 45% interest held by Poste Vita in the associate, Europa Gestioni Immobiliare SpA (EGI) – where the remaining 55% is held by Poste Italiane SpA - a company engaging in the management and development of Poste Italiane's non-operating properties;
- to the 100% interest held in Poste Welfare Servizi Srl, amounting to €8,919 thousand, following the acquisition, completed on 4 November 2015, that aimed to expand the Insurance Group's individual and collective offering in the health sector.

It should be noted also that, for the purposes of the consolidated financial statements of the Poste Vita Group, the carrying amount of the equity interest held by the Parent Company, Poste Vita, in Poste Assicura and Poste Welfare Servizi was eliminated against the corresponding equity portion with the simultaneous line-by-line consolidation of the assets and liabilities of the subsidiaries.

Investment performance – Poste Assicura SpA

Regarding investment activities, in keeping with the policies approved by the Board of Directors, Poste Assicura continued to manage its financial assets in a sound and prudent manner and with a view to protecting the company's financial strength, paying special attention to an integrated asset-liability management approach. As to the mentioned investment policies and the current market scenarios, the asset allocation did not change substantially in terms of country risk, with a portfolio nearly entirely invested in Italian sovereign bonds. At financial year-end 2018, the fair value of the investment portfolio amounted to €285,283 thousand, up €51,783 thousand on the comparable year-earlier amount (€233,499 thousand), given the substantial inflows for the period.

At 31 December 2018, the Subsidiary's financial assets had unrealised gains of €4,088 thousand, reflecting a decrease from €10,589 thousand at financial year-end 2017, given less favourable market trends. The table below provides a breakdown of such financial assets:

(€000)

	31 December 2018			31 December 2017		
	Solvency II value	Statutory Account Value	Change	Solvency II value	Statutory Account Value	Change
Government Bonds	266,428	262,379	4,049	214,252	203,945	10,307
Corporate Bonds	18,855	18,816	38	19,247	18,965	281
Total	**285,283**	**281,195**	**4,088**	**233,499**	**222,910**	**10,589**

The table below shows changes in the fair value of the financial assets for the period:

(€000)

	Solvency II value 2017	Purchases and sales 2018	Net Unrealised Gains 2018	Solvency II value 2018
Government Bonds	214,252	61,660	-9,485	266,428
Corporate Bonds	19,247	50	-442	18,855
Total	**233,499**	**61,710**	**-9,927**	**285,283**

Interest and other income generated by these investments for the period amount to €3,595 thousand, as shown in the following table:

(€000)

	Net gains and losses	Interests	Total
Government Bonds	-394	3,867	3,473
Corporate Bonds	-47	168	122
Total	**-441**	**4,036**	**3,595**

A.4 Performance of other activities

Performance of other activities - Poste Vita Group

With regard to organisational aspects, during 2018, the reduction in costs for consulting/professional services translated into total group operating costs for the year of

€141,470 thousand, slightly down from the €142,536 thousand of 2017, which, as a share of premiums and provisions, was again lower than the market average.

(€000)

Category	Solvency II value 2018	Solvency II value 2017	Change
Other administrative expenses	64,108	67,664	-3,556
Claims expenses	17,335	14,538	2,798
Other acquisition expenses	44,237	42,518	1,719
Investment management expenses	14,298	16,032	-1,734
Other costs	1,493	1,785	-292
Total	**141,470**	**142,536**	**-1,066**

Regarding Poste Vita SpA, in 2018 operating costs amounted to €112,125 thousand, which was slightly lower than the €113,193 thousand recorded for 2017, thanks to the reduction in costs for consulting/professional services.

With respect to Poste Assicura SpA in 2018 operating costs amounted to €22,007 thousand, which was largely in line with the comparable amount for 2017 (€22,209 thousand), reflecting mainly personnel expenses, marketing/advertising costs, IT costs and professional services.

As to **Poste Welfare Servizi Srl**, the period under review continued to see the implementation of projects to drive growth, with operating costs totalling €7,338 thousand, slightly up on the comparable prior-year amount (€7,134 thousand) due mainly to personnel expenses, and IT and business support service costs.

Lastly, with reference to extraordinary income and expenses:

- The Parent Company, **Poste Vita SpA**, recorded a substantial decrease in extraordinary income, which fell from €19,448 thousand in 2018 to €2,153 thousand in 2017, given the gain of €16,921 thousand on disposal of the BlackRock fund in 2017. Thus, extraordinary income of €2,153 thousand for 2018 refers mainly to releases from provisions made at the end of 2017. On the other hand, the year just ended saw also a significant decrease in extraordinary expenses, which fell from €16,380 thousand in 2017 to €1,771 thousand, due to the loss of €13,836 thousand on disposal of the "Piano 400" Fund. As such, extraordinary expenses for 2018, of €1,771, refer mainly to greater costs not recorded at financial year-end 2017.
- **Poste Assicura SpA** reports a decrease in extraordinary income - down from €325 thousand in 2017 to €200 thousand in 2018, related solely to releases from provisions made in the previous year – and in extraordinary expenses, down from €326 thousand in 2017 to €254 thousand in 2018, reflecting contingent liabilities during the year for which no provision had been made.

A.5 Any other disclosures

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).

The Parent Company, 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.

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.

B – SYSTEM OF GOVERNANCE

B.1 General governance arrangements

The **Boards of Directors** of the individual companies in the Poste Vita Insurance Group have the broadest powers for their ordinary and extraordinary management, without limitations, with the authority to perform such acts as are deemed necessary or useful to achieve the corporate purpose, except such acts as are specifically reserved by law to the Shareholders.
These bodies meet regularly (usually at least once a month) to review, and adopt resolutions on, strategies, operational trends, financial performance, proposals related to the organisational structure, strategic transactions and for any other obligation under the applicable sector rules and regulations. As such, they are central to setting the Group's strategic goals and the policies necessary to achieve them.
The Boards of Directors bear the ultimate responsibility for the internal control and risk management system, ensuring its constant completeness, functioning and effectiveness. To this end, every Board of Director performs, among others, the following tasks (in keeping with the applicable regulations), each within its purview:

- it approves the Company's organisational arrangements as well as the attribution of tasks and responsibilities to the operational units, overseeing their adequacy over time and informing the Regulator of any significant changes in the organisational structures and the reasons for such changes. In this context, it is also responsible, among others, for:
    - appointing and terminating the heads of Internal Auditing, Compliance, Risk Management and Actuarial Department, in keeping with the requirements set by the Policy to evaluate that candidates' qualifications meet the requirements for the positions as well as any other requirement provided for by the applicable regulations;
    - approving, overseeing its adequacy over time, the system for the attribution of powers and responsibilities, avoiding the excessive concentration of powers in a single individual and creating tools to check how delegated powers are exercised;
    - ensuring a suitable and constant interaction among the Board Committees, Senior Management and the Control Functions, including through proactive actions to ensure their effectiveness;
    - explaining (in the report on the internal control and risk management system) the reasons that make this structure suited to ensure the completeness, functioning and effectiveness of the internal control and risk management system.
- With specific reference to the Internal Control System:
    - it defines the relevant policies, revising them at least once a year and ensuring that they are fit for any changes in corporate operations and the external environment (as considered on the basis of the information under e) hereinbelow;

  - it checks that the system is consistent with the established strategic guidelines and risk appetite that it can capture any changes in corporate risks and their interaction with one another.
- With specific reference to the Risk Management System:
  - It determines the Parent Company's risk appetite (in keeping with the objective of protecting it and with the ORSA under iii.) and sets a consistent risk tolerance level, which it revises at least once a year, to ensure its effectiveness over time;
  - it designs the policies in this area (essentially the Risk Management Policy and related strategies) in keeping with the risk appetite and with the assessment of current and prospective risks. In this context, it ensures that the Risk Management System allows the identification and the current and prospective assessment and control of risks, to ensure the protection of Company assets;
  - it sets out policies on own risk and solvency assessment ("ORSA"), especially:
    1. the relevant Policy;
    2. the criteria and methodologies followed to assess risks, especially for the most significant ones;
  - it approves the results of the periodic ORSA exercises, reporting them to Senior Management and the structures concerned, along with its conclusions (in a top-down approach);
  - it receives information flows with which it checks that Senior Management implements properly the internal control and risk management system, in accordance with the policies in force, and checks its functioning and fitness;
  - it requires Senior Management, the Control Functions and the staff to report to it the most significant criticalities detected, so as to provide instructions for the adoption of corrective actions, whose effectiveness it will assess eventually.

In addition, the Board of Directors of the Parent Company, Poste Vita, has established the following board committees:

- the Remuneration Committee is responsible for acting in an advisory capacity and for submitting proposals in relation to the remuneration policies adopted by Poste Vita as well as to formulate proposals on the remuneration of each director serving also in an executive capacity. The Committee checks also that the remuneration packages of executive directors are proportional with respect to one another and to the Parent Company's staff, considering its risk profile.
- the Internal Control and Related Party Transactions Committee is responsible for assisting the Board of Directors in setting guidelines on the internal control system, in checking its suitability and its effectiveness from time to time, and in identifying and managing the main corporate risks.
  Within the scope of its responsibilities and in the respective areas of interest, the Committee takes a proactive role in making proposals to the Board of Directors and to promote changes and additions to the internal control and risk management system considered necessary and appropriate, from time to time. Lastly, the Committee is attributed – with the exception of the foregoing attribution to the Remuneration

Committee – specific responsibilities in related-party transactions (as defined by IAS 24), to be exercised in accordance with the specific procedure.

The **Board of Statutory Auditors of each company in the Poste Vita Insurance Group** oversees compliance with the law, the Articles of Association and best practices as well as the adequacy of the organisational, administrative and accounting set-up adopted by the Company and its functioning.
To that end, each such Board is responsible, among others, for:

- becoming familiar, at the start of its term of office, with the corporate organisation and reviewing the findings of the independent auditors' assessment of the internal control system and the administrative and accounting system;
- evaluating the efficiency and effectiveness of the internal control system, with special emphasis on the work of the internal auditing function, ensuring also the latter's autonomy, independence and capabilities;
- maintaining an adequate connection with the internal auditing function, requesting, where necessary, the cooperation of all the units performing control tasks;
- exchanging promptly with the independent auditor's data and information necessary for fulfilling its duties and reviewing also such independent auditors' regular reports;
- reporting to the Board of Directors any deficiencies and weaknesses of the Company's organisational structure and internal control system, indicating and requesting suitable corrective actions;
- planning and undertaking, also in cooperation with the independent auditors, regular supervisory actions to determine whether the reported deficiencies/shortcomings have been corrected and whether there have been any changes, compared with the start of the term of office, that would require an upgrade of the organisational system and the internal control system;
- keeping adequate evidence of the observations and proposals formulated and the follow-ups on the implementation of any corrective action.

In addition, the Board of Statutory Auditors reports to Senior Management any deficiencies detected in the system, ensuring eventually that the initiatives adopted corrected such deficiencies.
In the following notes a brief description is provided of the roles and responsibilities of the key functions:

- **Internal Auditing** performs third-level control activities over the Internal Control System which operates in accordance with the guidelines issued by the Board of Directors, in keeping with the strategic guidelines and risk appetite. The Internal Auditing function is centralised at the Insurance Group level, from which it follows that Poste Vita's Internal Auditing function performs internal auditing activities also in Poste Assicura, which in turn has nominated a key contact responsible for managing relationships with the Parent Company's head of Internal Auditing, in accordance with the duties and responsibilities outlined in the applicable job description, who meets the fit and proper requirements for the position.

Against this backdrop, the Internal Auditing function, in keeping with the applicable regulations and the Policy of the Internal Auditing function, is responsible, among others, for:

- assisting the Companies and the Group in the pursuit of their objectives, through an independent and objective assurance[2] activity designed to evaluate and improve control, risk management and corporate governance processes;
- monitoring and evaluating the effectiveness and efficiency of the Internal Control System and, more generally, the governance system;
- making annual and multi-year plans for the activity, so as to prioritise the areas to be audited;
- reporting the findings of the activities performed to the Board of Directors, the Internal Control and Related-Party Transaction Committee, the Chief Executive Officer, the Chairman of the Board, the Board of Statutory Auditors, the Supervisory Board under Legislative Decree 231/01 and Management;
- performing the planned audits and, where necessary, for considering the implementation of activities not included in the Audit Plan;
- reporting promptly to the Board of Directors and the Board of Statutory Auditors particularly serious situations that should be brought to light by the audit activity.

- **Risk Management** performs control and maintenance activities over the Risk Management System, which operates in accordance with the guidelines issued by the Board of Directors in keeping with the Group's Risk Management Policy. The Risk Management System informs the entire business process and, with that in mind, it tries to allow the Company to optimise its risk-return profile, through improved profitability and the maintenance of an adequate level of economic/regulatory capital meeting, simultaneously, the expectations of shareholders and policyholders. The Risk Management function is centralised at the Insurance Group level, from which it follows that the risk management activity of Poste Vita performs risk management activities also in Poste Assicura, which in turn nominated a key contact responsible for managing relationships with the Parent Company's head of Risk Management, in accordance with the duties and responsibilities outlined in the applicable job description, who meets the fit and proper requirements for the position, as established by the Policy on the requirements to be fulfilled for the post in Poste Assicura.
  Against this backdrop, the Risk Management function, in keeping with the applicable regulations and the Policy of the Risk Management function, is responsible, among others, for:

  - contributing to the formulation of the Risk Management Policy and the strategies, monitoring their implementation;
  - acting as facilitator in the dissemination of the risk culture also through training delivered via workshops on specific themes;

[2] Independent review and assessment, based on the professional methodologies of reference.

  - cooperating in setting the Risk Appetite Framework (RAF) and the relevant operational implementation, providing assistance to the Board of Directors and checking the established RAF at least once a year;
  - defining the criteria and the relevant methodologies, with the identification and measurement, for each risk category, of exposures and concentrations and their mitigation, and checking, on an ongoing basis, both the risk assessment processes and consistency with the Companies' operations;
  - performing control activities to maintain the risks to which the Companies are exposed at an acceptable level, consistent with their capital;
  - performing – at least once a year (or otherwise whenever circumstances arise which change to a significant extent the risk profile) and in keeping with the "Own risk and solvency assessment" (ORSA) policy – the assessment of the risks to which the Companies are exposed, and defining its findings; these assessments, the methodologies utilised and the "most significant risks", including contingent risks, (i.e. risks that can undermine the company's solvency or represent a serious hurdle to the achievement of the company's objectives) are submitted to the Board of Directors;
  - contributing, for the risks qualified as most significant on the basis of the assessments under the previous paragraph, to the performance of quantitative analyses (based on deterministic or stochastic models and carried out in keeping with the nature, scope and complexity of the risks associated with the Companies' activities);
  - facilitating the process to define the methods to measure strategic and reputational risks, monitoring its results;
  - submitting every year to the Board of Directors of each Company:
    - a plan of activities indicating the main risks to which the Company is exposed is identified and the proposals that it intends to make in relation to those risks (taking into account any deficiencies detected in previous checks and any new risks), in keeping with the principles laid down by the applicable regulations and with the Policy of the Risk Management function;
    - a report on the adequacy and effectiveness of the risk management system, the methods and models utilised to monitor risks; on the activities performed; on the assessments made; on the results and criticalities brought to light and on the implementation of the relevant improvement actions, if any.

- **Compliance** is responsible for evaluating the ability of the organisation and internal procedures of preventing the risk of incurring in judicial or administrative penalties, losses or reputational damage, as a result of breaches of laws, regulations, measures of the Supervision Authorities or self-regulatory provisions ("non-compliance risk"), in keeping also with the Board of Directors' guidelines on the Risk Management System.

The Compliance function is centralised at the Insurance Group level, from which it follows that the Compliance of Poste Vita oversees compliance risk management activities also in Poste Assicura, which in turn nominated a key contact responsible for managing relationships with the Parent Company's Compliance officer, in accordance with the duties and responsibilities outlined in the applicable job description, who meets the fit and proper requirements for the position, as established by the Policy on the requirements to be fulfilled for the post in Poste Assicura.
Against this backdrop, the Compliance function, in keeping with the applicable regulations and the Policy of the Compliance function, is responsible, among others, for.

- acting as advisor to the Boards of Directors of Poste Vita and Poste Assicura on compliance with laws, regulations and directly applicable EU rules, assessing any impact on the activities of changes in the regulatory framework and case law and identifying and evaluating non-compliance risk;
- identifying on an ongoing basis, possibly with support from the corporate functions concerned, the main non-compliance works to which the Companies and the Group are exposed;
- assessing the adequacy and effectiveness of the organisational measures adopted to prevent non-compliance risk, proposing promptly any organisational and procedure changes to ensure the effective monitoring of any non-compliance risk;
- monitoring the Companies' and the Group's compliance with regulatory obligations, evaluating the effectiveness of any recommended organisational changes;
- submitting every year to the Board of Directors of each Company:
  - a plan of activities indicating the main actions that it intends to take in relation to non-compliance risks (taking into account any deficiencies detected in previous checks and any new risks) in keeping with the principles laid down by the applicable rules and regulations;
  - a report on the adequacy and effectiveness of the safeguards adopted against non-compliance risk; on the activities performed; on the assessments made; on the results and criticalities brought to light and on the implementation of the relevant improvement actions, if any.

- **The Actuarial department** contributes to the application of the Risk Management System through the attribution of specific coordination, management and control responsibilities on technical provisions, the assessment of underwriting policies and reinsurance treaties.
  The Actuarial department is centralised at the Insurance Group level, from which it follows that the Actuarial Department of Poste Vita oversees the activities falling within its purview also in Poste Assicura, which in turn nominated a key contact responsible for managing relationships with the Parent Company's Actuarial department, in accordance with the duties and responsibilities outlined in the applicable job description, who meets

the fit and proper requirements for the position, as established by the Policy on the requirements to be fulfilled for the post in Poste Assicura.

Against this backdrop, the Actuarial department, in keeping with the applicable regulations and the Policy of the Actuarial department, is responsible, among others, for:

- coordinating the calculation of technical provisions;
- ensuring the adequacy of the methodologies and underlying models utilised, as well as the assumptions on which the calculation of technical provisions is based;
- assessing the sufficiency and quality of the internal and external data utilised in calculating technical provisions, providing, where necessary, recommendations and proposals to improve the data quality process;
- checking he consistency between the amounts calculated on the basis of the accounting policies used for the separate financial statements and the calculations determined by the application of Solvency II criteria, as well as presenting and explaining any difference between the two;
- formulating an opinion on the overall underwriting policy;
- providing an opinion on the adequacy of the reinsurance treaties;
- reporting the results of the activities performed to the Board of Directors, the Internal Control and Related-Party Transaction Committee, the Chief Executive Officer, the Board of Statutory Auditors and, upon request, the Supervisory Board under Legislative Decree 231/01.

Information on the remuneration policy and practices related to the Board of Directors

At the meetings of April 2018, the Boards of Directors of the individual Companies approved remuneration policies for 2018. These policies set a number of remuneration mechanisms, consistent with sound and prudent risk management, for certain parties identified unequivocally (executive and non-executive directors, General Manager, Heads of Internal Control Departments) and for other key employees identified on the basis of specific standards of reference (so-called risk takers). Specifically, the policy in question establishes that the remuneration packages for the above-mentioned parties is to be consist of three components:

- Fixed pay, which reflects the complexity of the role and the responsibilities attributed, reflecting the expertise required for each position;
- Short-term variable pay, which aims to reward the performance in view of the assigned objectives and the results achieved in the relevant year, on the basis of risk-adjusted indicators and the achievement of effective and long-lasting results;
- Long-term variable pay, which is intended to focus employees' attention on long-term strategic success factors, linking incentives to performance actually achieved over the pre-established long-term horizon.

That said, to promote sound and effective risk management, by discouraging the assumption of such risks as exceed risk tolerance levels, these remuneration policies include:

- trade-offs between fixed pay and short- and long-term variable pay, on the basis of appropriate quantitative restrictions;
- threshold parameters for the disbursement of bonuses commensurate with performance and the level of risk to which the Company is exposed (the latter set in keeping with Solvency II rules);
- objectives, assigned to the foregoing parties, which include performance indicators that incorporate in a suitable manner current and prospective risks associated with the results achieved by the Company, and related expenses, taking due account of the different roles and responsibilities of the parties in question within the Company;
- deferral arrangements for accrued bonus payments;
- for sums payable in case of early termination of directors or key executives (i.e. “golden parachutes”), the setting of ceilings and cases where such payments cannot be made, in keeping with sound and prudent risk management;
- application of corrective actions in relation to bonuses accrued but unpaid (i.e. “malus” provisions) and to bonuses already paid (“claw-back” provisions), to take into account over time the risks taken by the Company and actual effects of the results achieved.

Regarding the “Long-term variable pay” component, this involves the assignment of phantom stocks at the end of a specified vesting period. The number of phantom stocks attributed to the beneficiaries at the end of the vesting period is related to performance for a three-year period.
As to supplementary pension or early retirement plans, it is noted that directors, management and statutory auditors are not covered by any specific plan or benefit while key executives, as employees of the Companies, are beneficiaries of the supplementary pension plans provided for by the National Labour Agreement (“CCNL”) of reference.

Manner in which the key functions are given the necessary powers, resources and functional independence from operational areas or units
In keeping with the individual policies of the Key Functions (i.e. the internal control functions), each such function is established as a specific organisational unit, different from and independent of the other Key Functions and the Operational Functions, without any authority and/or responsibility over the latter, ensuring compliance with the requirements laid down by the applicable regulations. These functions operate in accordance with the organisational principles set out by regulations as well as in keeping with the policies, procedures and principles of the Companies, cooperating with the Board of Statutory Auditors, the independent auditors, the Supervisory Board (under Legislative Decree 231/01) and with one another.
Every Fundamental Function should count, also by resorting to external consultants, on qualitative and quantitative resources adequate to activities falling within its purview and should be staffed by employees with appropriate and adequate competencies, who undergo regular training to upgrade their skills.
All employees of a key function should:

(a) have a professional approach informed by the independence, authoritativeness and detachment necessary to allow their work to stay “above the fray”;

(b) refrain from undertaking any activity that might give rise to a conflict of interests or might undermine the possibility to perform their tasks in an impartial manner.

To carry out its tasks, each key function must be given free and autonomous access to the departments and databases of the Companies, to retrieve pertinent data/information, including operational and any other data.

Manner in which coordination is achieved between boards of directors and boards of statutory auditors, on the one hand, and the risk management, compliance, internal auditing and actuarial functions, on the other

Coordination and collaboration among control bodies fosters the overall functioning of the Internal Control and Risk Management System (hereinafter also ICRMS) and a single and coherent presentation to management and the other corporate bodies of the risks to which the Companies are exposed.

To this end, thanks to the guidelines on ICRMS, the Parent Company set out the following main occasions for coordination and collaboration among the control bodies (implemented, among others, through the exchange of specific information flows):

- Collaboration and, where possible and appropriate, coordination to identify and update the respective annual activity plans, to ensure adequate oversight of the main risks to which the Companies are exposed and to make it possible, where possible, to operate synergistically and to identify and manage effectively overlapping areas, avoiding duplications and diseconomies;
- Regular interactions on risk assessments/measurement and the evaluation of control adequacy, through the exchange of information on the outcomes of own activities and the assessments of the weaknesses of the internal control and risk management system. Against this backdrop, sharing, in particular, any remedial actions suggested makes it possible to avoid duplications and inefficiencies and to create synergies by meeting the requirements indicated by different Key Functions and/or the other functions and parties responsible for control activities and to fine-tune all control efforts.

In addition to what has been described above, where one of said Functions detects, during its activities, significant events falling within the purview of another Fundamental Function, the former will inform promptly the latter.

Manner in which the key functions inform and support boards of directors and boards of statutory auditors

To keep the Board of Directors constantly informed, the guidelines of the Internal Control and Risk Management System call for specific information flows and links between the Key Functions and the Board of Directors concerning mainly the annual activity plan proposals, results of the activities performed and timely reports on particularly serious situations detected.

Description of the manner in which the internal control and risk management system and the reporting procedures are carried out consistently by all Group companies

To ensure that the internal control and risk management system and the reporting procedures are performed consistently in all of the Group companies, and in keeping with the applicable rules and regulations, Poste Vita, in its capacity as party that performs direction and coordination activities issued the "Guidelines for the Internal Control and Risk Management System" (hereinafter the "ICRMS Document")[3] applicable to the Insurance Group as a whole and the individual companies that are part of it, including Poste Assicura. To this end, on 20 December 2017, Poste Assicura, as a subsidiary of Poste Vita, adopted the ICRMS document, to the extent applicable to it, incorporating the Guidelines into its own systems.

The ICRMS document defines the set of tools, organisational structures, rules and regulations designed to ensure that the Company in managed in a sound and proper manner, consistent with its objectives. In this context, the Parent Company, Poste Vita, identified a structured governance model at Group level which is implemented operationally by the subsidiaries, including Poste Assicura, based on the role of the parties involved in internal control and risk management.

This organisational model is intended to ensure, at Group level, the efficiency and effectiveness of the business processes, current and prospective risk control, constant reporting among the "control levels", the reliability and integrity of information and the protection of assets in the medium/long term.

The Group's and the Companies' internal control and risk management systems are implemented through a number of documents prepared, in fact, at "Group" or "individual Company" level.

Regarding documents at "Group" level, the more important include the ones listed below, which have been approved by the Boards of Directors of the Parent Company and the Subsidiary:

- Guidelines of the Internal Control and Risk Management System;
- Policy of the Internal Auditing function;
- Policy of the Risk Management function;
- Policy of the Compliance function;
- Policy of the Actuarial department;
- Risk Management Policy;
- Risk Appetite document;
- Supervision Reporting Policy;
- Own risk and solvency assessment (ORSA);
- Capital Management Policy;
- Inside information Management Policy;
- Internal Dealing Policy;

[3] In 2018, the Parent Company began the process of updating the Guidelines pursuant to IVASS Regulation no. 38 of 5 July 2018. The new version of the Guidelines will be submitted for approval to the boards of directors of the companies of the Poste Vita Group by the second quarter of 2019.

- Whistleblowing Policy;
- Data Quality Management Policy[4];
- Risk Concentration Policy;
- Policy for the valuation of assets and liabilities other than technical provisions.

Moreover, the individual Companies define, in keeping with the definition of the Parent Company, Poste Vita, specific documents taking into account their own size and peculiarity, for example:

- Outsourcing and supplier selection policy;
- Policy for the evaluation of the fit and proper requirements for the position;
- Policy on Intercompany Transactions;
- Policy on Complaint Management;
- Policy for Managing Conflicts of Interests;
- Organisational Model pursuant to Legislative Decree no. 231/2001;
- Guidelines on investments, approved with Framework Resolution under IVASS Regulation no. 24/2016;

as well as other documents that make up the set of procedures of the Companies, which are related with the system of controls that help to ensure the implementation of company policies and to check compliance with such policies (e.g. procedures to check investment limits, procedures on outsourcing and supplier selection, procedures intended to regulate administrative and accounting data flows and, in general, reporting procedures).

In particular, the documents drafted at the "individual company" level, consistent with those prepared by the Parent Company, Poste Vita, comprise the specific processes/procedures defined in keeping with the Solvency II Directive, including, among others:

- Product Launch and Development procedure
- Reinsurance management process;
- Risk Management process;
- Administration, Provision Management and Financial Statement process.

The Parent Company has also established an adequate exchange with the Subsidiary, to optimise the activities performed, by adopting a consistent methodological approach within the Insurance Group.

Self-assessment of the Governance System pursuant to IVASS's Letter to the Market of 5 July 2018

Considering the obligation for regulated companies to implement a corporate governance system "proportionate to the nature, scope and complexity of the activities" performed and, consequently, to their risk profile, the Letter to the market of 5 July 2018 (hereinafter the "Letter") calls for Italian Ultimate Controlling Parties to adopt, at a minimum, an "ordinary" governance system level and, in any case, not lower than that set in the Letter.

[4] Not issued by the Board of Directors.

Against that backdrop, in the first quarter of 2019 the Companies of the Poste Vita Group performed a self-assessment of their complexity/riskiness to identify the governance model to be adopted based on the analysis of the Companies' size, their complexity parameters and any additional parameters indicated in the Letter.

The analysis revealed that:

- Poste Vita considered as adequate a "**reinforced**" governance model;
- Poste Assicura considered as adequate a "**simplified**" governance model.

Consequently, the Ultimate Controlling Party ("UCP"), Poste Vita, adopted a "**reinforced**" governance model.

Therefore, in 2019, in line with the regulatory steps, the Companies and the UCP, Poste Vita, will implement all the organisational solutions, where not already available, required by the Letter, in line with the selected model.

B.2 Fit and proper

As early as 24 November 2015, the Poste Vita Group adopted a Policy for the fit and proper assessment, in line with applicable regulations, which is upgraded from time to time.

This Policy sets out, among others, the list of the Group's key personnel.

In particular, the persons covered by the Policy include: members of the Board of Directors, members of the Board of Statutory Auditors, the Heads of key functions as defined therein and, when these functions are outsourced either within or outside the Group, the internal contact persons or the parties in charge of control over the outsourced activities.

Key functions (defined as functions of special importance for the Group, in light of its activity and organisation) include Internal Auditing, Compliance, Risk Management and the Actuarial department. The Group identifies any additional key functions, if any.

In addition, the Policy applies to "key employees", including the Manager responsible for financial reporting under article 154-bis of Legislative Decree no. 58/1998, consolidated law on finance; the Head of the Anti-Money-Laundering function, the external party who is entrusted with anti-money-laundering duties in case the function is outsourced, and the Head of suspicious transaction reporting under articles 12, 13 and 15 of ISVAP Regulation no. 41/2012; the members of the Supervisory Board established pursuant to Legislative Decree 231/01 as subsequently amended and other key employees identified by the Group companies, with the objective of ensuring constant compliance with internal and external rules and regulations.

As previously mentioned, the Group adopted the Policy to evaluate fit and proper requirements in line with applicable sector regulations, which are upgraded from time to time.

In particular, the Policy, in keeping with the objectives set out therein and the fit and proper requirements in terms of integrity, professionalism and independence set for the persons covered by the Policy, describes:

- the procedure for assessment of the requirements (both for individual persons and the Board of Directors as a whole) and for any notification to the Regulator;
- the documents that can be used to evaluate the foregoing fit and proper requirements;
- the rules whereby the Policy is revised so as to ensure, on an ongoing basis, compliance with internal and external rules.

The review to determine the existence and continued possession of fit and proper requirements for the position covered by the Policy is carried out in advance by the Committee for Internal Control and Related Party Transactions in the following cases:

- upon nomination of one of the persons covered by the Policy;
- in the presence of reasons that suggest that these persons no longer meet one or more fit and proper requirements (including through reports filed by them or other knowledgeable parties, whose anonymity is guaranteed);
- with specific reference to professionalism, in the presence of reasons suggesting - due to expiration of term of office, resignation or termination of one or more members – that the Board of Directors as a whole does not have adequate technical skills as per the applicable regulations;
- once a year.

In all such cases, once the necessary information has been obtained, the Committee informs the Board of Directors, providing also a non-binding opinion.

The Board of Directors is responsible for adopting resolutions regarding the continued fulfilment of the fit and proper requirements by the persons covered by the Policy and for all the most important applicable decisions, convening, where necessary, the General Meeting of Shareholders for any pertinent resolution, as well as for verifying that the Board of Directors as a whole – in accordance with article 5, paragraph 2, sub-paragraph l) of ISVAP Regulation 38/2008 - has the required technical expertise – especially in the matters indicated by the Regulator – in insurance and financial markets, governance systems, financial and actuarial analysis, regulatory framework, marketing strategies and business models.

To that end, the Board uses the results of the self-assessment carried out annually pursuant to article 5, paragraph 2, sub-paragraph z, IVASS Regulation no. 38.

It is understood that any person covered by the Policy who, upon completion of the review, fails to meet the fit and proper requirements set out by the Policy may be suspended and/or terminated, as per the applicable laws and the Articles of Association. The same sanctions may apply, considering the seriousness of the violation and the breach committed, in case of false statement and/or production of incomplete or untruthful documentation (following a specific request by the Competent Body), without prejudice to any reporting to legal authorities, also in the event of false statements.

B.3 Risk management system and own risk and solvency assessment ("ORSA")

The Solvency II Directive requires companies and groups to have in place "an effective system of governance which provides for sound and prudent management of the business" that is proportionate to the nature, scale and complexity of current and prospective risks, setting the main requirements[5]. This system concerns the entire business process, with the objective of enabling the Group and the Group Companies to optimise their risk-return profile, though the generation of profits and maintenance over time of an adequate level of economic/regulatory capital, meeting, in the meantime, the expectations of shareholders and policyholders.

In light of IVASS Regulation no. 38 of 3 July 2018, the periodic upgrade of the policies is currently under way and it is part of the broader plan to adapt to the new IVASS Regulation no. 38.

In particular, the Group and the Group Companies:

- promote ethical values and a risk culture with executives and employees in general;
- integrate risk management into the business through:
  - the determination of the risk appetite and the mechanisms to check consistency between risk appetite and the effective risk profile;
  - the process for the current and prospective assessment of the risk profile, aligned with and integrated into the main decision-making processes (especially the process to formulate the strategic plan);
  - new product development and investment processes with specific steps to review the impacts on the Group and the Group Companies' risk profile by using risk-adjusted evaluation metrics;
  - the outright consideration of the consistency between own business initiatives with the risk appetite and the impact of such initiatives on the risk profile.

With the publication of the Group Risk Management Policy, the Group and the Group Companies have a Risk Management System in place that informs the entire business processes of the individual companies. The Group and the Group Companies have implemented a Risk Management System in line with the policy.

Within the scope of the investment policy pursuant to IVASS Regulation no. 24, the Group and the Group Companies take on risks in accordance with the following principles:

- in keeping with the strategic goals of the business and the risk appetite as well as with the need to identify, measure, monitor and manage risks related to each asset, taking into account the prudent person principle under article 132 of the Solvency II Directive.

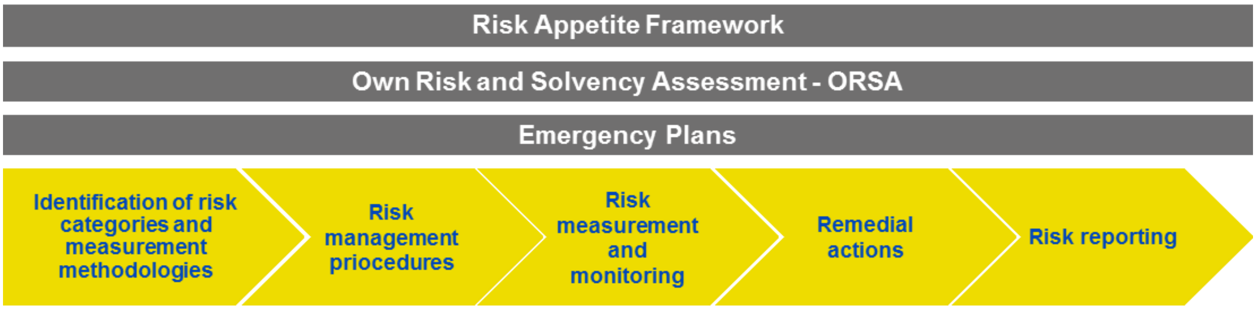
[5] Directive 2009/138/EC art. 41-49

In addition, concentration risk it assumed also in accordance with investment policies pursuant to IVASS Regulation no. 24/2016;

- investment in complex assets and derivative instruments follows the investment guidelines, approved by the Board of Directors with Master Resolution under IVASS Regulation no. 24/2016, and specific processes designed by the Group;
- the Group and the Group Companies prefer creditworthy counterparties and optimise their investment decisions taking into account the risk-return trade-off.

The Risk Management System (henceforth RMS) is intended to have risk-based decisions compliant with applicable national and European regulations. This System is made up of a combination of strategies, processes and procedures necessary to identify, measure and value, monitor, manage and report, on an ongoing basis, the risks to which the Poste Vita Group and the Group Companies are exposed.

The processes of the RMS



In particular, the RMS entails strategic processes conducive to the definition and evaluation of the frame of reference for the more operational processes.
Specifically, strategic processes include:

- the construction of the Risk Appetite Framework (RAF),
- performance of Own Risk and Solvency Assessment - ORSA,
- the preparation of the Emergency Plans.

Below, a description is provided of the operational processes that make up the RMS:

- **Definition of the risk categories and measurement methods**: process designed to identify, recognise and record the risks to which the Group and the Group Companies are exposed in the short, medium and long term and to define the measurement methods in view of the nature, scope and complexity of the business risks. The process to define the risk categories includes existing or potential risks on the business already underwritten and under management as well as risks arising from new business.
- **Risk management procedures**: these include all the activities leading to acceptance, transfer/mitigation or elimination of:

- risks on existing business and activities;
- risks deriving from new business and activities.

- **Risk measurement and monitoring**: process designed to:
  - determine the impact on the income statement and balance sheet, for quantifiable risks;
  - assess the relevance of non-quantifiable risks.

  The risk measurement and monitoring process aims to guide decision-making in the assumption, acceptance, elimination, transfer and mitigation of risks.

- **Remedial actions**: in keeping with the monitoring activities implemented, in the event that operational limits (set in the policies) are exceeded and/or the risk profile is not consistent with the Risk Appetite Framework, it is necessary to identify remedial actions that can be activated. To that end, in the above-mentioned circumstances it is necessary to start a process conducive to:
  - identifying remedial actions;
  - evaluating the effectiveness of the remedial actions identified;
  - activating the authorisation process for remedial actions;
  - implementing the actions and the relevant monitoring.

- **Risk reporting**: the Group and the Group Companies adopt an integrated risk reporting system intended to provide evidence of their own risk profile as well as the main information to be used in pursuing strategic objectives. In particular, the Group and the Group Companies' internal risk reporting system aims to give the different corporate levels information necessary for strategic decision-making and to support risk management.
  The external reports are prepared mainly for the Regulator, rating agencies and the market.

Each process of the Risk Management System maintains the consistency between the risks assumed and the combination of competencies and resources available to manage them.

As provided for by the Regulator, the Group and the Group Companies have also prepared, within the risk management system, a liquidity plan with projected cash inflows and outflows in relation to the assets and liabilities undergoing adjustments due to volatility. ALM assessments call for the simultaneous winding down of the policy portfolio, on the liability side, and the financial instrument portfolio, on the asset side, to determine the associated outflows and inflows, respectively, over a five-year real-world scenario.
The analysis is run under conditions of closed and open production and 50% Group production. The analysis is designed to check whether there is sufficient liquidity for the Group to meet its obligations, also under stress conditions, without resorting to the sale of illiquid assets.

Lastly, in calculating solvency requirements for the spread and counterparty risks (with the Standard Formula under Solvency II), the Group and the Group Companies evaluate creditworthiness with a rating that captures the opinion on the credit quality of the individual

issue or the individual issuer by the main rating agencies - Moody’s, Standard & Poor’s and Fitch – on the basis of the second-best rule.
The above rating is also the basis on which investment limits are set by the Board of Directors and senior management, and expressed in terms of maximum percentage for financial assets below investment grade and maximum exposure per issuer.

The strategic processes of the risk management system

The **Risk Appetite Framework or “RAF”** takes on a central role in the strategy adopted in terms of risk underwriting and management by the Group, to achieve business objectives.
The Group’s RAF is structured along the levels outlined below and must ensure consistency with the strategic objectives to be pursued and with capital adequacy requirements.

- **Overall risk appetite**: defined in terms of capital adequacy, operating performance and liquidity and calibrated in keeping with the Group’s objectives and strategies set out in the Strategic Plan:
    - capital adequacy: represented by the Group’s Solvency Ratio;
    - operating performance: with the objective to monitor profitability through the following metrics: 1. Return On Risk Adjusted Capital (RORAC), 2. Internal Return On Risk Adjusted Capital (IRORAC), 3. Performance of separately managed accounts and 4. Cost of operational risks;
    - liquidity: with the objective of monitoring the short- and medium-term Liquidity Coverage Ratios.

- **Appetite by type of risk**: defined for each risk category based on specific business indications and the overall risk appetite.

The Risk Appetite Framework informs also the operational limits that make it possible to apply the risk management system in the areas managed by the operational functions and which are designed to ensure that the risk exposure is consistent with the pre-defined risk appetite.
Risk appetite in terms of Solvency Ratio, Return On Risk Adjusted Capital, Internal Return On Risk Adjusted Capital and Liquidity Coverage Ratio, unfolds along the following levels:

- Risk Appetite is the target risk level and is set on the basis of changes in the Group’s risk profile in the first year of the strategic plan;
- the Soft Limit and the Risk Tolerance thresholds are determined by analysing the results of the sensitivity analysis and the stress tests which reflect the alert and maximum risk levels accepted by the Group;
- Risk Capacity represents the Group’s ability to take risks in relation to its capital base on the specific date and to the rules setting capital requirements.

In addition, for certain specific evaluations, target levels have been set that in the monitoring process are compared with the Group’s effective risk profile as of the evaluation date.
The RAF is approved by the Board of Directors at least once a year and is monitored at least every quarter. The findings of the monitoring activity are approved by the Board of Directors.

The **emergency plans** are prepared by the company under non-critical circumstances with the objective to define the manners in which the company can manage a crisis situation. Specifically, the Poste Vita Group has:

- **An operational contingency plan**: this plan is intended to trigger action to ensure continuity of the Group's business processes if one or more situations detected early turn into a crisis or a disaster;
- **A business emergency plan**: this plan allows the management of the impacts deriving from negative events linked to scenarios to which the Group considers itself vulnerable, such as to undermine its ability to continue to provide its services to customers as well as its financial strength and capital base.

Moreover, the Poste Vita Group, in its capacity as UCP and in keeping with the provisions of article 83 of IVASS Regulation no. 38 of 3 July 2018, has a Reinforced Emergency Plan for the Group which governs the crisis situations and the strategies intended to restore ordinary business conditions, identifying the modus operandi, the roles and responsibilities of the main corporate bodies and the corporate functions involved in crisis management to return to normal operations.

Own Risk and Solvency Assessment - ORSA is a process to evaluate the Group's risks and solvency in line with the time horizon of the Strategic Plan.
The ORSA and the Capital Management processes constitute together the "risk-based decision-making process" used to define the Group's strategic decisions. Such process can be seen as a "cyclical" process (see Figure 1.1) involving the processes to define the risk appetite, to prepare the Strategic (and the Strategic Asset Allocation process related to it) and Capital Management Plan as well as the own risk and solvency assessment (ORSA).

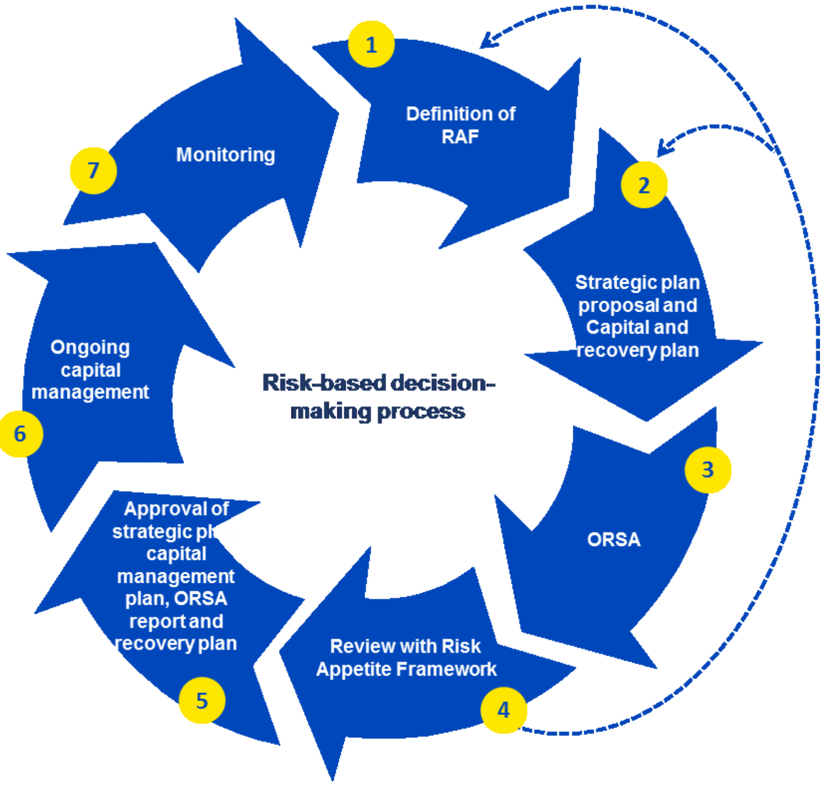


Chart of the risk-based decision-making process

Below, details of the risk-based decision-making process adopted by the Group are provided.

<u>1 Definition of the risk appetite framework (RAF)</u>

The Risk Appetite Framework or RAF is the took through which the Poste Vita Group sets its risk appetite in line with the strategic objectives that it intends to pursue, the capital adequacy requirements and operating performance.

In keeping with the business objectives outlined in the Strategic Plan and with the Risk Management Policy, the Risk Management Department, with help from the competent functions sets the desired Risk Appetite, Soft Limit, Risk Tolerance and Risk Capacity thresholds (as described in the section “Risk Appetite Framework”).

<u>2 Strategic Plan proposal, Capital management plan</u>

The second phase of the process calls for the preparation of a Strategic Plan proposal, the Capital management plan by the corporate functions in charge of operations planning and control as well as capital management processes, in keeping with the Risk Appetite Framework and the relevant limits.

Regarding the Strategic Plan, the planning process includes, in particular, the setting of the strategic objectives, the outline of the strategic initiatives proceeding and the preparation of operating and financial projections associated with business objectives.

The Capital management plan deals, in particular, with the classification forecasts, issue of own funds and dividend distribution.

3 ORSA

ORSA, the ultimate responsibility of which falls on the Board of Directors, is coordinated by the Risk Management function, with help from the Actuarial department, and is prepared through a process commensurate with the organisational structure and consistent with the Group's risk management system. The assessment process, as described below in detail, must be consistent with the objectives described previously, without prejudice to the proportionality principle.

3a Frequency and timing of execution

The ORSA process is carried out at least once a year (i.e. regular ORSA), using as date of reference 31 December of the previous year.

The regular ORSA and the preparation of the relevant documentation are started following the closing of the financial year of reference and completed by the deadlines set by the Regulator.

The Board of Directors of the Poste Vita Group, except for the regulatory approvals required, may request use of a different reference date for the analyses, so that the results of such analyses are more consistent with strategic planning.

The frequency of the assessments can be increased (i.e. non-regular ORSA) in the presence of circumstances that might change to a significant extent the risk profile of the Poste Vita Group or also in light of the centrality of the ORSA process in strategic decision-making. This last circumstance might take place in relation to the time to prepare the Strategic Plan (reference is made, for example, to timing differences between the assessment required by the Regulator and that prepared in connection with the planning cycle of the Poste Vita Group). The significant changes to the risk profile might derive from either endogenous factors (such as mergers, acquisitions and disposals, changes in investment policies, pricing or provisioning, or in case of introduction of new businesses) or exogenous factors (for example financial and real estate crises, catastrophic events exceeding reinsurance protection, failures of public institutions or significant regulatory changes).

3b Identification of the risks to be considered in ORSA

In ORSA, the Risk Management Department takes into consideration all the risks represented in the taxonomy outlined in the Risk Management Policy. The taxonomy reflects current risks and any emerging risks, measurable and unmeasurable risks. Special attention is paid also to risks deriving from the introduction of new businesses and the offer of new products. Moreover, the Group takes into account any risks deriving from essential or important outsourced activities as well as any indirect risks that any risk can generate.

Below, the risk categories indicated in the taxonomy are listed:

- Strategic risks;
- Life underwriting risks;
- Non-life underwriting risks;
- Health life underwriting risks;

- Health non-life underwriting risks;
- Market risks;
- Counterparty default risk;
- Liquidity risk;
- Non-compliance risk;
- Money-laundering and terrorist financing risk;
- Risks related to being part of a Group;
- Non-diversification or concentration risk;
- Intangible asset risks;
- Reputational risk;
- Operational risk.

Risks that are not fully included in the calculation of solvency capital requirements are as follows:

- Strategic risk;
- Reputational risk
- Non-compliance risk;
- Non-diversification or concentration risk;
- Risks related to being part of a Group;
- Intangible asset risks;
- Liquidity risk.

3c Risk assessment method

The risk measurement/assessment process is intended to determine the impact of such risks on the operating performance or, for unmeasurable risks, to assess their relevance as well as to guide the relevant underwriting, acceptance, elimination, transfer and mitigation decisions. The prospective assessment of risks takes place through the standard formula.

The Poste Vita Group assesses, at least once a year, and otherwise whenever circumstances arise that might change significantly the risk profile, the current and prospective risks to which they are exposed in accordance with the ORSA principles (*Own Risk and Solvency Assessment*).

The adequacy of the Standard Formula is analysed by taking into consideration the assumptions outlined in the applicable regulations and evaluating their consistency with the Companies' specific situation.

Quantitative assessments can be supplemented with qualitative considerations, with the description of organisational safeguards and processes used to manage and mitigate particular types of risk. If necessary, risks are analysed also under particularly unfavourable scenarios designed in accordance with the criteria laid down by the Stress and Scenario Testing Framework approved by the Board of Directors. The methodologies established are applied over the period considered in the strategic plan and are submitted, together with the findings of the assessment, to the Board of Directors for approval, after appropriate discussion.

3d Manner of execution of ORSA

ORSA is carried out in accordance with the following principles:

- the identified methods, the assumptions and the parameters adopted are shared, adequately documented and reviewed at least once a year;
- any simplification adopted must be adequately justified and documented;
- the results of the models used for decision-making purposes must be evaluated by taking into account assumptions, parameters and simplifications utilised;
- the results of the models must contemplate adequate checks and be reviewed by expert staff, possibly supported by external staff;
- the results of the qualitative and quantitative analyses are adequately documented and shared with the Board of Directors.

3e Data gathering

The input data utilised for current and prospective risk and solvency assessments meet the requirements of the Data Quality Policy, to ensure complete and up-to-date information.

3f. Identification of significant risks

The identification of significant risks calls for the gathering of the information necessary to locate, recognise and record the risks to which the Companies are exposed in the short, medium and long term, whose consequences might undermine the ability to meet strategic objectives and/or solvency. Specifically, this process requires a qualitative and quantitative assessment of gross risk exposure and an evaluation of risk mitigants. The findings are formalised in a specific risk map.

The Risk Management function performs stress tests on significant risks.

3g. Stress test analysis

For more significant risks, the Risk Management Department runs a sufficiently wide range of stress tests or scenario analyses, to evaluate and quantify losses in Own Funds and the ability to keep up with solvency requirements, in the presence of the adverse circumstances assumed.

The stress test assumptions and scenarios are applied by using evaluation methods consistent with the Guidelines of the Stress and Scenario Testing Framework and are approved by the Board of Directors.

3h. Current and prospective assessment of the Balance Sheet Solvency II and Own Funds

Based on the guidelines of the Strategic Plan, the Risk Management Department projects the Solvency II Balance Sheet and calculates Own Funds and their different tiers. Specifically, the Department, with support from the Actuarial Department, checks compliance of the requirements related to the calculation of the technical reserves and identifies the potential risks deriving from the uncertainty associated with this calculation

Based on the findings of the assessments, including under stress conditions, the Risk Management Department evaluates the Group’s capital adequacy on the basis of the solvency ratio, and the ability to meet the capital requirements for the planning period, thus verifying the sustainability of the underlying Strategic and Capital Management Plans. If the findings of the review are negative, the risk-based decision-making process is iterated.

4 Review with the Risk Appetite Framework

In this context the Risk Management function checks the consistency of the findings of the ORSA against the risk appetite and the limits set by the RAF. If the results of the review are negative, the risk-based decision-making process is iterated. More specifically, the review one's own risk appetite and/or the assumptions underlying the strategic and capital management plan is assessed.

5 Approval of Strategic Plan, Capital Management Plan, ORSA Report

The Risk Management function reports the findings of the current and prospective assessment as well as the relevant solvency requirements in internal documentation, for use by the Poste Vita Group's Board of Directors, and in the Regular Supervisory Report (RSR), in accordance with the applicable regulations and the standards dictated by the Company's reporting policy.
The findings of the assessments approved by the Board of Directors are subsequently reported to Senior Management and the structures concerned together with the conclusions reached by the Board.
The paper trail that makes it possible to track the ORSA process is maintained, thereby ensuring the traceability of the opinions and information on which the process is founded, in keeping with the provisions of the applicable regulations.
Further documentation could be required by the operational functions involved in the process.

6 Ongoing capital management

The function responsible for capital management:

- updates, in keeping with regulatory developments, the instructions to classify and evaluate own funds, for both the current and prospective risk assessment;
- ensures that the elements of own funds, both when they are issued and subsequently, meet the requirements of both the applicable capital regime and the transitional regime;
- classifies own funds in the required tiers;
- monitors so that the elements of own funds are not encumbered by agreements or related transactions, or by the group structure, that would undermine their effectiveness as capital;
- guarantees that the actions required or allowed on the basis of contractual, legislative or regulatory arrangements governing an element of own funds are started and completed in a timely fashion;
- ensures that the contractual arrangements governing the elements of own funds are clear and not ambiguous in relation to the classification criteria;
- quantifies the elements of own funds and checks (with help from the Risk Management function) how basic own funds react under stress, taking into account the absorption of losses;
- ensures that ancillary own funds (which unlike basic own funds can be used to absorb losses) are callable, when necessary, in a timely fashion;

- identifies and documents any situation that originates separate funds, ensuring that adequate calculations and adjustments are performed to determine solvency capital;
- regulates the issue of elements of own funds in keeping with a medium-term capital management plan;
- guarantees that consideration is given to the dividend policy in the capital position;
- identifies, documents and enforces the circumstances in which distributions related to an element of own funds must be deferred or cancelled;
- identifies the extent to which the company is based on elements of own funds subject to transitional measures;
- sets specific limits to the commitments and guarantees provided by the company, also having regard to the instruments considered by the receiving company as part of ancillary own funds, together the evaluation of the impact on own funds in case the commitments are called;
- documents any postponement or cancellation of distribution of one of or more elements of own funds.

Current and prospective assessments identify also the elements of own funds that are not eligible to cover regulatory capital.

7 Monitoring

Monitoring of the Group's capital adequacy – following approval of the Strategic Plan, the Capital management plan and the ORSA by the Board of Directors – aims to ensure the constant connection among the risk profile, the approved risk tolerance levels, the overall solvency needs and the ability to comply with solvency requirements.

In particular, monitoring focuses on:

- deviations from the objectives established by the Risk Appetite Framework and related risk tolerance limits;
- composition of capital in terms of tiers and, in line with the Risk Appetite, of the capital requirement;
- potential significant changes of the risk profile with respect to expectations, with possible effects on the calculation of both future solvency capital requirements (SCR) and on minimum capital requirements (MCR);
- the uncertainties and potential risks of the requirements inherent the calculation of technical provisions.

The monitoring activities in question are carried out by the operational functions and the Key Functions, on the basis of roles and responsibilities defined in the Risk Management Policy.

B.4 Internal control system

Poste Vita, in its capacity as the Ultimate Subsidiary of the Poste Vita Group, has identified a structured governance model for its internal control system applicable at the Group level and that is implemented operationally in the individual Companies on the basis of the role taken on by the parties involved in internal control and risk management.

The specific implementation of said model (and the mentioned “control levels”) - with reference in particular to:

- the duties and responsibilities of the Governance Bodies, the Board Committees and the Risk Management, Compliance, Actuarial, and Internal Auditing functions and the relevant reports as well as
- the links between the functions and the controlling bodies, pursuant to applicable regulations -

are described in the “Guidelines on the Internal Control and Risk Management System”, issued by the Parent Company’s Board of Directors and adopted by the Board of Directors of Poste Assicura.

Against this backdrop, the Parent Company started the process to update the Guidelines pursuant to IVASS Regulation no. 38 of 5 July 2018. The new version of the Document will be submitted to the Boards of Directors of the Poste Vita Group Companies for approval by the second quarter of 2019.

Regarding compliance, the department responsible for verifying it is established as an independent unit, designed essentially to evaluate “whether the organisation and the internal procedures are adequate to prevent non-compliance risks” and whether it is part, within the scope of its duties, with specific reference to the risk falling within its purview, of the overall risk management system as a second-level control function.

The Compliance Department of the Parent Company, Poste Vita SpA, performs its duties for the entire Poste Vita Insurance Group at the central level.

In accordance with the regulatory framework of reference, the Parent Company’s Compliance Department is established by the Board of Directors as a specific organisational unit - different from and independent of the other control functions and the operational functions – that cooperates with the Board of Statutory Auditors, the independent auditors, the Supervisory Board (contemplated by Legislative Decree 231/01) and the other control functions.

In the period under review, the Compliance Department assessed - in keeping with the applicable regulations (and, in that respect, article 46, paragraph 2, of Directive 2009/138/EC) and company policy (i.e. “Compliance Department Policy”, see below) and the Activity Plan submitted to the Board of Directors for 2018 – the safeguards and controls adopted by the Poste Vita SpA Group to prevent non-compliance risk, reporting any findings, recommendations, action plans, and the related implementation status and timing, to the Board of Directors, management and the Internal Control Committee.

More specifically, activities were performed in the following areas:

a. *Review of rules and regulations on the transparency and fairness in dealing with policyholders and claimants and, more generally, with all the beneficiaries under* _insurance policies_, with the objective of evaluating the adequacy of the organisational measures adopted by the Group in that respect, as well as review of the documentation related to insurance products and initiatives for customers before they are launched in the market. The main areas where action was taken were pre-contractual and contractual transparency, communication while the contract is effective, sales force training, advertising initiatives.

b. _Review of the organisational measures (mainly policies and corporate procedures) adopted by the undertaking_, to investigate their adequacy in preventing non-compliance risks. Any criticalities found and the improvement recommendations considered useful were eventually shared, and an action plan (to be monitored over time) was agreed upon, with the competent corporate functions.

c. _Compliance audits and reviews_ in certain company areas considered significant or risky (e.g. implementation of investment policies, capital management activities, policies tied with loans, solvency II reporting, outsourcing) that might be designed, among others, to ensure that the business functions involved take into due consideration compliance issues, knowing and implementing the operational protocols intended to curb such risks;

d. _Ongoing monitoring_ of particular issues or areas where other controls are in place (e.g. privacy, anti-money-laundering, etc.) or where expressly provided for by internal and external rules and regulations (e.g. remunerations, sale of class III products for Poste Vita SpA, outsourcing, etc.).

e. _Analysis of new regulations and assessment of corporate process upgrades_

In this area, in 2018 the Compliance Department monitored international, EU and national regulations governing the insurance business, reporting promptly any provision of interest to the corporate functions responsible for the various matters and the corresponding function of the Intermediary.

Of the new regulations enacted during the year, the following were regarded as having a special impact on the Poste Vita SpA Insurance Group, in consideration of their innovativeness:

- the new rules implementing EU regulations and the national law transposing the Directive on insurance distribution (i.e. IDD Directive), whereby IVASS set out the procedure for the imposition of administrative sanctions (Rule 39), insurance and reinsurance distribution (Rule 40) and, lastly, the disclosure, advertising and creation of insurance products (Rule 41);
- the new provisions on the corporate governance system of insurance companies and groups, particularly IVASS Regulation 38/2018 and the Letter to the Market of 5 July 2018, which completed the adaptation to the Solvency II Framework on the matter by implementing the Guidelines issued by EIOPA and redefining the rules applicable at the national level.

For these, the Compliance Department contributed to start dedicated working groups, analysing the steps necessary to adopt the new rules and supporting the functions responsible for the specific activities to devise the plans to ensure compliance with such new rules and regulations by the deadlines indicated by the Authority.

In addition, the Compliance department:

- reports systematically on the results of the activities performed (for the different competence levels and in accordance with company policies and rules) to the Board of Directors, to the CEO and, where required, to the Board of Statutory Auditors and the Supervisory Board under Legislative Decree 231/01 as well as to the Internal Control Committee and the Remuneration Committee;
- submits every year to the Board of Directors a report on the adequacy and effectiveness of the systems adopted by the two Companies to manage non-compliance risk, on the audits performed, on the findings and criticalities identified, providing an account of the status of the improvement actions taken, if any;
- acts as a consultant to the Board of Directors on compliance with laws, regulations and directly applicable European directives.

Lastly, it is noted that the Compliance Department prepares every year (and submits to the Board of Directors for approval), the Policy of the Compliance Department, that is the policy governing its mission, its role in the organisation chart, the characteristics of its employees and Head and, most of all, to establish the main duties and responsibilities that the Department has to perform to prevent and monitor non-compliance risk (also with reference to Poste Assicura SpA[6]) and the manner in which such duties and responsibilities are fulfilled.

The Compliance Department is expected to review the text of the Policy every year, in connection with the revision of the directives on internal control systems or more frequently:

- in the presence of changes in the regulatory context of reference;
- in the presence of changes in the organisational structure that impact on it;

submitting such review, in any case, to the Board of Directors for approval.

Following repeal of ISVAP Regulation 20/2018, the Compliance Department Policy will be revised in accordance with IVASS Regulation 38/2018 by the deadlines set out in the relevant transitional provisions.

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[6] Until the adaptation of the Parent Company and the Group's governance system to the new rules introduced by IVASS Regulation no. 38/2018 (and during the transitional regime), the Compliance Function of Poste Vita carries out – pursuant to articles 23 and 25 of IVASS Regulation no. 20/2008 - centralised activities on behalf of the Poste Vita Insurance Group as a whole, thus also in relation to Poste Assicura.

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B.5 Internal Auditing Function

In 2018 the Internal Auditing Function is centralised at the Poste Vita Insurance Group level and performs audit activities for both Poste Vita and Poste Assicura.
The auditing function checks, within the scope of the Corporate Governance System, the Internal Control and Risk Management System, whose activities are defined by the Board of Directors in keeping with the Poste Vita Insurance Group's strategy and risk appetite and taking due account of the Poste Italiane Group's organisation (hereinafter also ICS), as outlined in specific policies.
With the centralisation, in line with regulatory provisions, Poste Assicura appointed a contact person responsible for managing relationships with the Head of the auditing function of Poste Vita, the Parent Company and, among others, for monitoring the centralised activity, also by checking compliance with the Service Level Agreement entered into with the Parent Company.
The Head of the Parent Company's auditing function and the Poste Assicura's Contact Person meet the fit and proper requirements for their respective positions in terms of integrity and professionalism.
The function assists the Poste Vita Group in the pursuit of its objectives through an independent and objective assurance[7] activity intended to improve control, risk management and corporate governance processes. Moreover, it advances the dissemination of ethical values and principles within the organisation, without taking any management responsibilities.
The function, with a systematic and risk-based professional approach, monitors and evaluates the effectiveness of the ICS and, more generally, of the governance system through audit activities. Such activities are performed on the basis of an annual plan, as approved based on a long-term view by the Boards of Directors of both Insurance Companies. Audit planning activities take into account the nature, the size and the complexity of current and prospective risks related to the Poste Vita Group, as well as any addition made by Poste Italiane's Internal Control function in preparing the Audit Plan of the Poste Italiane Group.
The Internal Auditing function interfaces constantly, on behalf of Poste Vita and Poste Assicura, with all the Bodies/functions/parties involved in control activities (other key functions, Head of Individual Pension Plan, independent audit firm), submitting specific reports on issues of interest also to the Supervisory Board under Legislative Decree 231/01 and to the Manager responsible for financial reporting under Law 265/05.
To ensure a coherent and integrated overview of the governance system, the ICS and the risk management process, all the players involved in control activities fulfil their responsibilities in accordance with an approach based on cooperation, coordination and the reciprocal exchange of information.
Regarding the reports among the control functions, in particular, Compliance, Risk Management, the Actuarial Department and Internal Auditing send regularly reports on the activities performed to one another, as well as specific memorandums on any

[7] Independent review and assessment activity, based on the professional methodologies of reference.

malfunction/inefficiencies detected in the respective areas of responsibility, coordinating the activities scheduled in their annual plans.
In addition, management and all employees are responsible for reporting any significant event occurred in their area of responsibility to Internal Auditing, to allow this function to fulfil its obligations. Lastly, at the auditing function's request, management is required to submit reports, also of a regular nature.
The Parent Company's auditing function is independent and autonomous, has no decision-making authority and/or responsibility over the audited activities and/or the staff involved in such activities and does not perform operational duties.
The function reports to the Board of Directors, which sets out its duties and responsibilities. The Chairman of the Board of Directors supervises the function, so as to coordinate its activities with those of the Board.
As their evaluation choices and their professional and behavioural style are informed by principles of objectiveness, the Head and the employees of the function (hereinafter referred to also as the "auditors") perform their activities in an autonomous and independent manner. The function operates in accordance with international principles and standards applicable to Internal Auditing professional practices, with rules and regulations of the insurance industry and with the Code of Ethics of Poste Italiane, the Code of Ethics of the Institute of Internal Auditors and the Group's rules and regulations.
Moreover, the Head and the auditors refrains from undertaking any action that might give rise to a conflict of interests or might undermine the possibility to perform their tasks impartially, with the obligation of reporting the potential conflict. Against that backdrop, any employees coming from internal operational functions do not audit activities or functions where they were involved previously, until a reasonable amount of time has lapsed (at least one year). In the case of a personal potential conflict of interest, the Head of the function is required to report it immediately to the Chairman or the Board of Directors while the other auditors are required to report it to the Head of the Department.
The Head of Internal Auditing acts for the constant improvement of the quality of the function's activity, which must be adequate, in terms of human resources and technology, to the nature, size and complexity of the Group's activities.
The Head of the function and the auditors must have adequate specialised capabilities, knowledge and skills, underpinned by constant professional training.

B.6 Actuarial department

The Actuarial Department is centralised at the Insurance Group level. Accordingly, the Actuarial Department of Poste Vita, the Parent Company, oversees also the corresponding activities of Poste Assicura which, in turn, has appointed a contact person responsible for liaising with the Head of the Parent Company's Actuarial Department, in accordance with the duties and responsibilities outlined in the applicable job description, who meets the fit and proper

requirements in terms of integrity and professionalism, as established by the Policy for assessment of the requirements for the position in Poste Assicura.
The Actuarial Department, which reports to Poste Vita's Risk Office, is independent of operational functions and performs control activities autonomously with broad powers to act so as to prevent, among others, conflicts of interests.
The Head of the Actuarial Department has no responsibility over operational activities and does not report, hierarchically, to persons in charge of operational activities. Such manager is appointed and terminated by the Board of Directors of Poste Vita (with the prior opinion of the Committee for Internal Control and Related-Party Transactions) and meets the fit and proper requirements in terms of integrity and professionalism, as established by the Policy for the evaluation of the requirements for the position.
The Actuarial Department is staffed with human resources, and is able to use external consultants in keeping with the Company's policies, and is equipped with modern technologies that enable it to perform on an ongoing basis the reviews, analyses and all the other tasks necessary to carry out the activities. The employees of the Actuarial Department, and its Head in particular, have the knowledge and experience to meet the requirements of the Solvency II Directive.
In keeping with the Solvency II requirements, the Actuarial Department performs specific tasks in the areas of technical reserves, underwriting policies and reinsurance treaties, contributing to the effective application of the Company's Risk Management System.
To be able to carry out the relevant activities, the employees of the Actuarial Department have free access to pertinent Company data and information.
The Actuarial department prepares, at least once a year, a report for the Board of Directors, describing the tasks performed and the relevant results, identifying areas of improvement and making any recommendations.

B.7 Outsourcing

Poste Vita and Poste Assicura's outsourcing and supplier selection Policies set out a number of criteria intended to guide the Companies in the selection of the most adequate supplier for the performance of the activities to be outsourced. Such criteria are as follows:

a) selection must take place, where the market allows it, through a comparison of three or more suppliers. In addition, in case of outsourcing of Fundamental functions, these suppliers must have their registered office in the European Economic Area[8] (E.E.A.);

b) the supplier selection must take into account the following indicators, to be evaluated by using solely objective, documented and transparent criteria:

- corporate structure and organisation

[8] In case the potential supplier is a "Group company" or a "Related Party", no comparison is necessary, provided that the internal documentation supports, at least, the notion that awarding the contract to the potential supplier is beneficial for the Company (e.g. potential operational and business synergies, expeditious set-up of operations, special price, etc.) and that the quality of the service can be considered satisfactory.

- specific skills and expertise to provide the service required
- financial and operating strength and capabilities
- adoption by the supplier of a code of ethics and an organisational model under Legislative Decree 231/01
- other indicators attesting to the supplier's integrity (as indicated by the Companies and specific to the sector operations)
- presence of adequate plans to deal with emergency situations or operational interruptions

c) the supplier selection must involve the submission of specific documentation by the supplier, to be gathered during the selection phase:

- certificate of the Chamber of Commerce attesting to the registration of the company in the Companies Register and the Administrative and Economic Index (REA) with anti-mafia wording and a note specifying that the company is not undergoing insolvency proceedings, or equivalent documentation for foreign suppliers
- the latest approved accounts
- information on the company's organisational structure
- any licence for the activity issued by the competent supervision authorities
- other documentation useful to evaluate and select the supplier.

To evaluate the appropriateness of outsourcing functions or activities, the Companies take into account the following factors:

- strategic importance of the activities to be outsourced;
- corporate know-how related to the activity to be outsourced;
- cost-benefit analysis of outsourcing;
- risk arising from any outsourcing.

Moreover, to determine whether an outsourced activity is "essential or important", also to activate the outsourcing authorisation process, the Company considers as "essential" or "important" functions or activities that, when they are not executed or are executed poorly, as such as to seriously jeopardise: (a) the company's ability to meet the conditions required to maintain the insurance licence or (b) the financial results, the stability of the company or the continuity and quality of services to policyholders.

In addition, for the purposes of the foregoing assessment, account is taken also of the following factors:

- **fulfilment of obligations with policyholders**: evaluation as to whether the failure to execute, or the poor execution, of the function or activity is potentially capable of undermining the Companies' ability to fulfil their obligations with policyholders;
- **reputational risk**: evaluation as to whether the failure to execute, or the poor execution, of the function or activity is potentially capable of harming the companies' image and to enhance the conflict with customers, thereby giving rise to loss of revenue (due, for example, to loss of customers), monetary losses (due for example to increased litigation)

and higher costs (due for example to advertising campaigns to burnish the companies' image).

Lastly, to monitor on an ongoing basis the quality of the service provided by the outsourcer, the Companies adopt adequate organisational and contractual safeguards to monitor constantly the outsourced activities and to act in a timely manner in case of failure by the outsourcers to honour their obligations.

B. 8 Any other disclosures

In light of the description of the Governance system in section B.1, the Board of Directors feels that the Group's organisational structure is fit to ensure, in accordance with the applicable regulations, an adequate governance system, in keeping with the nature, size and complexity of the risks related to the activity, as well as a complete, functional and effective internal control and risk management system and that such system is consistent with the overall strategy and the risk appetite.
With special reference to the activities carried out by the internal control functions, their placement in the organisation chart – which is intended to ensure their autonomy and independence – and the possibility to access pertinent company information are all factors that suggest that the internal control and risk management system is effective. Moreover, with respect to these functions, attention is called to their reports to the Board of Directors and the existence of adequate processes and procedure to guarantee an effective reporting system[9].
Furthermore, as of 31 December 2018 there is no further information to be provided on the governance system.

[9] In line with the provisions of article 294 paragraph 9 of the Delegated Regulation, the solvency and financial condition report includes an assessment of the system of governance of the insurance or reinsurance undertaking in view of the nature, size and complexity of the risks related to its activity.

C – RISK PROFILE

Current risk profile

Within the scope of its Risk Management System, the Group identified the following material risk categories:

- Life, non-life and health Underwriting risk;
- Market risk;
- Credit risk;
- Liquidity risk;
- Operational risk;
- Other material risks.

The “Other material risks” category includes reputational risk, strategic risk, non-compliance risk, concentration risk, risk related to being part of the Group and risk related to intangible assets.

The Group measures underwriting, market, credit and operational risk with Standard Formula metrics, which are considered suitable in light of the adequacy analyses conducted. In addition, for operational risk and for the most significant risks not considered in the Standard Formula the Group carries out additional qualitative and quantitative analyses.

Below, the Group’s risk profile at 31 December 2018 is shown, as determined according to the Standard Formula, where the weighs in percentage terms of the individual risk modules are determined in terms of total capital requirements, as adjusted for the diversification effect (Div) and the absorption ability of deferred taxes (DT), but considering the absorption ability of technical provisions.

The Group's main risks are market risk, life underwriting risk, operational risk and counterparty risk while non-life and health underwriting risks are still marginal.
The benefit arising from risk diversification reduces capital requirements and the adjustment for deferred taxes reduces them further.

Prospective risk profile
In the planning period the Group and the Group Companies' risk profile is not expected to change substantially.
In particular, market risk and life underwriting risk will continue to be predominant while credit risk and Health and Non-life underwriting risks will be stable overall, with a slight increase for the latter.
However, to mitigate underwriting and prospective market risks, the Parent Company and the individual Companies will try to increase the placement of class III products and will diversify its investment portfolio further.
As to Poste Assicura, given the nature of the business and the expected growth, the risk profile should increase apace with business volumes, remaining however largely stable in terms of composition in the plan's future years, thus confirming the predominance of underwriting risk over all the other risks.

C.1 Underwriting risk

To pursue its strategic and business purposes in keeping with its profitability and risk quality targets, the Group and the Group Companies have devised an underwriting risk policy that calls for:

- the development of products consistent with the requirements and characteristics of the different customer segments served;
- underwriting risks for which adequate management skills and supporting resources are available;
- underwriting risks consistent with the Risk Strategy and the Risk Appetite;
- the elimination or termination, where possible, or “underwritten” risks that are not consistent with the Rik Appetite Framework and/or that imply the crossing of the threshold risks established by the specific guidelines of the Group’s companies;
- underwriting risks with adequate mitigation techniques, particularly the consistency among reinsurance treaties, product characteristics (e.g. covered guarantees, contract duration) and portfolio mix;
- adequacy of procedures and control systems to ensure the completeness, pertinence and accuracy of accounting and statistical data, used for risk pricing/analysis.
- the assessment, when planning a new product or a new commercial initiative, of the following aspects:
  - adequate reinsurance structures;
  - underwriting limits;
  - contractual clauses (premium fractioning, possibility to renew automatically, termination in case of accident, etc.);
  - expenses (for acquisition, management and administration of contracts, including claim settlement expenses etc.);
  - changes (in terms of risk and concentration) in the portfolio mix that the issue of the new product can entail;
  - assessment of the impact determined by missed premium payments (e.g. inability to recover expenses and commissions) with related effects on the Group’s solvency.

In the risk underwriting phase the Group and the Group Companies should endeavour to ensure that the premiums collected are enough to cover future commitments with policyholders and contract management and acquisition costs, developing the skills and professionalism of the parties involved in product design, risk underwriting and, more generally, of all the parties participating in underwriting.
Moreover, the Group and the Group Companies should ensure increasing quality standards in the management of underwriting activities, to avoid reputational losses and adverse selection and/or moral hazard events.

The underwriting policy is intended to strengthen the Group's market position, increasing market share in the different insurance segments in which it operates by developing a profitable risk portfolio.

Underwriting risk, i.e. the risk of incurring a loss due to inadequate pricing of insurance products sold, can materialise due to:

- inappropriate choice of technical bases (demographic or financial);
- incorrect assessment of options implicit in the product;
- incorrect assessment of the parameters to calculate expense loads.

The Group and the Group Companies evaluate underwriting risk in accordance with the principles laid down by the applicable regulations, that is by reference to Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 (Delegated Regulation), which supplements Directive 2009/138/EC of the European Parliament and the Council on the taking-up and pursuit of the business of insurance and reinsurance (Solvency II), or according to the standard formula. It is worthy of note that the standard formula requires the separate assessment of life, non-life and health risks. Of these, the life underwriting risk is the main component of capital requirements.
Lastly, to mitigate unfavourable technical trends, to increase underwriting capabilities and to manage portfolio risks, each Group Company uses risk transfer techniques defined in the guidelines on reinsurance.
The assessment of the effective risk transfer takes place through the formalisation of specific company procedures that take into account the risk profile, with special reference to Risk Appetite in its different applications. The formalisation of such aspects takes place through the reinsurance Cession Plan.

At 31 December 2018, life was the greater underwriting risk while non-life and health risks were still negligible.

For life retail products, the Group's sufficiently large and homogeneous portfolio allows it not to resort to proportional treaties. However, a choice was made to use non-proportional reinsurance to face any catastrophe risk.
Considering he characteristics of the portfolio (low guaranteed minimum and absence of surrender charges) the most significant life underwriting risk is an increase in surrender frequency. The Standard Formula scenario that gives rise to capital requirements for lapse risk is in fact the mass lapse scenario, with an instantaneous surrender of 40% of all policies.

The Group's mortality risk is low, considering the characteristics of the products offered. The only area where this risk is significant is Term Life Insurance. With reference to these products, comparisons are made from time to time between actual deaths and deaths forecast according to the demographic bases adopted for pricing purposes, where the former have always been lower than the latter. In addition, mortality risk is mitigated via proportional and non-proportional reinsurance and, in the underwriting phase, to well-defined limits, in terms of insured amount and policyholder age. The portfolio is well diversified in terms of parameters such as age, gender, smoker status, socio-economic class, level of insured amount, type of insurance, underwriting level applied and geographical location. The Group has in place an underwriting system that limits adverse selection risk.

Longevity risk has become increasingly important over the past few years, with the placement of individual pension plans, which account still for a marginal share of insurance liabilities. For these products the Group reserves the right, upon occurrence of certain conditions, to change the demographic base and the composition by sex used to calculate its annuitisation rates.

The Group's non-life and NSLT health underwriting risks arise from the business of non-life Company Poste Assicura.
The features of Poste Assicura's distribution channel and the products sold resulted in a portfolio distribution focused mainly on the Health segment, where coverage of accidents and health and credit protection is predominant.
The non-business life for its part is mostly exposed to the risks arising from the Fire, General Civil Liability and Miscellaneous business lines, with products providing coverage for property, assets and income.

Lapse in the life business is the only significant risk within the underwriting risk module. Regarding this risk, the Group performed a stress test over the 2019-2022 plan horizon by combining an increase in the BTP spread with a 50% reduction of New Business and a 100% increase of lapse rates.
The combined effect of the stress factors is the strong reduction of the Solvency Ratio over the years of the plan. However, the solvency level is in line with that of the Risk Appetite Framework set by the Group.
Moreover, it should be noted that, to date, the Group and the companies do not transfer, nor do they expect to transfer, risks to investment vehicles.

C.2 Market risk

At 31 December 2018 market risk was the most significant risk for the Group and for Poste Vita's capital requirements while it was irrelevant for Poste Assicura.
The financial instruments held by the Group refer mainly to investments made to cover contractual obligations with policyholders, in relation to traditional with-profits life policies, pension products and index- and unit-linked products.
Over the past few years the Group and the Group Companies began diversifying their investments and reducing the amount of government bonds, given the persistence of particularly low interest rates and a slow global recovery while maintaining, however, a moderate risk appetite.

In particular, the Parent Company, in line with the Strategic Asset Allocation (SAA), put greater focus on liquid multi-asset, property fund and private market – mainly private debt and infrastructure equity strategies – funds.
In the area of market risk, attention is called to the following risk sub-categories:

- Spread risk;
- Interest rate risk;
- Equity risk
- Property risk;
- Currency risk;
- Concentration risk.

The risk that attracts the greatest capital requirement within the market risk module is spread risk on corporate bonds. However, Poste Vita has an exposure to government and similar bonds mostly issued by the Italian government. The Group, as already explained, started a gradual diversification policy, with a progressive reduction in government bonds, also to lower the volatility associated with concentration in this asset class.

The Group performed sensitivity analyses on the spread risk of government bonds, assessing the impact on the solvency ratio, over the 2019-2022 plan horizon, of an instantaneous increase of Italian and European government spreads for every projected year. The instantaneous increase of Italian government spreads did not reveal any particular criticalities along the horizon plan, showing a Solvency Ratio constantly in line with the Risk Appetite Framework built by the Group.

Interest rate risk, for its part, is linked mainly to separate accounts. Interest rate risk is assessed in connection with ALM projections, especially via the shock scenarios of the Standard Formula. Poste Vita performed also sensitivity analyses of this risk, with the evaluation of the impact of an instantaneous 100 bps. decrease of the Euro swap rates on the solvency ratio for each projected year over the plan horizon.
Also, in this case the solvency level is always higher than the risk tolerance set for the Company.

The equity risk module includes shares, mutual funds and the equity investments in subsidiaries Poste Assicura and Poste Welfare Servizi S.r.l. and in associated company Europa Gestioni Immobiliari SpA.

Property risk arises from the Parent Company's investments in a number of property funds. At 31 December 2018 this risk was low.

Currency risk arises from investments in two private market funds held by the Parent Company and the foreign currency positions held in multi-asset funds.

Lastly, at 31 December 2018 the capital requirement to face concentration risk was nil.

Concentration and risk mitigation

The Group adopts a risk management system which includes the strategies, processes and procedures necessary to identify, measure, assess, monitor, report and manage, on an ongoing basis, the risk to which it is exposed. This approach aims to allow the Group to react in a timely, accurate and pointed manner to the changes in the economic and financial system in which it operates.

Different risk management techniques are adopted to control and mitigate market risks, including:

- asset and liability management (ALM), or the definition of a strategic allocation of optimal assets in relation to the liability structure, so as to reduce risk to a desired level and to maximise the contribution of investing activities to value creation;
- a system of investment limits structured on three levels: the first limit level approved at least every year by the Board of Directors in investment management policies; the second limit level set by Senior Management which may contain stricter limits, compared with those set by the Board of Directors as well as more operational limits; lastly, the third level established at the operational level, to guide the activities of the different managers;
- a disciplined investment process, which requires an in-depth formal analysis for every complex investment by the function in charge of such activities, a Risk Opinion by Risk Management and a Compliance Opinion by the Compliance function;
- hedging foreign exchange risk for foreign-denominated positions in the Multi Asset fund;
- constant monitoring of the financial risks to which the Group's business and solvency are exposed.

With respect to concentration risk. Within the market risk module, at 31 December 2018 the Group identified the following exposures:

- Government bonds, mainly Italian;
- Bonds issued by Cassa Depositi e Prestiti SpA

C.3 Credit risk

In keeping with the provisions on market risks, to ensure that the level of credit risk is adequate to the Group's business, the investment activity is performed in accordance with the prudent person principle under article 132 of Directive 2009/138/EC.

In accordance with the standard formula, the Group and the individual Companies' credit exposures consists of two types:

- Type 1:
  - Exposures deriving from reinsurance treaties; in particular, consideration is given to recoveries from reinsurers for premiums and claims for the same amount as the best estimates of premium and claim provisions;
  - Sums due to reinsurers other than those in the preceding paragraph;

  - Bank current accounts.
- Type 2:
  - Sums due from brokers;
  - Sums due from contracting parties.

Depository institutions have a high credit standing with good rating levels. The capital requirement to face this risk derives mostly from type 1 exposures.

Lastly, the Group and the individual Companies did not, nor do they it expect to, start a lending operation.

C.4 Liquidity risk

Liquidity risk represents the possibility that the obligations with policyholders and other creditors might not be met, or that might be met only at exorbitant market and/or credit conditions or through the disposal of investments below cost or for less than the carrying amount, with negative effects on the financial condition, operating results and cash flows. For the Group and the individual Companies liquidity risk arises mainly from the inability to sell a financial asset readily for an amount close to its fair value or without incurring significant losses.

To evaluate its liquidity risk profile, the Group Companies perform analyses designed to manage their assets effectively in light of their obligations with the policyholders, preparing also prospective analyses of the effects of shocks in financial markets (asset dynamic) and on policyholders' behaviours (liability dynamic).

In managing its liquidity, the Companies ensure that:
- Assets matching technical provisions are invested in a manner consistent with the nature and maturity of the liabilities.
- The overall short- and medium-term liquidity level is sufficiently high, as monitored through cash flow analysis, and assets and liabilities are matched.
- Liquid assets are monitored through the analysis of the investment portfolio, money market funds and cash held in banks.

Expected cash flows are monitored through the development of cash flows of asset portfolios and liabilities, thus comparing inflows and outflows on a monthly basis.
Regarding the separate accounts, the Group monitors its liquidity profile on a quarterly basis, through its short- and medium-term Liquidity Coverage Ratio (LCR). This indicator comes in two versions depending on the time horizon of reference:
- the "Short-Term Liquidity Coverage Ratio" (STLCR) is calculated over a 1-year time horizon as the ratio of total cash inflows from interest, dividends, capital reimbursements, premiums to total cash outflows due to expirations, surrenders, claims and interest paid;

- the "Medium-Term Liquidity Coverage Ratio" (MTLCR) is calculated over a 5-year time horizon, equal to that of the Business Plan, as the ratio of total cash inflows from interest, dividends, capital reimbursements, premiums to total cash outflows due to expirations, surrenders, claims and interest paid.

Both ratios are calculated in base scenarios, under stress conditions and are applied to Poste Vita's separately managed accounts, monitored according to the thresholds indicated in the Risk Appetite Framework.
Regarding index-linked and unit-linked policies, the Group invests by closely matching the maturities of assets and liabilities, with the remote possibility of undermining the overall liquidity profile, which will be corrected by selling instruments covering provisions.

Lastly, the level of liquid assets, which consist of bank demand deposits, money market funds and financial assets maturing in less than two years, is monitored on a monthly basis by the investment area, whose activities are checked regularly by Risk Management. The analysis is supplemented with a further stress scenario to check applicability of the volatility adjustment.

Regarding the "expected profits included in future premiums", these are calculated as the difference between the best estimate in the base scenario and the best estimate in the scenario where recurring single premium policy have a renewal frequency of zero, thus removing in fact all future premiums and, in the meantime, all the obligations arising from these payments. In addition, the stress scenario does not expect any future additional payments. Under these circumstances, obligations are met by selling financial instruments held in portfolio, if necessary.

C.5 Operational risk

Operational risk is the risk of losses arising from the inadequacy or malfunction of internal procedures, human resources or systems, or from exogenous events[10].
At 31 December 2018, operational risk, as assessed with the Standard Formula, was the Group's third largest risk.
In addition, the Group evaluates its exposure to contingent operational risks through the risk self-assessment, where each risk owner provides a prospective self-assessment of the Group's operational risk events.
In particular, the risk self-assessment considers the following aspects:

- identification of extreme and hypothetical, though predictable, events also thanks to the risk owner's experience;
- frequency with which such events can take place, so as to grasp potential risks that never materialised in the past;

[10] According to article 101 paragraph 4 of Directive 2009/138/EC, operational risk includes legal risk and excludes strategic and reputational risks.

- estimate of the potential operating impact on risk events;
- estimate of the degree of effectiveness of the safeguards put in place to face the identified risk.

The self-assessment process determines the maximum potential loss associated with operational risk, the areas that are most exposed to operational risk and a corrective action plan.

The Risk Self-Assessment Analysis showed a number of areas for improvement but no significant criticality.

Moreover, the Group has implemented a loss data collection methodology which calls for the collection and survey of the information related to the operational events recognised in the income statement for the period, so as to identify the main risk factors that had an effective impact on the Group and any mitigation actions to be implemented. Accordingly, functions responsible for reporting operational events were identified and a validation process for the events detected during the quarter of reference was defined.
Data quality is guaranteed by the Loss Data Collection method implemented in the operational loss recognition system while Risk Management ensures consistency between data collected and the model data.
Lastly, Risk Management monitors the implementation of the Business Continuity Plan and the action plans of Disaster Recovery by the information systems.
The risk is well managed, as the Group performs analyses to check, mitigate and monitor operational risks.

C.6 Other material risks

This section illustrates the impact of risk mitigation techniques and the future management measures utilised by the Group to calculate Solvency Capital Requirements. In addition, information is provided on the other material risks identified by the Group and the Group Companies (reputational risk, strategic risk, non-compliance risk, non-diversification or concentration risk, risk related to being part of a Group, and intangible asset risk).
As illustrated previously, the Group has different financial and insurance risk mitigation techniques. Regarding financial risk mitigation techniques, the calculation of the solvency requirement in the currency risk sub-module takes into account the currency forward contracts held by the Multi-Asset funds.
In keeping with article 23 of the Delegated Regulation, based on the rules for the separately managed accounts and the investment policy under Regulation 24 approved by Poste Vita's Board of Directors, the following management actions were prepared:

- Investment strategies
- Crediting strategy.

The main strategy objectives for each separately managed account are:

- Setting of an appropriate asset-mix and rebalancing of the mix at given time intervals.
- Setting of a reinvestment strategy for cash flows accumulated between one rebalancing and the next.

Rebalancing takes place on the basis of the asset classes in relation to which assets are reclassified according to their characteristics. The asset classes established for the projection and aggregation of assets include:

- Fixed-income government bonds;
- Floating-rate government bonds;
- Fixed-rate corporate bonds;
- Floating-rate government bonds,
- Flexible funds,
- Equity and property funds,
- Cash.

Besides the above risks, the Group identified a number of additional risks which are not measured through the Standard Formula.

Reputational risk

This is the current or prospective risk of declining profit or capital deriving from a negative perception of the company's image by customers, counterparties, shareholders, employees, investors or supervision authorities. This risk is assessed on the basis of a qualitative approach. The business of the Poste Vita Insurance Group, which is part of the Poste Italiane Group, is naturally exposed to reputational risk, considering also the customer base (mainly mass market). For this reason, Poste Vita cooperates with Poste Italiane in the identification of group reputational risks and performs a rigorous monitoring and control activity over all the insurance products. Moreover, within operational risks, the risk owners consider whether damaging events might have a reputational impact.

As reputational risk is particularly important for the Group and the Group Companies, complaint management and customer care (service level, assistance and response time to customers) are monitored every month, with specific reports sent to the company functions on the two areas. The Complaint function monitors regularly the corrective actions taken to address the main causes of complaints and raise owners' awareness until the action is completed.

In addition, in 2018 Risk Management, within the context of the Risk Appetite Framework, monitored customer satisfaction levels, for the Insurance Group as a whole, through the quarterly report of the Net Promoter Score indicator.

Lastly, the Product Committee reviews the reputational impact that can be generated by the sale of new products. In addition, all advertising and/or information material or communications to the public must be always shared with, and approved by, the Compliance functions.

The Parent Company does not perform ad hoc sensitivity, concentration or stress test analyses on reputational risk but considers the effects of shocks on the other risk factors on the risk-return targets set by the strategic plan.

Strategic risk

Strategic risk is considered as the current or prospective risk of declining profit or capital deriving from:

- the adoption of wrong strategic decisions;
- an inadequate implementation of adopted strategic decisions;
- a muted reaction to changes in the competitive and market contexts.

In general, strategic risk considers the risk that the Group fails to achieve the risk-return targets set in the strategic plan of the Group Companies.

Strategic risk is monitored by Risk Management in keeping with the model defined by Poste Italiane for identifying, assessing, addressing and monitoring the Insurance Group and the Group Companies' strategic risks. This is done through a coordinated set of principles, rules, procedures, methodologies, tools and organisational structures the introduce into company operations safeguards capable of checking effectively and efficiently risks identified as strategic, generating in the meantime constant reporting to support decision-making processes. In particular, Risk Management, with support from Poste Italiane Group's Risk Management, coordinates the risk owners in the risk assessment phase, to identify the Group's main reputational and strategic risks and to evaluate their relevance. In particular, the Risk Owners of each identified risk factor perform a risk assessment in terms of impact and probability and identify the measures planned to mitigate risk, including by setting KRIs and Treatment Actions monitored on a quarterly basis.

In addition, regarding the mitigants of strategic risk, the Risk Management function is involved in the strategic planning and budgeting process with the objective to evaluate ex ante the potential impacts in terms of capital adequacy of the main strategic plan assumptions.

March 2018 saw the formalisation and approval of the Risk Appetite Framework by the Board of Directors, which calls for the definition of risk appetite objectives, risk tolerance thresholds and risk capacity limits consistent with the strategic plan, allowing the Company's governance bodies to perform effective and constant monitoring over the effective risk vis-à-vis expected risk. Monitoring the RAF metrics, to identify and evaluate any deviation from the Strategic Plan, is thus a mitigant of strategic risk which involves the Risk Management function, responsible for processing information considered useful for the monitoring activity, and senior management, which receives appropriate reports. Lastly, the Strategic Plan is monitored periodically by the Operations Planning and Control function, which identifies any deviations and, where necessary, considers the opportunity to undertake corrective actions necessary to achieve the pre-established targets.

Non-compliance risk

The Insurance Group defines this as the current or prospective risk of declining profit or capital deriving from judicial or administrative sanctions, losses or damage as a result of non-compliance with laws, regulations or measures of the Supervision Authorities or self-regulatory provisions, such as articles of association, codes of conduct or governance codes (including also the risk related to anti-money-laundering and terrorist financing events). It includes also the risk deriving from unfavourable changes in the regulatory framework or case law stances.

The level of non-compliance risk has been considered as adequately monitored, based on the coordinated oversight of the Compliance function, which is responsible for the process of identifying and measuring/assessing non-compliance risk for each Company through risk-assessment techniques.
The analysis brought to light certain areas of improvement but not particularly significant criticalities.

Money-laundering and terrorist financing risk
This is defined as the current or prospective risk of declining profit or capital deriving from judicial or administrative sanctions, operational losses or reputational damage as a result of non-compliance with laws, regulations or self-regulatory provisions intended to prevent the use of the financial system for money-laundering and/or terrorist-financing purposes. The Group carries out at least once a year a self-assessment of its exposure to this risk, in line with the applicable regulatory provisions. In particular, the risk exposure calculated in November 2018 is largely unchanged from that of November 2017, confirming a "low" residual risk level, determined by the combination of a "medium-low" intrinsic risk and organisational and control arrangements that, overall, have vulnerabilities of "little significance" and, as such, are reasonably effective and sufficiently equipped to identify and prevent risks as well as the Group's involvement in money laundering and terrorist financing.

Concentration risk
This risk arises when business is excessively concentrated in certain types of risk, product, customer, geographical area and is not adequately diversified. The features of the products currently placed by Poste Vita are fairly standard, with non-consolidated guaranteed minimum amounts relatively low for the majority of the portfolio. Geographical distribution for these products is homogeneous throughout Italy, due to the capillarity of the distribution network. However, the Group's product portfolio is still particularly focused on traditional with-profits policies, even though this focus is shifting on the placement of class III products.
Based on these considerations, the concentration risk is medium-high.

Risks related to being part of the Group
Risks related to being part of the Group include:

- "contagion" risk, that is the risk that, due to dealings between the Companies and the other entities of the group, situations of difficulty experienced by one group entity might spread, with negative effects on the Companies' solvency;
- conflict-of-interest risk associated with dealings with group entities.

The assessment of risks related to being part of the group, which the Parent Company, Poste Vita, performs with a qualitative approach, reveals the following aspects:

- The Parent Company, Poste Italiane, has shown over time to be highly sensitive to the protection of the interests of the customers of all of the group companies by putting in place the following safeguards:

  - Organisation and Management model under Legislative Decree 231/01 on the administrative liability of entities and legal persons;
  - Internal Control and Risk Management system (ICRMS);
  - system of prior assessment and regular monitoring of the risk profile of the products placed with customers;
  - preparation of surveys and/or market and industry research on corporate reputation and customer satisfaction.
- The Group has a specific policy on intercompany transactions, in accordance with IVASS Regulation no. 30 of 26 October 2016, to carry out intercompany transactions consistent with sound and prudent management principles, avoiding transactions that might produce negative effects.
- The Group has a specific policy on the management of conflicts of interest defined in accordance with the main regulatory references, to identify and manage conflicts of interest in relation to the issue/management of insurance/pension products as well as investment services and activities;
- The Parent Company, Poste Italiane, is expected to support the Insurance Group, in case the solvency position exceeds the risk tolerance limits, as detailed in the Risk Appetite Framework.

In light of the above, the risk of being part of the Group can be considered of a medium level.

With specific reference to the identification of the types of intercompany transactions, the Group Policy draws a distinction between:

- Non-material intercompany transactions, that is those that are always carried out at arm's length or those that:
  - do not qualify as material or highly material transactions if carried out with Group entities other than subsidiaries of Poste Vita;
  - are for amounts lower than the thresholds set for material and highly material transactions, if carried out with subsidiaries of Poste Vita;
- Material intercompany transactions, that is those that affect significantly the solvency or the liquidity of the Insurance Group or the Parent Company, particularly:
  - transactions linked to (i) loans, (ii) dividends, (iii) transfers of own funds;
  - all the other transactions for an amount equal to, or greater than, 1% of the company's capital requirement;
- Highly material intercompany transactions, that is those that affect to a very significant extent the solvency or the liquidity of the Insurance Group or the Parent Company, particularly:
  - capital movements or income not justified by the capital management policy or the dividend policy;
  - any unusual or significant of intercompany capital transfer;
  - any other transaction for an amount equal to or greater than 5% of the company's capital requirement;
- Transactions carried out at something other than the arm's length price.

Given the foregoing classification, the Group reports intercompany transactions to IVASS according to the following schedule:

- Every year, material intercompany transactions, still open or already completed in the year of reference, using the templates and in accordance with the terms contemplated by the IVASS Regulation. In addition, for these types of transactions, additional qualitative and quantitative information is provided in the periodic Report to the Supervisions Authority, in keeping with the applicable national and international rules and regulations;
- Promptly, highly material intercompany transactions, using the templates contemplated by the IVASS Regulation, together with a description of the characteristics of, and reasons for, the Transaction;
- Promptly, transactions carried out at something other than the arm's length price and that do not comply with the criteria or procedures set in the policy, using the templates contemplated by the IVASS Regulation, together with a description of the characteristics of, and reasons for, the Transaction. Reports are sent on a monthly basis, cumulating the returns for the month in a single package containing also the reports under the preceding paragraph.

C.7 Other material risks

At 31 December 2018, there was no further information to be reported other than the above.

D – VALUATION FOR SOLVENCY PURPOSES

The valuation methodology adopted to prepare the Market Value Balance Sheet of the Poste Vita Group and of every individual Company are consistent with article 75 of Directive 2009/138/EC and the provisions of the Delegated Regulation 2015/35 of 10 October 2014 (Delegated Regulation), particularly the provisions of article 9 of said delegated regulation, which contemplate the following:

- insurance and reinsurance undertakings recognise assets and liabilities in conformity with the international accounting standards adopted by the Commission in accordance with Regulation (EC) No 1606/2002;
- insurance and reinsurance undertakings value assets and liabilities in accordance with international accounting standards adopted by the Commission pursuant to Regulation (EC) No 1606/2002 provided that those standards include valuation methods that are consistent with the valuation approach set out in Article 75 of Directive 2009/138/EC. Where those standards allow for the use of more than one valuation method, insurance and reinsurance undertakings shall only use valuation methods that are consistent with Article 75 of Directive 2009/138/EC;
- where the valuation methods included in international accounting standards adopted by the Commission in accordance with Regulation (EC) No 1606/2002 are not consistent either temporarily or permanently with the valuation approach set out in Article 75 of Directive 2009/138/EC, insurance and reinsurance undertakings shall use other valuation methods that are deemed to be consistent with Article 75 of Directive 2009/138/EC.

Below, a description is provided of the valuation methods adopted for solvency purposes, as defined in the Policy for the valuation of assets and liabilities other than the technical provisions approved by the Board of Directors:

- *Goodwill*: valued at zero
- *Intangible assets and deferred acquisition costs (DAC):* These are valued at zero, unless the intangible asset can be sold separately and the companies can show the existence of a value for identical or similar assets that has been calculated in accordance with article 10, paragraph 2 of the Delegated Regulation, in which case the asset is valued in keeping with article 10.
- *Financial assets and liabilities*: Financial assets and liabilities are valued at their fair value, using as reference quoted prices in active markets, where available, as reflected by recent or similar transactions or as determined on the basis of alternative models.
- *Investments:* these are valued pursuant to article 13 of the Delegated Regulation, in accordance with the following hierarchy of methods:
  (a) using the default valuation method set out in Article 10(2) of the above-mentioned Regulation; (b) using the adjusted equity method referred to in paragraph 3 where valuation in accordance with sub-paragraph (a) is not possible; (c) using either the

valuation method set out in Article 10(3) of the Regulation or alternative valuation methods in accordance with Article 10(5) of the above-mentioned Regulation.

- *Deferred tax assets and liabilities*: Undertakings recognise and value deferred taxes in relation to all assets and liabilities, including technical provisions, that are recognised for solvency or tax purposes in accordance with Article 9 of the Delegated Regulation. insurance and reinsurance undertakings value deferred taxes, other than deferred tax assets arising from the carryforward of unused tax credits and the carryforward of unused tax losses, on the basis of the difference between the values ascribed to assets and liabilities recognised and valued in accordance with Article 75 of Directive 2009/138/EC and in the case of technical provisions in accordance with Articles 76 to 85 of that Directive and the values ascribed to assets and liabilities as recognised and valued for tax purposes. undertaking shall only ascribe a positive value to deferred tax assets where it is probable that future taxable profit will be available against which the deferred tax asset can be utilised, taking into account any legal or regulatory requirements on the time limits relating to the carryforward of unused tax losses or the carryforward of unused tax credits.
- *Contingent liabilities:* In accordance with article 11 of the Delegated Regulation, undertakings recognise contingent liabilities, as defined in accordance with Article 9 of this Regulation, that are material, as liabilities. Contingent liabilities shall be material where information about the current or potential size or nature of those liabilities could influence the decision-making or judgement of the intended user of that information, including the supervisory authorities. The value of these liabilities is equal to the present value of the future cash flow required to settle the contingent liability throughout the life of such contingent liability, as calculated by utilising the risk-free interest rate term structure.
- Regarding tangible assets, by way of derogation from paragraphs 1 and 2 of article 9 of the above Delegated Regulation and, in particular, the principle of proportionality under article 29, paragraphs 3 and 4, of directive 2009/138/EC, considering that the conditions laid down by article 9, paragraph 4, the company recognised tangible assets in accordance with the valuation method used to prepare its annual financial statements.

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, 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;
- the costs, revenue, receivables and payables arising from intercompany transactions are eliminated.

The Parent Company holds a non-controlling interest in Europa Gestioni Immobiliari SpA, which is accounted for using the equity method.
For the purpose of full disclosure, it should be noted that Poste Vita holds a non-qualifying, non-controlling 9.9% equity interest FSI Società di Gestione del Risparmio SpA - FSI S.G.R. SpA for short – a company registered in Italy that engages in the promotion and management of investment funds.

Below, the Market Value Balance Sheet of the Poste Vita Group is shown, as compared with the balances reported in the IAS/IFRS Consolidated Financial Statements:

(€000)	Solvency II value	Consolidated IAS/IFRS	Change
Assets			-
Goodwill	-	17,823	- 17,823
Deferred acquisition costs	-	59,710	- 59,710
Intangible assets	-	30,333	- 30,333
Deferred tax assets	439,425	395,769	43,656
Property, plant & equipment held for own use	11,810	11,810	-
Investments (other than assets held for index-linked and unit-linked contracts)	**123,960,530**	**123,849,972**	**110,557**
Holdings in related undertakings, including participations	106,953	106,953	0
Equities	16,527	16,527	-
Equities - listed	*16,230*	*16,230*	-
Equities - unlisted	*297*	*297*	-
Bonds	97,230,372	97,119,814	110,557
Government Bonds	*80,963,071*	*80,852,668*	*110,402*
Corporate Bonds	*15,646,804*	*15,646,649*	*155*
Structured notes	*546,023*	*546,023*	-
Collateralised securities	*74,474*	*74,474*	-
Collective Investments Undertakings	26,606,678	26,606,678	-
Derivatives			-
Assets held for index-linked and unit-linked contracts	2,616,272	2,616,272	-
Reinsurance recoverables from:	**16,542**	**72,361**	**- 55,819**
Non-life and health similar to non-life	26,318	34,099	- 7,781
Non-life excluding health	*13,786*	-	*13,786*
Health similar to non-life	*12,532*	*34,099*	*- 21,567*
Life and health similar to life, excluding health and index-linked and unit-linked	-9,776	38,262	- 48,038
Health similar to life	*-20,519*	-	*- 20,519*
Life excluding health and index-linked and unit-linked	*10,743*	*38,262*	*- 27,519*
Insurance and intermediaries receivables	28,213	28,213	-
Reinsurance receivables	7,523	7,523	-
Receivables (trade, not insurance)	14,499	14,499	-
Cash and cash equivalents	1,652,973	1,652,973	-
Any other assets, not elsewhere shown	2,475,877	2,476,737	- 860
TOTAL ASSETS	**131,223,664**	**131,233,995**	**- 10,332**

(€000)	Solvency II value	Consolidated IAS/IFRS	Change
Liabilities			-
Technical provisions - non-life	**128,053**	**183,358**	**- 55,306**
Technical provisions - non-life (excluding health)	**54,167**		
Best estimate	*49,052*		
Risk margin	*5,114*		
Technical provisions - health (similar to non-life)	**73,886**		
Best estimate	*66,236*		
Risk margin	*7,650*		
TP - life (excluding index-linked and unit-linked)	**117,479,141**	**122,310,648**	**- 4,831,506**
Technical provisions - health (similar to life)	**-11,455**		
Best estimate	-24,184		
Risk margin	*12,729*		
TP - life (excluding health and index-linked and unit-linked)	**117,490,596**		
Best estimate	*115,954,072*		
Risk margin	*1,536,525*		
TP - index-linked and unit-linked	**2,663,714**	**2,652,097**	**11,617**
Best estimate	*2,628,653*		
Risk margin	*35,062*		
Contingent liabilities	10,600	10,600	-
Pension benefit obligations	3,840	3,840	-
Deferred tax liabilities	1,845,310	288,901	1,556,409
Derivatives	155	155	
Debts owed to credit institutions	5,070	5,070	
Insurance & intermediaries payables	152,921	152,921	
Reinsurance payables	5,336	5,336	
Payables (trade, not insurance)	55,491	55,491	
Subordinated liabilities	**1,013,440**	**1,013,565**	**- 124**
Subordinated liabilities not in BOF	*14,120*	*13,565*	*556*
Subordinated liabilities in BOF	*999,320*	*1,000,000*	*- 680*
Any other liabilities, not elsewhere shown	600,792	600,702	90
TOTAL LIABILITIES	**123,963,865**	**127,282,684**	**- 3,318,820**
Excess of assets over liabilities	**7,259,799**	**3,951,311**	**3,308,488**

With reference to the two companies that are part of the Poste Vita Insurance Group, the amounts of the single items in the individual Market Value Balance Sheet are available in reports S.02.01.02 of Poste Vita SpA and Poste Assicura SpA in section **F – Annex**.

D.1 Assets

The following notes describe, for the main assets, the amount calculated according to the Solvency II methodology as compared with that calculated with the amount reported in the IAS/IFRS Consolidated Financial Statements at 31 December 2018 for the Poste Vita Group; that calculated on the basis of local GAAP for Poste Vita and Poste Assicura and that reported in the IAS/IFRS financial statements of Poste Welfare Servizi.

Goodwill

Goodwill – Poste Vita Group

The Poste Vita Group reported goodwill of €17,823 thousand, an amount representing the difference of the cost incurred to acquire 100% of Poste Welfare Servizi on 4 November 2015 and the fair value of the reported assets and liabilities (as of the date of acquisition).

For Solvency II purposes, in accordance with article 12 of the Delegated Regulation, this item has a zero amount.

Intangible assets and deferred acquisition costs

Intangible assets and deferred acquisition costs (DAC) – Poste Vita Group (€90,043 thousand)

The Group reported in its consolidated balance sheet intangible assets for €30,333 thousand while DAC at period-end amounted to €59,710 thousand.

For Solvency II purposes, in keeping with article 12 of Delegated Regulation, these items show a zero balance, as these assets were not considered as marketable separately and there was no market for similar activities.

Intangible assets and deferred acquisition costs – Poste Vita SpA (€80,646 thousand)

The Parent Company, Poste Vita, recognized in its financial statements prepared in accordance with local GAAP intangible assets of €20,936 thousand, reflecting mainly unamortised long-term software programme licenses and capitalised costs incurred for software still under development at year-end.

DAC include unamortised deferred acquisition costs paid in advance attributable to individual pension plans (*FIP - Forme Individuali di Previdenza*) of €59,710 thousand.

Details of the accounting policies used are provided in the section relating to the Group.

Intangible assets and deferred acquisition costs – Poste Assicura SpA (€6,740 thousand)

Poste Assicura reported in its local GAAP financial statements intangible assets of €6,740 thousand, reflecting: i) unamortised long-term software programme licences of €6,236 thousand; and ii) capitalised costs incurred for software still under development of €504 thousand, which did not generate any operating effects in the period.

Deferred acquisition costs, amounting to €36 thousand at 31 December 2017, reflect unamortised deferred acquisition costs paid in advance to Poste Italiane for the placement of

the *Postaprotezione Infortuni Standard* and *Postaprotezione Salute* products. These costs were fully amortised in 2018.
Details of the accounting policies used are provided in the section relating to the Group.

Intangible assets and deferred acquisition costs – Poste Welfare Servizi Srl (€2,761 thousand)
The subsidiary, Poste Welfare Servizi, reported in its financial statements intangible assets of €2,657 thousand, related mainly: i) to unamortised long-term software programme development costs, with capitalised direct costs of €1,650 thousand; and ii) goodwill of €1,111 thousand, resulting from the difference between the price of the investment in Nuova Sanità Srl (acquired) and the corresponding fraction of equity following the merger that took place in 2016.
Details of the accounting policies used are provided in the section relating to the Group.

Investments

Investments – Poste Vita Group (€106,953 thousand)

This item refers solely to the equity interest in 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. In addition, following the merger of Posta Energia with and into it, in 2015 the company started operating in the electric energy market as a specifically licensed "wholesale" buyer, thus continuing with the activities that the acquired company performed to meet the Poste Italiane Group's energy requirements. For Solvency II purposes, the investment in EGI SpA reflects the IAS/IFRS equity amount, which is considered adequate for non-insurance investments in light of Solvency II principles.

Investments - Poste Vita SpA (€286,047 thousand)
This item refers solely to the equity interests held by the Company in Group companies, particularly:

- Poste Assicura SpA, a wholly owned subsidiary engaging in non-life insurance, except motor insurance.
- Europa Gestioni Immobiliare SpA (hereinafter also "EGI") a company owned by Poste Vita, with a 45% equity interest, and Poste Italiane SpA, with a 55% equity interest.
- Poste Welfare Servizi Srl, a wholly-owned subsidiary acquired on 4 November 2015, to expand the individual and collective offering of the Insurance Group in the health sector.

For Solvency II purposes, participations are accounted for as follows:

- Poste Assicura SpA is recognised on the basis of its Solvency II equity, that is with a portion of equity calculated by determining the value of assets and liabilities pursuant to article 75 of the Solvency II Directive. The amount of the participation resulting from this valuation is €170,174 thousand;
- EGI SpA and Poste Welfare Servizi Srl have been recognised on the basis of their IAS/IFRS equity, as adjusted to take into account factors not eligible under Solvency II,

a method that is considered to provide a good approximation of the Solvency II principles for non-insurance equity interests for a total amount of €115,873 thousand.

It should be noted that, to prepare the Market Value Balance Sheet of the Poste Vita Group, the carrying amount of the equity interests held by the Parent Company, Poste Vita, in the subsidiaries, Poste Assicura and Poste Welfare Servizi, was eliminated against the corresponding share of equity, with the line-by-line consolidation of all the assets and liabilities of the subsidiaries.

<u>Financial Assets</u>

<u>Financial assets - Group (€126,469,849 thousand)</u>

Financial assets have been recognised at their fair value by reference to prices quoted in active markets, where available, at the end of the period; where no active market was available, fair value was determined with alternative methods.

The table below shows the composition of financial assets at 31 December 2018:

(€000)

Financial Investments	Solvency II Value 2018	Solvency II Value 2017	Change
Equities	16,527	18,277	-1,750
Government Bonds	80,963,071	81,414,839	-451,768
Corporate Bonds	15,646,804	17,141,859	-1,495,054
Structured Bonds	546,023	567,200	-21,177
Collateralised securities	74,474	74,683	-209
Collective investments undertaking	26,606,678	22,836,113	3,770,565
linked contracts	2,616,272	3,537,182	-920,910
Total	**126,469,849**	**125,590,152**	**879,697**

<u>Financial assets – Poste Vita SpA (€126,184,566 thousand)</u>

The table below shows the composition of financial assets at 31 December 2018:

(€000)

Financial Investments	31 December 2018
Equities	16,527
Government Bonds	80,696,643
Corporate Bonds	15,627,950
Structured Bonds	546,023
Collateralised securities	74,474
Collective investments undertaking	26,606,678
Assets held for index - linked contacts	2,616,272
Total	**126,184,566**

Equity instruments, totalling €16,527 thousand at 31 December 2018, include €16,230 thousand in listed shares related to Class I products linked to separately managed accounts.

Government bonds, amounting to €80,696,643 thousand, refer mainly to fixed-income instruments issued by European governments, of which more than 97% by the Italian State.
Corporate bonds, of €15,627,950 thousand, relate mainly to quoted fixed income instruments issued by prime European companies.
Structured bonds, amounting to €546,023 thousand at the end of the period, are used solely to cover Index-Linked products
Collateralised securities, totalling €74,474 thousand, refer to a zero-coupon bond maturing on 10 February 2020 secured by government bonds and financial assets maturing on the same date.
The year just ended continued to see the gradual investment diversification process, through the simultaneous increase of investments in mutual funds (a total of €26,606,678 thousand at the end of 2018, representing 21.1% of the total portfolio, compared with 18.2% at the end of 2016), particularly open harmonised multi-asset UCITS. Moreover, in line with the strategic asset allocation, investments continued to be made in property funds (targeting retail and office properties), mainly in Europe.
The financial instruments purchased to match index-linked and unit-linked policies are measured on the last trading day of the year and at the end of the year under review they amounted to €2,616,272 thousand. The return on these investments is linked to particular market indices.
Details of the accounting policies used are provided in the section relating to the Group.

Financial assets – Poste Assicura SpA (€285,283 thousand)

Financial assets amount to €285,283 thousand, including: i) €266,428 thousand in quoted government bonds; and ii) €18,855 thousand in quoted bonds.

(€000)

	Solvency II value	Statutory Account Value	Change
Government Bonds	266,428	262,379	4,049
Corporate Bonds	18,855	18,816	38
Total	**285,283**	**281,195**	**4,088**

Details of the accounting policies used are provided in the section relating to the Group.

Receivables from policyholders and agents

Receivables from policyholders and agents (€28,213 thousand)

This item reflects mainly amounts due from policyholders for uncollected premiums, from agents and from insurance companies. Receivables are recognised at fair value and are subsequently measured at their extinguishment value[11]. At the end of 2018 this item amounts to €28,213 thousand and consists of:

- amounts due from policyholders for premiums for this and the previous year, amounting to €12,872 thousand at the end of the period;

[11] All the receivables in question are due within 12 months and, as such, their market value is aligned with their nominal value.

- amounts due from agents, totalling €14,795 thousand at 31 December 2018;
- receivables from coinsurance agreements, totalling €546 thousand.

This item is reported net of intercompany transactions for a total amount of €5,445 thousand, related solely to the claim of the Parent Company, Poste Vita, on subsidiary Poste Assicura for the life component of CPI products.

Receivables from policyholders and agents – Poste Vita SpA (€27,075 thousand)

At the end of 2018 this item amounted to €27,075 thousand and consisted of:

- amounts due from policyholders for premiums for the year just ended, of €5,667 thousand, and for premiums related to the previous year, of €1,280 thousand. These receivables were collected in early 2019;
- amounts due from agents for €14,137 thousand at 31 December 2018, relating to premiums that even though they had been collected by the agents, were paid to the Company in the early days of January 2019;
- amounts due from Poste Assicura for the life component of CPI products, for a total of €5,445 thousand at 31 December 2018. These amounts were collected in early 2019;
- receivables from co-insurance agreements, amounting to €546 thousand, relate to a co-insurance agreement for sums owed by the Company in its capacity as lead agent for products placed before 30 September 2004.

Details of the accounting policies used are provided in the section relating to the Group.

Receivables from policyholders and agents – Poste Assicura SpA (€6,583 thousand)

At the end of 2018 this item amounted to €6,583 thousand and consisted of:

- amounts due from policyholders for premiums for the year just ended, not yet collected at the end of the period, for €5,925 thousand, but received in the early days of 2019;
- amounts due from agents for €658 thousand at 31 December 2018, relating to premiums that even though they had been collected by the agents, were paid to the Company in the early days of January 2019.

Details of the accounting policies used are provided in the section relating to the Group.

Deferred tax assets

Deferred tax assets – Poste Vita Group (€439,425 thousand)

Deferred tax assets are equal to the sum of the deferred tax assets reported in the Market Value Balance Sheet (Solvency II) of Poste Vita and the subsidiaries, Poste Assicura and Poste Welfare Servizi.

These amounts result from the measurement differences between assets and liabilities for Solvency II purposes and the corresponding amounts calculated according to Italian GAAP, by applying the tax rates in force as of 31 December 2018. Accordingly, based on the valuation methodology laid down in the Solvency II regulation, deferred tax assets amount to a total of €439,425 thousand.

Deferred tax assets – Poste Vita (€429,446 thousand)

Due to the application of Solvency II valuation rules, deferred tax assets, reported in the financial statements prepared in accordance with local GAAP for €389,750 thousand, rose by €39,696 thousand, reaching €429,446 thousand at the end of 2018.

Among the main components, attention is called to the deferred tax assets recognised following elimination of intangible assets for €24,855 thousand and changes in technical provisions for €14,805 thousand, due to cessions under reinsurance treaties.

Details of the accounting policies used are provided in the section relating to the Group.

Deferred tax assets – Poste Assicura SpA (€9,088 thousand)

At financial year-end deferred tax assets amounted to €9,088 thousand. Among the main components, attention is called to the deferred tax assets recognised mainly following elimination of intangible assets for €2,077 thousand and changes in technical provisions for €2,702 thousand, due to cessions under reinsurance treaties.

Details of the accounting policies used are provided in the section relating to the Group.

Deferred tax assets – Poste Welfare Servizi Srl (€891 thousand)

At financial year-end deferred tax assets amounted to €891 thousand.

Details of the accounting policies used are provided in the section relating to the Group.

Cash and cash equivalents

Cash and cash equivalents – Poste Vita Group (€1,652,973 thousand)

This item reflects short-term bank and post office deposits, as well as cash and revenue stamps on hand, recognised at their nominal value. The year-end amount is €1,652,973 thousand.

Cash and cash equivalents – Poste Vita SpA (1,629,324 thousand)

With reference to the Parent Company, at year end this item amounts to €1,629,324 thousand, reflecting temporary cash balances related to separately managed accounts to be invested in 2019 in accordance with market trends.

Cash and cash equivalents – Poste Assicura SpA (13,242 thousand)

With reference to Poste Assicura, at year end this item amounts to €13,242 thousand, reflecting the premiums collected in the last few days of the year, to be invested and used to pay suppliers and commissions.

Cash and cash equivalents – Poste Welfare Servizi S.r.l (€10,407 thousand)

With reference to Poste Welfare Servizi, at year end this item amounts to €10,407 thousand, reflecting cash on hand generated from operating activities.

Difference between the valuation method under Solvency II and that used for the IAS/IFRS Consolidated Financial Statements

The table below summarises the valuation methods adopted for Solvency II purposes and those for consolidated reporting purposes:

Significant asset categories	Solvency II valuation method	IAS/IFRS measurement method
Intangible Assets and deferred acquisition costs	Eliminated and not recognised	This item includes: Deferred acquisition costs, related to the acquisition of certain insurance contracts. As provided for by IFRS 4, these costs are accounted for in accordance with local GAAP. Goodwill arising from the difference between the cost of all the shares outstanding of Poste Welfare Servizi, purchased on 4 November 2015, and the fair value of the assets and liabilities recognised on the acquisition date. • Software amortised in 3 years • Start-up and expansion costs amortised in 5 years.
Investments	IAS/IFRS equity method	Equity method as per IAS 28
Financial Investments	Fair Value	Financial assets are measured and recognised in accordance with IFRS 9, that is: i) Amortised cost: financial assets held to collect contractual cash flows represented solely by principal and interest; ii) Fair value through other comprehensive income (FVOCI): financial assets held to collect both contractual cash flows, represented solely by principal and interest, and proceeds from sales of assets; iii) Fair value through profit or loss: residual category for the classification of financial assets not falling in the scope of the previous categories.
Deferred tax assets	Deferred tax assets are equal to the sum of the deferred tax assets reported in the Market Value Balance Sheet (Solvency II) of Poste Vita and the subsidiaries Poste Assicura and Poste Welfare Servizi. These amounts result from the measurement of the difference between assets and liabilities for Solvency II purposes and the corresponding amounts calculated according to local GAAP, based on applicable tax rates.	Deferred tax assets are recognised on the basis of deductible temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases.
Insurance and intermediaries receivables	Receivables are recognised at fair value and subsequently are measured at their expected realisable value.	Receivables are recognised at fair value and subsequently are measured at their expected realisable value.
Cash and cash equivalents	These items are recognised at their nominal value.	These items are recognised at their nominal value.

The Solvency II valuation methodology applied to the assets reported in the consolidated accounts resulted in the following differences for the Poste Vita Group:

(€000)

Significant asset categories	Solvency II value	IAS/IFRS value	Change
Goodwill		17,823	-17,823
Deferred Acquisition Costs		59,710	-59,710
Intangible Assets		30,333	-30,333
Investments	106,953	106,953	0
Financial Investments	126,469,849	126,359,291	110,557
Deferred tax assets	439,425	395,769	43,656
Insurance and intermediaries receivables	28,213	28,213	0
Cash and cash equivalents	1,652,973	1,652,973	0

With reference to the Group companies, application of the Solvency II valuation methods resulted in the following differences with respect to local GAAP, as follows:

Significant asset categories	Solvency II valuation method	Local GAAP
Intangible Assets	Eliminated and not recognised	Recognition at cost and subsequent amortisation · Sales commissions capitalised and amortised in 10 years on an analytical basis · Software amortised in 3 years · Start-up and expansion costs amortised in 5 years · Leasehold improvements - amortised on the basis of the residual right of use
Investments	• Insurance companies: adjusted equity pursuant to article 13 of Delegated Regulation (EU) 2015/35; • Non-insurance companies Equity IAS/IFRS	Cost pursuant to article 2426 of the Italian civil code
Financial Investments	Fair Value	Current assets: lower of cost and market; Non-current assets: cost as adjusted to take into account any impairment.
Deferred tax assets	Deferred tax assets are calculated on the basis of the differences between assets and liabilities measured for Solvency II purposes and the corresponding amount measured in accordance with local GAAP.	Deferred tax assets are recognised on the basis of deductible temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases, if future profits are likely.
Insurance and intermediaries receivables	Receivables are recognised at fair value and subsequently are measured at their expected realisable value.	Receivables are recognised at their expected realisable value as provided for by article 16, paragraph 9 of Legislative Decree 173/97 and reported net of any allowance for bad debts.
Cash and cash equivalents	These items are recognised at their nominal value.	These items are recognised at their nominal value.

Poste Vita SpA

(€000)

Significant asset categories	Solvency II value	Statutory Account Value	Change
Intangible Assets		59,710	-59,710
Deferred Acquisition Costs		20,936	-20,936
Investments	286,047	205,274	80,773
Financial Investments	126,184,566	123,152,384	3,032,182
Deferred tax assets	429,446	389,750	39,696
Insurance and intermediaries receivables	27,075	27,075	
Cash and cash equivalents	1,629,324	1,629,324	

Poste Assicura SpA

(€000)

Assets	Solvency II value	Statutory Account Value	Change
Intangible Assets		6,740	-6,740
Deferred Acquisition Costs		0	0
Financial Investments	285,283	281,195	4,088
Deferred tax assets	9,088	4,298	4,791
Reinsurance receivables	3,865	3,865	0
Insurance and intermediaries receivables e receivables (trade, not insurance)	6,583	6,583	0
Cash and cash equivalents	13,242	13,242	0

D.2 Technical provisions

The table below summarises the technical provisions after reinsurance cessions of the Poste Vita Group at 31 December 2018:

(€000)

Net Technical provisions	Life business	Non-life business	Total
Best Estimates Liabilities	118,558,540	115,288	118,673,828
Risk Margin	1,584,315	12,764	1,597,079
Total - Gross Technical Provisions	**120,142,856**	**128,053**	**120,270,908**
Recoverables	-9,776	26,318	16,542
Total - Net Technical Provisions	**120,152,632**	**101,735**	**120,254,367**

The technical provisions of the Poste Vita Group are equal to the sum of the technical provisions for both the life and the non-life businesses.

Technical provisions for the life and the non-life businesses are measured according to article 77 of the Solvency II Directive, whereby the value of the technical provisions is equal to the sum of a best estimate and a risk margin. For details of the information related to bases, methods and assumptions to calculate technical provisions, reference is made to Poste Vita's Report to IVASS as of 31 December 2018.

Regarding the calculation of the Group's technical provisions, the table below shows the impact on available own funds of the transitional rules (Volatility Adjustments) applied to the provisions for the Parent Company's life business:

(€000)

	Amount with Long Term Guarantee measures and transitionals	Without volatility adjustment and without other transitional measures	Impact of volatility adjustment set to zero
Technical provisions	**120,270,908**	**121,803,421**	**1,532,512**
Basic own funds	**8,259,119**	**7,199,161**	**- 1,059,958**
Excess of assets over liabilities	7,259,799	6,199,841	- 1,059,958
Restricted own funds due to ring-fencing	-	-	-
Eligible own funds to meet Solvency	**8,259,119**	**7,199,161**	**- 1,059,958**
Tier I	7,259,799	6,199,841	- 1,059,958
Tier II	999,320	999,320	-
Tier III	-	-	-
Solvency Capital Requirement	**3,909,824**	**3,841,065**	**- 68,759**

Technical provisions of the Parent Company, Poste Vita SpA

Technical provisions have been measured according to article 77 of the Solvency II Directive. The methodology adopted to calculate the various items impacted by Solvency II is that of the Standard Formula, thus no use is made of specific internal models.

At 31 December 2018 technical provisions reflect the combination of the following components: Best Estimate of insurance Liabilities (BEL), Risk Margin (i.e. risk margin for non-hedgeable risks) and Reinsurance recoverables, that is the best estimate of the amounts recoverable from reinsurance net of an adjustment that takes into account the counterparty's credit risk (CDA – counterparty default adjustment), as shown in the table below:

(€000)

Technical provisions	**31 December 2018**
BEL - inclusive of reinsurance	118,558,540
Risk margin	1,584,315
Technical provisions SII - inclusive of reinsurance	**120,142,856**
Reinsurance recoverables net of CDA	- 9,776
Technical provisions SII - net of reinsurance	**120,152,632**

Regarding the **life business**, at 31 December 2018 the value of the technical provisions by line of business (LoB) and by component is as follows:

(€000)

Line of Business	BEL	Risk margin	Recoverables
Insurance with profit participation	115,953,399	1,502,324	-
Index-linked and unit-linked insurance	2,628,653	35,062	-
Other life insurance	672	34,201	10,743
Health insurance (direct business)	-24,184	12,729	-20,519

Technical provisions are calculated using an ALM (Asset Liability Management) approach, except for collective policies and annuities being paid.
Best estimates include provisions for sums to be paid as of 31 December 2018.

The best estimate of the liabilities is obtained as the probability-weighted average of future cash-flows, taking account of the time value of money (expected present value of future cash-flows), using the risk-free interest rate term structure at 31 December 2018, as observed in the market and announced officially by EIOPA.

The calculation of the best estimate can take place through deterministic or stochastic approaches, depending on the characteristics of the liability portfolios.
In particular:

- a deterministic approach is used for products and Solvency lines of business where the cash flows do not depend on market movements or move symmetrically with markets;
- a stochastic approach is used for products and Solvency lines of business where the cash flows include financial guarantees or embedded options move asymmetrically with markets.

To calculate the best estimate of the Parent Company’s obligations, the model was configured by line of business, each with its own assets and liabilities.

Projections are handled at the level of individual funds. For separately managed accounts, in particular, in an ALM framework, consideration is taken of the dynamic interaction existing between assets and liabilities, such as management changes, the return on investments are calculated, all management actions are evaluated and al investment strategies are simulated.
Regarding the management actions, the investment strategy utilised in the parent Company’s projection models to calculate the Best Estimate for with-profits products, or linked to separately managed accounts, has a twofold objective:

- maintenance of the Current Asset Allocation (CAA) over time;
- the achievement and maintenance, if possible, of a target return.

Financial assumptions are parametrised in keeping with asset allocation criteria and the achievement of a target return (crediting) set and agreed upon with the "Asset Allocation and traditional investment office".

Unlike real world valuations, it is necessary to bear in mind that, for Solvency II valuations, assumptions include a closed-production portfolio and projections that take place in a risk-neutral environment. Consequently, it is necessary for asset flows to be reduced by reducing returns.
The criteria to monetise assets incorporating unrealised capital gains to cover separately managed accounts are the driver with the greatest impact on the value of technical provisions. In these valuations, portfolio management calls for the realisation of capital gains to achieve a target return (crediting).

Regarding the liability portfolio, for the purposes of a proper valuation, as per articles 17 and 18 of Commission Delegated Regulation (EU) 2015/35, all the obligations within the boundaries of the contract have been recognised and all the extinguished, fulfilled and expired obligations were cancelled.
In the best estimate valuation, consideration was given to all the obligation of the existing portfolio, especially those arising from single premium policies, annual premiums, recurring single premiums as well as additional premiums and single-year insurance coverage until expiration.
In the configuration of the model, variables are parametrized on the basis of assumptions that might represent in the best way their future pattern.
In the cash flow projections, as defined in article 28 of the delegated regulation (EU) 2015/35, cash outflows include all the benefits and expenses arising from the contract through the definition of assumptions that determine their future value.
In particular, three types of assumption can be defined:

- Demographic: Mortality, longevity and disability;
- Financial: rates of returns on assets (risk neutral deterministic and stochastic scenarios), discount rates and assumptions on the volatility of financial instruments;
- Non-financial: surrenders, renewals, reductions, defaults, propensity to annuitize and expenses.

Below, a description is provided of the main methodological criteria employed to define the main assumptions, which are regularly updated on the basis statistical and actuarial estimates.

<u>Demographic assumptions</u>
The process of identification of death probability distribution by sex and age, for the different sub-portfolios and line of product is as follows:

- The mortality rate by age is the ratio of the number of observed deaths to the average number of those exposed to the risk, as identified with the average duration method.

- The final probabilities are calculated by weighting the mortality curves observed in the different years, as smoother by the moving average of ages.
- Lastly, the result is represented through an appropriate discount on the census mortality rate of reference for the product,

Financial assumptions

Investment returns and technical provisions are calculated in accordance with the applicable regulations (Delegated Regulation 2015/35 of 10 October 2014 as subsequently amended).
In particular, for the projections of the financial instruments in accordance with risk neutrality principles, use is made of the risk-free interest rate term structure with application of volatility adjustment, as published monthly by the EIOPA.
In calibrating the models to generate stochastic scenarios, the targeted volatility is the market volatility at the date of valuation of every asset considered:

- for equities: EuroStoxx-50;
- for fixed income instruments: ATM cap and floor and swaption ATM (normal volatility).

To produce risk-neutral stochastic macroeconomic scenarios for Solvency II purposes, a software application has been in use for several years now which automates its generation process. The application includes theoretical models, calculation methodologies and the entire IT architecture capable of generating the scenarios required.

Risk-neutral macroeconomic scenarios take into account three risk factors: interest rates, inflation, performance of equity index.
The generation process involves the creation of one thousand simulated trajectories, calibrated on the volatility levels observed on the date of reference of the analysis.
The Parent Company's methodological choices calls for the use of the following projection models for the different risk factors:

- nominal interest rates: Libor Market Model plus (LMM+)
- real interest rates: Gaussian Libor Market Model (GLMM)
- *equities*: Stochastic Volatility Jump Diffusion (SVJD)

In particular, the choice of LMM+ to model nominal rates is linked to the presence of negative rates in the market.

The scenarios include modelling the indices necessary to value asset classes/investment funds whose aim is to generate a specific estimated target volatility for each such investment or for homogeneous investment cluster.
The curves of the nominal rates utilised in the generation process at the valuation date are the same as those provided by EIOPA. These curves include the following corrections: credit risk adjustment and volatility adjustment.

Furthermore, the curves undergo a Smith-Wilson interpolation and extrapolation process that includes a level of ultimate forward rate (4.05%) where the scenario converges, with some leeway, in the period between the last rate considered liquid (20 years) and 60 years.
The level of inflation at the valuation date is obtained from information providers and coincides with the EUSWI curve.
The volatility surface used to calibrate the rate model is included in the calibration provided by an external provider that is market leader.
This calibration comes with accompanying documentation, which contains market volatility levels (implied volatility of swaptions) and the goodness of fit obtained from the models used.
As such, the goodness of fit of volatility ensures the consistency between the starting curve, provided by EIOPA, and the market volatility used to produce the scenario.
The projection model for equities is calibrated on the implied volatility of the EUROSTOXX50.
The scenarios produced then undergo validation tests distributed by the supplier before being used as inputs in the ALM model, so that the risk neutrality of such inputs and the consistency with the valuation model are verified.

Non-financial assumptions

Below, a description is provided of the processes followed in setting the main non-financial assumptions:

a. Process to determine the frequency of surrenders for different portfolio and product line sub-groups:
    - The surrender rate is obtained as the ratio of the number of policies surrendered and the number of policies exposed to surrender risk at the start of the period for every month of policy generation;
    - The individual monthly surrender frequencies are aggregated by policy year so as to constitute a double entry matrix, with issue years on the rows and policy age since issue on the columns; each monthly frequency contributes to determine the annual rate in relation to its relative weight, expressed in terms of policies in force;
    - Starting from the matrix of the annual rates, aggregating with respect to columns yields the vector of the surrender rates by policy age since issue;
    - Aggregation is carried out through weighted averages which place greater weight on complete and more recent observations;
    - The final vector is the result of mechanical smoothing, or is driven by expert judgment.

b. Process to determine the frequency of partial surrenders:
    - The phenomenon is observed by policy age since issue and for different lines of product;
    - For every policy generation month and for every payment month, partial surrenders are calculated as the ration of partial surrenders to the number of policies exposed to the risk at the start of the period for every policy generation month;

- The individual frequencies are aggregated by policy year, so as to constitute a double entry matrix, with issue years on the rows and policy age since issue on the columns; each monthly frequency contributes to determine the annual rate in relation to its relative weight, expressed in terms of policies in force;
- Starting from the matrix of the annual rates, aggregating with respect to columns yields the vector of the partial surrender rates by policy age since issue;
- Aggregation is carried out through weighted averages which place greater weight on complete and more recent observations;
- The average amount of insured capital requested with the partial surrenders by line of product is calculated as the ratio of average partial surrender to the average insured capital in the same observation period;
- The average amount of capital obtained as per above is applied, in relation to the distinct lines of product, to each partial surrender frequency, so as to obtain the (percentage) share of insured capital shed, by policy age since issue, due to partial surrenders.

c. Process to determine the frequency of renewals for individual recurring premium products:
   - The average premiums paid by policyholders are determined – by month in which the policy takes effect and by policy age since issue – as the sum of the premiums paid for each monthly generation and the number of policies in portfolio, relating to that generation and still in force at that policy age;
   - Raw renewal rates are determined as the ratio of successive average premiums to adjacent; these are then aggregated in terms of consecutive annual policy rates and weighted by the generation numbers;
   - The final vector is the result of mechanical smoothing, or is driven by expert judgment.

d. Process to determine the amounts of additional policies:

the methodology to determine the amount of the additional premiums in based on the observation by line of product and consists of the following phases:

- Definition of the average value of the additional premiums by product;
- Definition of the frequency of additional premiums by product;
- Definition of the annual premium amount by product line;
- The final vector is the result of mechanical smoothing, or is driven by expert judgment.

Moreover, the analysis by generation led to the assumption of a law of decay by policy age since issue, whereby as the policy ages the flow of additional premiums falls.

e. The process to determine expenses can be represented as follows:

- at the initial stage, when accounts are prepared, the analytical recognition of costs to be allocated to the macro-categories related to the technical accounts and the financial accounts:
    1. Other acquisition costs (Acquisition);
    2. Investment management expenses (Finance);
    3. Claims expenses (Payments);
    4. Other administrative costs (Administration);
    5. Other costs (financial accounts);
- In the following phase costs are allocated through specific technical indicators by business-product (product macro-lines) to estimate average policy costs by line and by policy age since issue (acquisition costs -> for the issue year/management expenses -> for subsequent years).
  In particular, for operating expenses the average costs are expressed by line of product while for acquisition costs an overall average portfolio cost is used.
- To estimate average policy costs at 31 December 2018, the starting point was the running costs incurred in 2018 after recoveries for seconded staff intercompany services and non-recurring costs.

Poste Vita considered also, in the cash flow projection phase, investment management expenses and expenses related to the expected future premium of the existing portfolio at the valuation date.

Certain assumptions underlying the best estimate liability (BEL) have been deemed immaterial as the relevant phenomenon observed either manifests itself occasionally over time or is irrelevant in terms of observed volumes at the valuation date.
In particular, the following assumptions were immaterial:

1. LTC disability;
2. Renewal at expiry;
3. Annuitisation of non-pension products;
4. Switch;
5. Collective policies;
6. Non-self-sufficiency LTCI;
7. Car accident death/injury.

Poste Vita considered the possibility to introduce into the BEL calculation the assumption of "dynamic surrenders" so that valuations might capture the dynamic policyholder behaviour ("DPHB") with respect to market conditions.
Given the mathematical function in the Parent Company's calculation procedures, different methodological approaches were considered to estimate the parameters supported by statistical tests analysis the correlation between the financial variables and the surrender frequencies observed.

Considering the methodological complexity of the Parent Company's parameter estimation, it is deemed appropriate to explore further the correlation between surrenders and financial market trends, also to check the robustness and stability of parameter estimates.

In the cash flow projections used in determining the best estimate, the policies in force at the valuation date are grouped homogeneously by type of risk and incorporated in Model Point, thus removing and managing guarantees in insurance contracts. For multi-class policies Class I and Class III guarantees are managed and valued separately. For the Model Point generation, specific analyses were carried out to determine an optimal aggregation set for the reproduction of the value of the best estimate (compared with the value of the best estimate given by the valuation of each policy), the number of the Model Points and the reduction of the approximation error.
The best estimate is calculated by following a stochastic approach, so as to assess the time value of the contractual options (surrenders, renewals, reductions, defaults…) and the guarantees (e.g. financial guarantee of a guaranteed minimum return incorporated in the price) included in the insurance policies in force, as per article 32 of Delegated Regulation (EU) 2015/35.

To calculate the best estimate, the Company applied to risk-free interest rates a volatility adjustment of the risk-free interest rate term structure in accordance with article 36-septies of the Private Insurance Code.
To make such adjustment, at the valuation date use was made of technical information produced by EIOPA on the basis of article 36-octies of the Private Insurance Code.
The volatility adjustment applied at 31 December 2018 is 24 bps.

The company quantified the impact of zero volatility on technical provisions, keeping unaltered all the underlying data and assumptions and using the interest rate term structure without adjusting for volatility.
The table below summarises the ensuing impact:

(€000)

Line of Business	TP (con VA)	TP (no VA)	difference
Insurance with profit participation	117,455,723	118,986,874	- 1,531,151
Index-linked and unit-linked insurance	2,663,714	2,664,408	- 693
Other life insurance	34,873	34,760	113
Health insurance (direct business)	- 11,455	- 10,673	- 782

The valuation model projects cash flows with a runoff approach, that is until all liabilities are extinguished over a time horizon assumed to be 40 years. For the best estimate to take account of the contracts still in force at the last projection date, a terminal value is included in the exercise (Present value of the total reserve at the end of the projection period is zero).

For every setoff result produced, the market consistency if the cash flow (assets and liabilities) is validated through the Leakage and Martingale tests, after calibrating the assets at the initial market value in keeping with the risk-neutral interest rate term structure, assuming the absence of arbitrage opportunities.
The cash flows are considered without deducting the amounts recoverable from reinsurance treaties. This amount is calculated outside the model and is equal to the present value of the difference between cash inflows and cash outflows of the items covered by the reinsurance treaty.
The recoverable reinsurance amounts are subsequently adjusted for the probability of default of the reinsurance counterparty.

This adjustment has been calculated by using the formula under article 61 of Delegated Regulation EU 35/2015:

$$AdjCD = -\max(0{,}5*PD/(1-PD)*Durmod*BErec;0)$$

where:

a) PD denotes the probability of default of that counterparty during the following 12 months;
b) Durmod denotes the modified duration of the amounts recoverable from reinsurance contracts with that counterparty in relation to that homogeneous risk group;
c) BErec denotes the amounts recoverable from reinsurance contracts with that counterparty in relation to that homogeneous risk group.

It is worthy of note that, given that the collective Term Life, LTC and CPI business is immaterial, the relevant reinsurance is not considered in best estimate valuations.
The table below shows recoverable amounts by line of business, after adjusting for the credit risk associated with the reinsurance counterparty, as of 31 December 2018:

(€000)

Line of Business	Recoverables
Insurance with profit participation	-
Index-linked and unit-linked insurance	-
Other life insurance	10,743
Health insurance (direct business)	- 20,519

Regarding products related to separately managed accounts, the table below shows the minimum return guarantee levels at 31 December 2018 and their weight, in percentage terms, of mathematical provisions:

(€000)

Minimum guaranteed return	MATHEMATICAL PROVISIONS 31 December 2018	% MATHEMATICAL PROVISIONS 31 December 2018
0.00%	46,246	38.92%
0.50%	7,612	6.41%
1.00%	31,612	26.60%
1.25%	354	0.30%
1.42%	229	0.19%
1.50%	32,714	27.53%
1.57%	7	0.01%
1.89%	30	0.03%
2.03%	19	0.02%
2.13%	2	0.00%
Total	**118,826**	**100.00%**

Such table shows that most products in the portfolio guarantee 0%, 1% and 1.5%, with the 0% guarantee growing since 2016, after the introduction of 0% guarantee products.

Technical provisions of Poste Assicura SpA

The table below summarises Poste Assicura SpA's technical provisions, including the best estimate amount and the risk margin.

(€000)

	31 December 2018					
Line of Business	Premium provisions	Claims provisions	Risk margin	TP - total	Recoverables from reinsurance	TP minus recoverables from
1 Medical expenses	-3,668	15,175	1,945	13,452	3,407	10,046
2 Income protection	16,164	38,565	5,705	60,433	9,125	51,308
3 Workers' compensation	0	-	-	-	-	-
7 Fire and other damage	-1,102	6,948	895	6,741	2,760	3,981
8 General Liab	-1,523	12,972	1,744	13,194	4,521	8,672
10 Legal expenses	-222	1,408	89	1,274	931	343
11 Assistance	22	79	15	116	60	56
12 Miscellaneous	24,557	5,913	2,371	32,842	5,513	27,328
Total	**34,228**	**81,061**	**12,764**	**128,053**	**26,318**	**101,735**

Description of the main bases, methods and assumptions utilised to value technical provisions

Poste Assicura calculates its technical provisions for solvency purposes in accordance with Chapter III (Rules relating to technical provisions) of Delegated Regulation (EU) 2015/35 as transposed into Chapter II (Calculation of technical provisions) of Legislative Decree 209/2005 as updated, for the solvency themes, by Legislative Decree 74/2015 and as supplemented by IVASS Regulation no. 18 of 15 March 2016.

The value of technical provisions (TP) corresponds to the amount that an insurance or reinsurance undertaking should have paid if it had transferred immediately its contractual rights and obligations to another company. The value of technical reserves is the sum of the Best Estimate Liabilities (BEL) of premium provision, claim provision and risk margin (RM).

Best Estimate Premium Provision

Based on the definition in Solvency II terms, the best estimate premium provision is the expected present value of all future cash flows generated by the outstanding contracts at the valuation date.

Starting from this definition, the methodology implemented to quantify the best estimate premium provision inclusive of reinsurance makes it possible to develop all future cash flows deriving from the payment of claims, expenses and any premium reimbursement for early surrender, less any future premiums to be collected. This methodology is based on the simplification rationale outlined in Annex 6 to IVASS Regulation no. 18 of 15 March 2016.
Estimated future cash flows were discounted at the rate provided by EIOPA without volatility adjustment.

Best Estimate Claims Provision

The best estimate claim provision was calculated starting from the time series of claim provisions and payments made by the competent offices. This information is monitored through the implementation of statistical analyses and accompanies by statistical and actuarial assessments.

Before performing any actuarial valuation, Poste Assicura prepares a number of reports that include claim indicators. Changes of these indicators over time are analysed to identify claim trends, with special reference to changes in the cost of each generation and its trend over the years. These indicators are observed on a monthly basis and checked against the comparable year-earlier indicators.

The analysis of the changes in the indicators over time is used to identify claim trends, with reference in particular to the changes in the costs of each generation and their trend over time.

For Solvency II valuation purposes, the following statistical and actuarial methods have been implemented:

- Paid Loss Development Method
- Incurred Loss Development Method

No statistical and actuarial methods were applied to the lines of business that, at the valuation date, showed insufficient historical depth, low volumes or a specialised payment structure. In this case the best estimate claims provision has been obtained starting from the provision

calculated with local GAAP at the valuation date, as broken down and discounted to present value.
Assistance was the only line of business that underwent this simplified valuation process.

Estimated future cash flows were discounted at the rate provided by EIOPA without volatility adjustment.

Differences between valuation for solvency purposes and valuation for financial reporting purposes

To explain the difference of estimated ultimate cost for financial reporting purposes and that for Solvency II purposes, analyses were conducted to isolate every component that affected the final result.

The main components that justify the difference between the estimated amounts are due to:

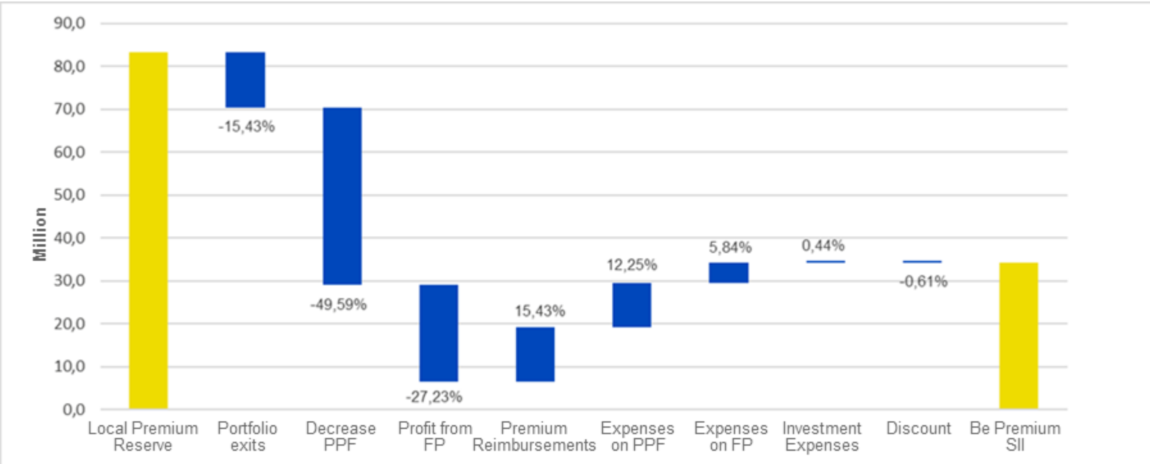
Best Estimate Premium Provision

- Portfolio exits: decrease of provisions for premium fractions due to portfolio exits determined by early surrender.
- Decrease of Provisions for premium fraction on the basis of the underwriting result (Loss Ratio);
- Profit from future premiums: Underwriting profit deducted from expected future premiums considered on the basis of the methodology defined for the best estimate premium provision;
- Premium reimbursements: Provisions for premium fractions returned to the policyholders following early surrender;
- Expenses on provisions for premium fractions: Future operating expenses paid out of the Provisions for premium fractions on the basis of the methodology defined for the best estimate premium provision;
- Expenses on future premiums: Future operating expenses paid out of expected future premiums on the basis of the methodology defined for the best estimate premium provision;
- Investment expenses: Expenses incurred by Poste Assicura in connection with investments;
- Discount effect: Discounting to present value required by regulations.

The results of the analysis are shown below.

(€000)

Bridge SI-SII – Gross Premium Provision	
Local premium reserve	**83,259**
Portfolio exits	(12,843)
Decrease PPF	(41,285)
Profit from FP	(22,675)
Premium reimbursements	12,850
Expenses on PPF	10,198
Expenses on FP	4,866
Investment expenses	364
Discount	(506)
BE Premiums SII	**34,228**



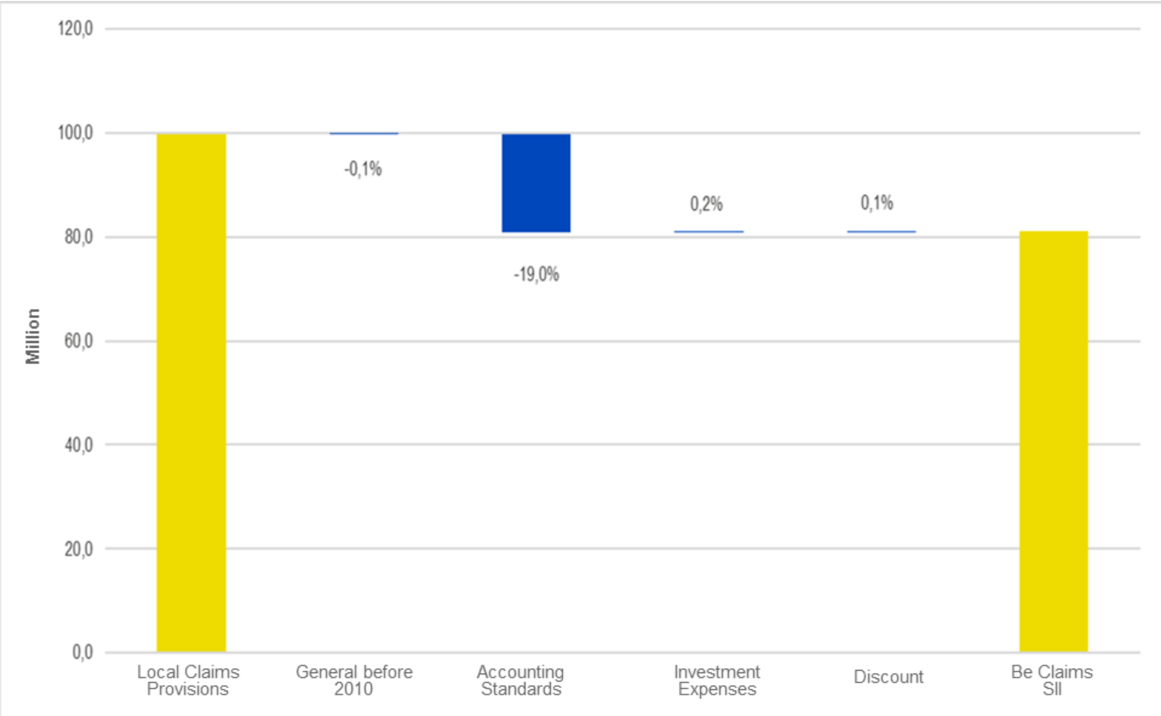
Best Estimate Claims Provision

- Generations prior to 2010: for actuarial valuation purposes no account was taken of data related to years before 2010.
- Accounting standards: This factor explains the effect of the different methodology applied the valuation, accounting for the majority of the difference. From a financial reporting standpoint, the prudence principle is observed, whereby no negative IBNeR can be determined. By contrast, within a Solvency II framework, a more forward-looking approach was adopted to determine an ultimate cost as close as possible to fair value;
- Investment expenses: Expenses incurred in connection with investments;
- Discount: Discounting to present value required by regulations, which resulted in an increase of the estimated ultimate cost.

The results of the analysis are shown below.

(€000)

Bridge SI-SII – Gross Claims Provision	
Local claims provisions	**99,736**
General before 2010	(82)
Accounting standards	(18,903)
Investment expenses	194
Discount	115
BE Claims SII	**81,061**



<u>Amounts recoverable from reinsurance contracts</u>

On the reinsurance side there are no significant differences between the assumptions used for Solvency II purposes and those used for financial reporting purposes.

It is noted that the valuations for solvency purposes do not consider recoveries for non-proportional treaties and income flowing to the Subsidiary from profit participations on Legal expenses insurance and Assistance risks.

Below, the main simplifications used in calculating the main provisions ceded are outlined:

- To quantify the Best Estimate Claim Provision, net of reinsurance, a simplified methodology was implemented based on the Best Estimate Claim Provision inclusive of reinsurance and ceded claim provision according to local rationales for each year of occurrence of claims and by type of treaty, or by proportional treaty and non-proportional treaty. It is specified that, in keeping with the valuation inclusive of reinsurance, the methodology proposed for the best estimate claim provision ceded is by LoB.

- The adjustment for expected losses due to default of the reinsurance counterparty is calculated on the basis of the simplified formula outlined in the Technical Specifications for the Preparatory Phase Part I (TP.2.183.), as follows:

$$Adj_{CD} = -\max\left(0.5 \cdot \frac{PD}{1-PD} \cdot Dur_{mod} \cdot BE_{rec}; 0\right)$$

  where:
  - BE_{rec} is the best estimate of the recoverables;
  - Dur_{mod} denotes the modified duration of the amounts recoverable from reinsurance contracts;
  - PD denotes the probability of default of the reinsurance counterparty. The proposed model assigns the PD on the basis of the rating of the reinsurer operating in the treaty. In case the treaty in question covers a reinsurance pool then the rating to be utilised to identify the PD is equal to the average rating weighted by the ratings of the reinsurers that make up the pool, using as weights the percentage shares allocated to the various reinsurers of the pool.

The Adj_{CD} determined as per above is attributed to each future year in a manner proportional to the recoverable flow.

The table below provides the details of recoverables from reinsurers for the Best Estimate Premium Provision.

(€000)

	31/12/2018		
Line of Business	**Best Estimate Premium Provision Gross of Reins.**	**Best Estimate Premium Provision Net of Reins.**	**Recoverables with Adjustment**
1 Medical expenses	-3,668	-2,569	-1,099
2 Income protection	16,164	14,573	1,591
3 Workers' compensation	0	0	0
7 Fire and other damage	-1,102	-952	-150
8 General Liab	-1,523	-1,469	-54
10 Legal expenses	-222	-237	15
11 Assistance	22	17	5
12 Miscellaneous	24,557	21,472	3,086
Total	**34,228**	**30,833**	**3,394**

The recoverables of the Best Estimate Premium Provision amount to €3,394 thousand. The Best Estimate Premium Provision, net of reinsurance, amounts to €30,833 thousand, reflecting a 10% decrease from the gross estimate.
The decrease of approximately €7.6 million relating to the recoverables component is affected, instead, by the significant change in the reinsurance structure expected for 2019, involving the cancellation of proportional cessions, except for Legal expenses insurance and Assistance.

The table below provides the details of recoverables for the Best Estimate Claims Provision.

(€000)

	31 December 2018		
Line of Business	Best Estimate Claims Provision Gross	Best Estimate Claims Provision Net of	Recoverables with Adjustment
1 Medical expenses	15,175	10,669	4,505
2 Income protection	38,565	31,030	7,534
3 Workers' compensation	0	0	0
7 Fire and other damage	6,948	4,038	2,910
8 General Liab	12,972	8,397	4,575
10 Legal expenses	1,408	492	916
11 Assistance	79	25	55
12 Miscellaneous	5,913	3,486	2,428
Total	**81,061**	**58,137**	**22,924**

The recoverables of the Best Estimate Claims Provision amount to €22,924 thousand. The Best Estimate Claims Provision, net of reinsurance, amounts to €58,137 thousand, reflecting a decrease of approximately 28% of the gross estimate. The recoverables obtained are consistent with the reinsurance strategy in place in 2018.

Risk margin

The Group's risk margin is the sum of the risk margins of the individual Companies, as per article 77 of the Solvency II Directive.

At 31 December 2018, in line with last year, use was made of a simplified methodology to calculate the risk margin of the Group's individual Companies, as provided for by paragraph 2, article 60 of IVASS Regulation no. 18/2016. In particular, after ensuring that the assumptions concerning the business's risk profile might be considered unchanged over time, the Group selected the hierarchy 2 method proposed by Annex 4 the above-mentioned Regulation. The Group thinks that this method, based on the runoff of obligations less reinsurance, reflects in a proportionate manner the nature, size and complexity of the underlying risks and the commitments made by the company of reference.

The hierarchy 2 method is based on the assumption that the solvency capital requirement is proportionate to the best estimate of technical provisions, for every year of reference. The proportionality factor is the ratio of the current SCR to the current best estimate of technical provisions. The table below shows the Group's risk margin:

	31 December 2017	31 December 2018	difference
Risk Margin	1,149,936	1,597,080	39%

The increase in the risk margin is due to:

- premium growth for the year;
- the increase in capital requirement for the underwriting risk attributable mainly to the absorption of the surrender risk as a result of the reduction of the weight, in percentage terms, of unrealised capital gains;
- the increase in capital requirements for counterparty risk determined by the increase in Poste Italiane's receivables and liquidity.

Lastly, the risk margin is allocated to the individual lines of business (LoB) on the basis of the relevant solvency capital requirement.

D.3 Other liabilities

Below, the amounts of the most significant liabilities as of 31 December 2018 are shown as calculated in accordance with Solvency II criteria and as reported in the IAS/IFRS consolidated financial statements of the Poste Vita Group, as well as in the local GAAP individual financial statements of each of Poste Vita and Poste Assicura.

Subordinated loans

Subordinated loans – Poste Vita Group (€1,013,440 thousand)

At 31 December 2018, subordinated loans, held entirely by the Parent Company, Poste Vita, amount to €1,013,440 thousand, of which:

- €770,021 thousand relating to the market value of a subordinated bond issued by the Company in May 2014, including accrued interest on the bonds; this bond was taken up in its entirety by institutional investors and will mature in May 2019.
- €243,419 thousand relating to the market value of a subordinated loan obtained by Poste Vita from its Parent Company, Poste Italiane, including accrued interest (and entered into at arm's length).

Contingent liabilities

Contingent liabilities – Poste Vita Group (€10,600 thousand)

Contingent liabilities, related entirely to Poste Vita, are recognised in view of losses and expenses of a specific nature that are certain or likely but whose amount and/or date of occurrence, however, cannot be determined.
This item includes liabilities defined and provided for by IAS 37 and are determined as prescribed by this standard.

Provisions are recognised as soon as an obligation arises for the Group as a result of a past event and it is likely that the Group will be asked to fulfil it.
Contingent liabilities at 31 December 2018 amount to €10.6 million - down by approximately €0.6 million from €11.2 million at year-end 2017, due to the release of provisions for legal disputes – reflecting funds to cover the following contingent liabilities:

- current legal disputes for about €5.5 million, of which over half attributable to dormant policies;
- tax liabilities that might arise from existing disputes for approximately €2.8 million;
- other liabilities for €2.3 million.

Pension benefit obligations

Pension benefit obligations – Poste Vita Group (€3,840 thousand)
This item reflects the amount due to employees on termination of employment which, on 31 December 2018, totalled €3,840 thousand. This amount has been calculated in accordance with IAS 19 and the consolidated figure reflects the total attributable to each of the three Group companies.

Pension benefit obligations – Poste Vita SpA (€1,870 thousand)
Regarding the Parent Company, Poste Vita, pension benefits obligations at year-end 2018 amount to €1,870 thousand.
Details of the accounting policies used are provided in the section relating to the Group.

Pension benefit obligations – Poste Assicura SpA (€288 thousand)
Regarding Poste Assicura, pension benefits obligations at year-end 2018 amount to €288 thousand.
Details of the accounting policies used are provided in the section relating to the Group.

Pension benefit obligations – Poste Welfare Servizi Srl (€1,682 thousand)
This subsidiary has pension benefit obligations at year-end 2018 of €1,682 thousand.
Details of the accounting policies used are provided in the section relating to the Group.

Deferred tax liabilities

Deferred tax liabilities – Poste Vita Group (€1,845,310 thousand)
Deferred tax liabilities are equal to the sum of the amounts reported in the Market Value Balance Sheet (Solvency II) of the Parent Company, Poste Vita, and its subsidiaries, Poste Assicura and Poste Welfare Servizi Srl. Deferred tax liabilities are calculated on the basis of the difference between the amounts of assets and liabilities reported for Solvency II purposes and the

corresponding amounts determined for reporting purposes under local GAAP by applying the IRES + IRAP tax rates (30.82%).

Deferred tax liabilities – Poste Vita SpA (€1,826,612 thousand)

Under local GAP, "Deferred tax liabilities" rose by €133 thousand, from €1,826,479 thousand at year-end 201 to €1,826,612 at year-end 2018.

Among the main components of this item, attention is called to the deferred tax liabilities recognised mainly in connection with the increase of €959,413 in investment and the decline of €867,028 in gross technical provisions.

Details of the accounting policies used are provided in the section relating to the Group.

Deferred tax liabilities - Poste Assicura SpA (€18,698 thousand)

At year-end 2018, deferred tax liabilities amount to €18,698 thousand, reflecting deferred tax liabilities recognised in relation to changes in financial instruments, of €982 thousand, and to a decrease in technical reserves following application of Solvency II valuation methods, of €17,717.

Details of the accounting policies used are provided in the section relating to the Group.

Financial liabilities other than debts owed to financial institutions

Financial liabilities other than debts owed to financial institutions – Poste Vita Group (€5,070 thousand)

These liabilities are related in their entirety to the Parent Company, Poste Vita, and are recognised at their nominal value. For accounting purposes no use is made of discounting methods as, given the short-term nature of these liabilities, the effects would not be material. This item refers to the commission expenses on ancillary funds paid to the Parent Company, Poste Italiane, under the terms of the commitment letter dated 15 November 2018.

Derivative liabilities

Derivative liabilities – Poste Vita Group (€155 thousand)

Starting from the last quarter of 2018, Poste Vita began considering the possibility to enter into forward transactions for hedging purposes and, at 31 December 2018, the Parent Company had a forward sale contract, expiring in March 2019, reported at a negative fair value of €155,000

Sums due to policyholders and agents

Sums due to policyholders and agents – Poste Vita Group (€152,921 thousand)

These payables are recognised at their market value. For accounting purposes no use is made of discounting methods as, given the short-term nature of these liabilities, the effects would not be material.
At year-end 2018 this item amounts to €152,921 thousand, net of intercompany transactions for €5,45 thousand and related solely to the debt that Poste Assicura has with Poste Vita for the portion of premium covering the "life" insurance part of the CPI products.

Sums due to policyholders and agents – Poste Vita SpA (€142,979 thousand)
At year-end 2018 this item amounts to €142,979 thousand, and consists mainly of: i) commissions due to agents for the placement of insurance product, mostly in the fourth quarter and payable in early 2019, for €80,229 thousand; and ii) commissions due to Poste Italiane, of €62,750, for portfolio maintenance purposes.
Details of the accounting policies used are provided in the section relating to the Group.

Sums due to policyholders and agents – Poste Assicura SpA (€15,387 thousand)

At year-end 2018 this item amounts to €15,387 thousand, and consists mainly of

- commissions due to agents for the placement of insurance product, mostly in the fourth quarter and payable in early 2019, for €7,035 thousand;
- commissions due to Poste Vita: this item relates to premiums for CPI products (€5,445 thousand), which provide "non-life" insurance coverage by Poste Assicura and "life" insurance coverage by Poste Vita. The full amount of the premiums is collected by Poste Assicura, which recognised immediately a payable due to Poste Vita for the premium share attributable to the "life" coverage. This payable was settled as of the date of this Report;
- sums due to policyholders for claims and collection reimbursements of €2,907 thousand.

Details of the accounting policies used are provided in the section relating to the Group.

Trade payables

Trade payables – Poste Vita Group (€55,491 thousand)
At year-end 2018 trade payables amount to €55,491 thousand and refer mainly to the purchase of goods and services during the year and not paid yet at 31 December 2018.
This item resulted also from the elimination of balances arisen in connection with intercompany transactions for €3,586 thousand.
Payables are recognised at fair value on the date of purchase and subsequently reported at their extinguishment value.

Trade payables – Poste Vita SpA (€42,242 thousand)
At year-end 2018 trade payables amount to €42,242 thousand and refer mainly to the purchase of goods and services during the year and not paid yet at 31 December 2018.
Details of the accounting policies used are provided in the section relating to the Group.

Trade payables – Poste Assicura SpA (€14,359 thousand)

At year-end 2018 trade payables amount to €14,359 thousand and refer mainly to the purchase of goods and services during the year and not paid yet at 31 December 2018.
Details of the accounting policies used are provided in the section relating to the Group.

Trade payables – Poste Welfare Servizi Srl (€2,476 thousand)

At year-end 2018 trade payables amount to €2,476 thousand and refer mainly: i) to the purchase of goods and services during the year and not paid yet at 31 December 2018; and ii) deferred income related mainly to the share of revenue related to the quarterly payment made by Faschim, a customer, which is billed in advance.
Details of the accounting policies used are provided in the section relating to the Group.

Difference between the valuation methods adopted for Solvency II purposes and those adopted to prepare the consolidated financial statements in accordance with IAS/IFRS

The table below summarises the different criteria adopted to calculate liabilities for Solvency II purposes and for consolidated financial reporting purposes under IAS/IFRS:

Liabilities	Solvency II valuation method	IAS/IFRS valuation method
Contingent liabilities	Significant liabilities are measured pursuant to IAS 37 – Provisions, Contingent Liabilities and Contingent Assets	Significant liabilities are measured pursuant to IAS 37 – Provisions, Contingent Liabilities and Contingent Assets
Pension benefit obligations	Amount calculated according to IAS 19	Amount calculated according to IAS 19
Financial liabilities other than debts owed to credit institutions	These are recognised at their nominal value	These are recognised at their nominal value
Deferred tax liabilities	Deferred tax liabilities are equal to the sum of the amounts reported in the Market Value Balance Sheet (Solvency II) of the Parent Company, Poste Vita, and its subsidiaries, Poste Assicura and PW. These amounts have been calculated – with reference to the different valuation methods of assets and liabilities adopted for Solvency II purposes and for reporting purposes under local GAAP – on the basis of the applicable tax rates.	Deferred tax liabilities are recognised on the basis of deductible temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases.
Derivatives	These are recognised at fair value through profit or loss	These are recognised at fair value through profit or loss
Insurance and intermediaries payables	Payables are recognised at fair value on the purchase date and subsequently reported at their extinguishment value	Payables are reported at their nominal value
Subordinated liabilities	These are recognised at their fair value, including accrued interest	These are recognised at their amortised cost, including accrued interest.

The main changes include deferred taxes set aside on changes in value of financial instruments and technical provisions, in accordance with Solvency II valuation methods.

(€000)

Liabilities	Solvency II value	IAS/IFRS value	Change
Contingent liabilities	10,600	10,600	0
Pension benefit obligations	3,840	3,840	0
Deferred tax liabilities	1,845,310	288,901	1,556,409
Financial liabilities other than debts owed to credit institutions	5,070	5,070	0
Derivatives	155	155	0
Insurance and intermediaries payables	152,921	152,921	0
Payables (trade, not insurance)	55,491	55,491	0
Subordinated liabilities	1,013,440	1,013,565	-124

With reference to the Group companies, application of the Solvency II valuation methods to the assets reported on the Balance Sheet resulted in the following accounting differences with the local GAAP:

Liabilities	Solvency II valuation method	Local GAAP valuation method
Contingent liabilities	Significant liabilities are measured pursuant to IAS 37 – Provisions, Contingent Liabilities and Contingent Assets	This item is recognised in accordance with OIC 31. In particular, provisions are made for risks and charges to cover losses or specific payables, which are certain or probable but whose amount and payment date are not known at year-end.
Pension benefit obligations	Amount calculated according to IAS 19	Pension benefit obligations are calculated individually for each employee in accordance with article 5 of **Law 297 of 1982**, as well as in keeping with the reform of employee severance payments under **Legislative Decree 252/2005** as subsequently amended.
Financial liabilities other than debts owed to credit institutions	These are recognised at their nominal value	These are recognised at their nominal value
Deferred tax liabilities	Deferred tax liabilities have been calculated on the basis of the differences between assets and liabilities measured in accordance with Solvency II and local GAAP. The tax effect is determined on the basis of the applicable tax rates.	Deferred tax liabilities are recognised on the basis of deductible temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases.
Insurance and intermediaries payables	Payables are recognised at fair value on the purchase date and subsequently reported at their extinguishment value	Payables are reported at their nominal value
Subordinated liabilities	These are recognised at their fair value, including accrued interest	These are recognised at their nominal value.

Poste Vita SpA

(€000)

Liabilities	Solvency II value	Statutory Account Value	Change
Contingent liabilities	10,600	10,600	0
Pension benefit obligations	1,870	1,754	116
Deferred tax liabilities	1,826,612	133	1,826,479
Financial liabilities other than debts owed to credit institutions	5,070	5,070	0
Insurance and intermediaries payables	142,979	142,979	0
Derivatives	155	155	0
Payables (trade, not insurance)	42,242	42,242	0
Subordinated liabilities	1,013,440	1,013,565	-124

Poste Assicura SpA

(€000)

Liabilities	Solvency II value	Statutory Account Value	Change
Pension benefit obligations	288	251	36
Deferred tax liabilities	18,698	0	18,698
Reinsurance payables	1,164	1,164	0
Insurance & intermediaries payables	15,387	15,387	0
Payables (trade, not insurance)	14,359	14,359	0

D.4 Alternative measurement methods

This information is not provided as at 31 December 2018 the Insurance Group and its companies did not utilise any measurement methods as an alternative to those described.

D.5 Any other disclosures

An annual report is prepared in accordance with accounting standards and methods that sometimes are based on complex subjective considerations and estimates related to past experience, as well as on assumptions that are regarded from time to time as reasonable and realistic depending on the relevant circumstances. The application of these estimates and assumptions affect the amounts reported in the financial statements and the accompanying notes. The final amounts reported in the Single Solvency and Financial Conditions Report (SFCR) of Poste Vita, which were also based on estimates and assumptions, may differ from those indicated in the previous SFCRs, due to the uncertainty that marks the expectations and conditions on which the estimates are based. Estimates and assumptions are revised regularly and the effects on the accounts of any change are recognised in the year in which estimates are revised, if such revision affects the current year, or in the subsequent periods, if the revision affects the current and future periods.
Lastly, it is noted that the complex and comprehensive Solvency II regulation came into force in Italy only in financial year 2016 and, as such, the management teams of the companies of the Insurance Group will continue to pay special attention to the any upcoming regulatory and interpretation developments, as well as any best practices that will come into being progressively, assessing any effects on the estimates and disclosures contained in future Solvency and financial condition reports.

E – CAPITAL MANAGEMENT

E.1 Own funds

Introduction

This section focuses on the description of the solvency position of the insurance group and the individual companies that make it up. The solvency position is reflected by the ratio of the Group and the companies' own funds to their Solvency Capital Requirement (SCR).
Specifically, with respect to own funds, aspects related to the different components that are part of the solvency position are explored and analysed, particularly:
- items that make up own funds and the related tiering;
- reconciliation between own funds and reported equity;
- analysis of movements in own funds.

Attention will be paid to the theme concerning the Solvency Capital Requirement and the Minimum Capital Requirement, trying to explore issues related to the different types of risk that make up their amount and the main characteristics of the Standard Formula used by the Group Companies.
The section ends with useful information for the purposes of this analysis.

E.1.1 Structure, amount and quality of own funds – Poste Vita Group

The Poste Vita Group's own funds comprise solely basic own funds, as at 31 December 2018 no ancillary own funds were calculated[12].
Basic own funds reflect the excess of assets over liabilities, valued in accordance with article 75 of Directive 2009/138/EC. Poste Vita does not hold any treasury shares.
The Group's own funds correspond to the equity reported in the Market Value Balance Sheet of Poste Vita, as the equity of Poste Assicura and Poste Welfare Servizi (wholly-owned subsidiaries consolidated on a line-by-line basis) have been eliminated against the relevant equity investments.
Basic own funds of the Poste Vita Group amount overall to €8,259,119 thousand and are comprised of:

- Share capital for €1,216,608 thousand, under local GAAP;
- Reconciliation Reserve for €6,043,192 thousand;
- Subordinated loans for €993,320 thousand.

The amount of own funds available to meet the capital requirement was eventually classified in different tiers on the basis of the individual items of Own Funds.

[12] With reference to point a) of the Regulation which requires "information on the substantial conditions of the main items of own funds held by the company".

(€/000)

BASIC own funds	TOTAL	TIER 1 Unrestricted	TIER 2
Ordinary share capital (gross of own shares)	1,216,608	1,216,608	
Share premium account related to ordinary share capital			
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings			
Subordinated mutual members accounts			
Surplus funds			
Preferences Shares			
Share premium account related to preference shares			
Reconciliation reserve	6,043,192	6,043,192	
Subordinated liabilities	999,320		999,320
An amount equal to the value of net deferred tax assets			
Other Items approved by supervisory authority as basic own funds not specified above			
Total available own funds to meet the SCR	**8,259,119**	**7,259,799**	**999,320**

Own funds of the Poste Vita Insurance Group are fully eligible for SCR coverage as they comply with the provisions of article 82 of the Delegated Regulation, particularly Tier 1 and Tier 2. Within own funds eligible for MCR coverage, the amounts reclassified in Tier 2 are considered eligible for up to 20% of the MCR, as provided for by the foregoing Regulation. Accordingly, as shown in the table below, own funds available to meet the SCR and the MCR amount to €8,259,119 thousand; at 31 December 2018, own funds eligible to meet the SCR and the MCR amounted to €8,259,119 thousand and €7,616,110 thousand, respectively.

(€/000)

BASIC own funds -Tier	Total	Tier1 -unrestricted	Tier 2
Total available own funds to meet the SCR	8,259,119	7,259,799	999,320
Total available own funds to meet the MCR	8,259,119	7,259,799	999,320
Total eligible own funds to meet the SCR	8,259,119	7,259,799	999,320
Total eligible own funds to meet the MCR	7,616,110	7,259,799	356,310

Regarding the foregoing, and considering that the SCR and the MCR amount to €3,909,824 thousand and €1,781,552 thousand, respectively, the SCR ratio at the end of 2018 was 211.24% while the MCR ratio was 427.50%.

(€/000)

Coverage Ratio	Total
SCR	3,909,824
MCR	1,781,552
Ratio of Eligible own funds to SCR	211.24%
Ratio of Eligible own funds to MCR	427.50%

Differences between equity and own funds of the Poste Vita Group

The difference between consolidated equity under IAS/IFRS and excess assets over liabilities under Solvency II amounts to €3,308,488 and constitutes the basic reconciliation reserve.
This reserve reflects the effect of the different measurements performed with IAS/IFRS, on one side, and Solvency II rules, on the other.
The table below provides details of the reconciliation reserve, through the analytical reconstruction of the quantitative differences resulting from the application of Solvency II principles on the assets and liabilities of the Market Value Balance Sheet.

(€/000)

Adjustment	Amount
Assets	
Deferred acquisition costs	-59,710
Intangible assets	-48,157
Investments	110,557
Reinsurance recoverables	-55,819
Deferred tax assets	43,656
Other	-860
Total Adj Assets	**-10,332**
Liabilities	
Technical provisions	-4,875,195
Deferred tax liabilities	1,556,409
Subordinated liabilities	-124
Other	90
Total Adj Liabilities	**-3,318,820**
Reconciliation Reserve base	3,308,488
Retained earnings - Reconciliation Reserve	2,734,703
Total Reconciliation reserve	**6,043,192**

Retained earnings, amounting to €2,734,703 thousand, consists of: i) net profit for the period of €1,003,488 thousand; ii) retained earnings of €1,570,761 thousand and ii) other reserves for €160,454 thousand.
Moreover, as indicated previously in paragraph B.1, at the General Meeting of 22 June 2018, the Shareholders of Poste Vita SpA approved the distribution to the sole shareholder, Poste Italiane SpA, of dividends of €237.8 million.

Reconciliation between Solvency II Own Funds and Consolidated IAS/IFRS Own Funds

The table below reconciles the poste Vita Group's Own Funds determined in accordance with Solvency II rules and Own Funds calculated as per IAS/IFRS as at 31 December 2018.

	(€/m)
Reconciliation Own Funds at 31/12/2018	
Own Funds Statutory Account Value Poste Vita	**3,249**
Intangible assets	(81)
Participations	81
Financial Investments	3,032
Net technical provisions	2,765
Subordinated liabilities	(0)
Net deferred tax assets	(1,787)
Other	0.1
Own Funds SII Value Poste Vita	**7,260**
Participations	(179)
Financial Investments	285
Net technical provisions	(102)
Net deferred tax assets	(9)
Other assets	40
Other liabilities	(35)
Own Funds SII Value Poste Vita Group	**7,260**
Intangible assets	108
Financial Investments	(111)
Net technical provisions	(4,819)
Net deferred tax assets	1,513
Subordinated liabilities	0
Other	1
Own Funds IAS/IFRS Value Poste Vita Group	**3,951**

As can be seen from the above statement, the lower amount of consolidated Own Funds under IAS/IFRS of the Poste Vita Group, vis-à-vis the comparable amount calculated for Solvency II purposes, is mainly due to technical provisions of €4,819 million. In fact, in the IAS/IFRS consolidated financial statements, the unrealised gains on financial instruments classified as FVOCI attributable to policyholders are allocated to insurance liabilities through the application of shadow accounting[13].

E.1.1 Structure, amount and quality of own funds – Poste Vita SpA.

As shown in the table below, the amount of own funds available to cover the SCR amounts to €8,259,119 thousand, reflecting a decrease from €8,522,237 thousand in own funds eligible to cover SCR at year-end 2017. Lastly, the amount of own funds eligible to cover MCR is equal to €7,610,893 thousand.

[13] This methodology, which is permitted by paragraph 30 of IFRS 4 for contracts included in the separately managed accounts of the life business, makes it possible - to mitigate the information asymmetry between insurance liabilities, which are measured in accordance with local GAAP, and the assets to cover such liabilities, which are measured at their fair value on the basis of IAS 39 – to recognise under liabilities the unrealised gains and losses attributable to policyholders.

(€/000)

BASIC own funds -Tier	Total	Tier1 -unrestricted	Tier 2
Total available own funds to meet the SCR	8,259,119	7,259,799	999,320
Total available own funds to meet the MCR	8,259,119	7,259,799	999,320
Total eligible own funds to meet the SCR	8,259,119	7,259,799	999,320
Total eligible own funds to meet the MCR	7,610,893	7,259,799	351,094

Based on the above, at the end of 2018 the SCR ratio is equal to 211.72% while the MCR ratio is equal to 433.55%.

(€/000)

Coverage Ratio	Total
SCR	3,901,043
MCR	1,755,469
Ratio of Eligible own funds to SCR	211.72%
Ratio of Eligible own funds to MCR	433.55%

The reconciliation reserve of €6,043,192 thousand consists of €4,010,697 thousand in basic reconciliation reserve, which represents the effect of the valuation method adopted under local GAAP, used to prepare the financial statements, as opposed to the valuation method based on Solvency II rules. The remaining €2,032,495 thousand consists of: i) net profit for the period of €580,802 thousand; ii) retained earnings for €1,286,801 thousand and iii) other reserves for €164,892 thousand.

E.1.1 Structure, amount and quality of own funds – Poste Assicura SpA

Poste Assicura's own funds reflects solely basic own funds (BOF), as the Company does not have ancillary own funds (AOF).

Poste Assicura has no treasury shares in its portfolio.

Poste Assicura's own funds amount to €170,174 thousand and consist of:

- Share capital for €25,000 thousand;
- Reconciliation Reserve and equity items recognised under local GAAP of €145,174 thousand.

All the items of the Company's own funds have been classified as Tier 1 Unrestricted and since Poste Assicura is a wholly-owned subsidiary consolidated on a line-by-line basis, equity has been offset against the corresponding amount of the equity interest.

At year-end 2018, own funds available to cover the SCR amount to €170,174 thousand, as do own funds eligible to cover MCR.

(€/000)

BASIC own funds -Tier	Total	Tier1 -unrestricted
Total available own funds to meet the SCR	170,174	170,174
Total available own funds to meet the MCR	170,174	170,174
Total eligible own funds to meet the SCR	170,174	170,174
Total eligible own funds to meet the MCR	170,174	170,174

Based on the above, at the end of 2018 the Solvency Ratio is equal to 268.72% while the MCR ratio is equal to 652.44%.

(dati in migliaia di Euro)

Coverage Ratio	Total
SCR	63.329
MCR	26.083
Ratio of Eligible own funds to SCR	268,72%
Ratio of Eligible own funds to MCR	652,44%

The reconciliation reserve of €145,174 thousand consists of €32,121 thousand in basic reconciliation reserve, which represents the effect of the valuation method adopted under local GAAP, used to prepare the financial statements, as opposed to the valuation method based on Solvency II rules. The remaining €113,053 thousand consists of: i) net profit for the period of €42,520 thousand; and ii) retained earnings for €5,743 thousand.

E.2 Solvency capital requirement and minimum capital requirement

Group SCR and MCR
The Group calculates its capital requirement in accordance with method 1 in article 230 of Directive 2009/138/EC.
The table below shows the composition of the Poste Vita Group's consolidated SCR for the years ended 31 December 2017 and 2018, as calculated with the standard formula, in keeping with Directive 2009/138/EC and with the criteria laid down by the Delegated Regulation.
It is noted that the Group does not use simplified calculations to determine any risk sub-module.

GROUP SCR COMPOSITION

(€000)

	31 December 2017	31 December 2018	% change
Market risk	2,270,212	3,307,179	45.7%
Counterparty default risk	202,901	218,208	7.5%
Life underwriting risk	1,654,481	2,170,856	31.2%
Health underwriting risk	49,699	62,139	25.0%
Non-life underwriting risk	27,599	34,139	23.7%
Diversification	-987,557	-1,305,768	32.2%
Intangible asset risk	0	0	-
Basic Solvency Capital Requirement	**3,217,334**	**4,486,752**	**39.5%**
Total capital requirement for operational risk	796,329	646,121	-18.9%
Loss-absorbing capacity of deferred taxes	-963,279	-1,231,890	27.9%
Solvency capital requirement	**3,050,384**	**3,900,984**	**27.9%**

Compared with the previous year, at 31 December 2018:

- the requirement in relation to market risks increased due to interest rate trends;
- the requirement in relation to life underwriting risks rose due to a decrease in unrealised gains;
- there was an increase in the counterparty capital requirement due to the rise in derivative positions held in multi-asset funds and in receivables due from, and cash deposited with, Poste Italiane.

The current risk distribution generates greater diversification benefits compared with December 2017.

The table below provides details of the SCR Market Risk and the SCR Life Underwriting Risk at 31 December 2018.
Each risk sub-module is considered net of the adjustment for the ability of technical provisions to absorb losses.

GROUP MARKET SCR COMPOSITION

(€000)

	31 December 2017	31 December 2018	% change
Interest rate risk	577,744	725,978	25.7%
Equity risk	519,257	795,125	53.1%
Property risk	84,461	186,506	120.8%
Spread risk	1,341,171	1,975,014	47.3%
Market risk concentrations	0	0	-
Currency risk	260,953	343,258	31.5%
Diversification within market risk module	-513,375	-718,702	40.0%
Total Market risk	**2,270,212**	**3,307,179**	**45.7%**

The capital requirement for market risk rose due to changes in market conditions. The Group is implementing de-risking activities on multi-asset funds, which will determine benefits due to the sub-module diversification.

GROUP LIFE-UNDERWRITING SCR COMPOSITION

(€000)

	31 December 2017	31 December 2018	% change
Mortality risk	61,700	67,711	9.7%
Longevity risk	49,251	61,754	25.4%
Disability-morbidity risk	0	0	-
Lapse risk	1,540,200	2,045,165	32.8%
Life expense risk	169,426	185,343	9.4%
Revision risk	0	0	-
Life catastrophe risk	25,676	29,732	15.8%
Diversification within life underwriting risk module	-191,770	-218,850	14.1%
Total life underwriting risk	**1,654,481**	**2,170,856**	**31.2%**

The SCR for life underwriting risk rose mainly as a result of the higher requirement necessary to face a lapse risk determined by the decrease in unrealised gains determined by market conditions.
The Group does not use simplified calculations to determine any of the risk sub-modules.

GROUP NON-LIFE-UNDERWRITING SCR COMPOSITION

(€000)

	31 December 2017	31 December 2018	% change
Non-life premium and reserve risk	23,298	26,195	12.4%
Non-life lapse risk	4,788	6,232	30.2%
Non-life catastrophe risk	9,338	15,436	65.3%
Diversification within non-life underwriting risk module	-9,825	-13,724	39.7%
Total non-life underwriting risk	**27,599**	**34,139**	**23.7%**

GROUP HEALTH-UNDERWRITING SCR COMPOSITION

(€000)

	31 December 2017	31 December 2018	% change
Total SLT health underwriting risk	11,144	15,337	37.6%
Total NSLT health underwriting risk	37,335	45,209	21.1%
Total health catastrophe risk	14,009	18,299	30.6%
Diversification within health underwriting risk module	-12,789	-16,706	30.6%
Total health underwriting risk	**49,699**	**62,139**	**25.0%**

The loss-absorbing capacity of deferred taxes ("LAC DT") can be considered as eligible to reduce this capital requirement in view of the Group's ability to generate future taxable profit to the extent required by the Delegated Regulation and IVASS Regulation no. 35 of 7 February 2017 ("IVASS Regulation no. 2017/35").

IVASS Regulation no. 2017/35 defines notional deferred taxes as the figurative change in deferred taxes reported in the solvency balance sheet after the instantaneous loss referred to in article 207 of the Delegated Regulation, calculated as the difference between the following amounts:

- the deferred taxes obtained with the effects of the loss scenario on the solvency balance sheet; and
- the deferred taxes recognised in the solvency balance sheet.

To calculate DTA, the Group used an analytical approach based on the determination of the impacts of the instantaneous loss of each item of the solvency balance sheet, to arrive at the related tax treatment (average tax rate). To this end, it was necessary to determine the impacts deriving from the loss, as broken down by the risk module and sub-module contemplated by the Standard Formula and the relevant tax treatment for corporate income tax (IRES) purposes (24% of taxable income).

The Group's minimum capital requirement (MCR) is calculated, in accordance with article 248 of the Delegated Regulation, as the sum of the MCR of each of the Group's insurance companies (Poste Vita and Poste Assicura).

(€000)

	31 December 2017	31 December 2018	% change
Minimum consolidated Group SCR	**1,391,624**	**1,781,552**	**28.0%**

Poste Vita SpA's SCR and MCR

The table below shows the composition of the Poste Vita's SCR composition for the years ended 31 December 2017 and 2018, as calculated with the standard formula, in keeping with Directive 2009/138/EC and with the criteria laid down by the Delegated Regulation.

SCR COMPOSITION

(€000)

	31 December 2017	31 December 2018	% change
Market risk	2,294,007	3,339,517	45.6%
Counterparty default risk	200,886	214,491	6.8%
Life underwriting risk	1,654,481	2,170,856	31.2%
Health underwriting risk	12,778	17,493	36.9%
Non-life underwriting risk	0	0	-
Diversification	-943,286	-1,250,460	32.6%
Intangible asset risk	0	0	-
Basic Solvency Capital Requirement	**3,218,866**	**4,491,898**	**39.5%**
Total capital requirement for operational risk	792,493	641,053	-19.1%
Loss-absorbing capacity of deferred taxes	-962,726	-1,231,908	28.0%
Solvency capital requirement	**3,048,633**	**3,901,043**	**28.0%**

Compared with the previous year, at 31 December 2018:

- the requirement in relation to market risks increased due to interest rate trends;
- the requirement in relation to life underwriting risks rose due to a decrease in unrealised gains;

- there was an increase in the counterparty capital requirement due to the rise in derivative positions held in multi-asset funds and in receivables due from, and cash deposited with, Poste Italiane.

The current risk distribution generates greater diversification benefits compared with December 2017.

The table below provides details of the SCR Market Risk and the SCR Life Underwriting Risk at 31 December 2018. Each risk sub-module is considered net of the adjustment for the ability of technical provisions to absorb losses.

MARKET SCR COMPOSITION

(€000)

	31 December 2017	31 December 2018	% change
Interest rate risk	579,627	727,850	25.6%
Equity risk	546,474	832,478	52.3%
Property risk	84,461	186,506	120.8%
Spread risk	1,340,237	1,973,560	47.3%
Market risk concentrations	0	0	-
Currency risk	260,953	343,258	31.5%
Diversification within market risk module	-517,745	-724,134	39.9%
Total Market risk	**2,294,007**	**3,339,517**	**45.6%**

The capital requirement for market risk rose due to changes in market conditions. The Group is implementing de-risking activities on multi-asset funds, which will determine benefits due to the sub-module diversification.

LIFE UNDERWRITING SCR COMPOSITION

(€000)

	31 December 2017	31 December 2018	% change
Mortality risk	61,700	67,711	9.7%
Longevity risk	49,251	61,754	25.4%
Disability-morbidity risk	0	0	-
Lapse risk	1,540,200	2,045,165	32.8%
Life expense risk	169,426	185,343	9.4%
Revision risk	0	0	-
Life catastrophe risk	25,676	29,732	15.8%
Diversification within life underwriting risk module	-191,770	-218,850	14.1%
Total life underwriting risk	**1,654,481**	**2,170,856**	**31.2%**

The SCR for life underwriting risk rose mainly as a result of the higher requirement necessary to face a lapse risk determined by the decrease in unrealised gains determined by market conditions.
The Parent Company does not use simplified calculations to determine any of the risk sub-modules.

Poste Vita's minimum capital requirement (MCR) is calculated in accordance with article 248 of the Delegated Regulation.
The component that determines the MCR is the combined minimum capital requirement (combined MCR) equal to 45% of the life solvency capital requirement (SCR), as the linear MCR is higher than the cap by the Regulation (MCR Cap).

MCR COMPOSITION

(€000)

	31 December 2017	31 December 2018	% change
Linear MCR	3,440,684	3,670,289	6.7%
SCR	3,048,633	3,901,043	28.0%
MCR cap	1,371,885	1,755,469	28.0%
MCR floor	762,158	975,261	28.0%
Combined MCR	1,371,885	1,755,469	28.0%
Absolute floor of the MCR	5,400	5,400	0.0%
Minimum Capital Requirement	**1,371,885**	**1,755,469**	**28.0%**

Poste Assicura SpA's SCR and MCR

Poste Assicura's Solvency Capital Requirement (SCR) is obtained by applying the standard formula in accordance with Directive 2009/138/EC and with the criteria laid down by the Delegated Regulation published in the Official Journal of the European Union[14].
In calculating capital requirements, use was made of the information on the contracts in portfolio at 31 December 2018.
In addition, for each contract the relevant proportional and non-proportional reinsurance treaties were identified and considered in the valuation net of reinsurance.
The table below provides details of the results.

Poste Assicura's minimum capital requirement (MCR) is calculated in accordance with article 248 of the Delegated Regulation.

[14] Delegated regulation (EU) 2015/35 of the European Commission, as subsequently amended

(€000)

SOLVENCY CAPITAL REQUIREMENT	31.12.2017	31.12.2018	Delta %
Market risk	8,418	9,965	18.4%
Counterparty default risk	1,740	3,096	77.9%
Life underwriting risk	0	0	-
Health underwriting risk	41,135	50,441	22.6%
Non-life underwriting risk	27,599	34,139	23.7%
Diversification	-24,965	-31,013	24.2%
Intangible asset risk	0	0	-
Basic Solvency Capital Requirement	**53,927**	**66,628**	**23.6%**
Total capital requirement for operational	3,835	5,068	32.1%
Loss-absorbing capacity of technical	0	0	-
Loss-absorbing capacity of deferred taxes	-13,863	-17,207	24.1%
Solvency capital requirement	**43,899**	**54,489**	**24.1%**
Capital add-on already set	0	8,840	-
Solvency capital requirement	**43,899**	**63,329**	**44.3%**
Minimum Capital Requirement	**19,739**	**26,083**	**32.1%**

(€000)

MINIMUM CAPITAL REQUIREMENT	31.12.2017	31.12.2018	Delta %
Linear MCR	19,739	26,083	32.1%
SCR	43,899	63,329	44.3%
MCR cap	19,755	28,498	44.3%
MCR floor	10,975	15,832	44.3%
Combined MCR	19,739	26,083	32.1%
Absolute floor of the MCR	3,700	3,700	0.0%
Minimum Capital Requirement	**19,739**	**26,083**	**32.1%**

The combined requirement is equal to the Linear MCR.

E.3 Use of the duration-based approach in the equity risk sub-module in the calculation of the solvency capital requirement

At 31 December 2018, this exercise was not applicable to the Poste Vita Group.

E.4 Differences between the standard formula and any internal model used

At 31 December 2018, this exercise was not applicable to the Poste Vita Group.

E.5 Non-compliance with the minimum capital requirement and non-compliance with the solvency capital requirement

At 31 December 2018, this exercise was not applicable to the Poste Vita Group.

E.6 Any other disclosures

At 31 December 2018, there were no disclosures other than the above.

F – ANNEXES

Regarding article 5 of Implementing Regulation 2015/2452, the Poste Vita Group's quantitative reporting templates listed below, to be annexed to this Report, are shown at 31 December 2018, with amounts in thousands of euros.

- S.02.01.02 - *Balance Sheet*
- S.05.01.02 - *Premiums, claims and expenses by line of business*
- S.22.01.22 - *Impact of long term guarantees measures and transitional measures*
- S.23.01.22 - *Own funds*
- S.25.01.22 - *Solvency Capital Requirement - for groups on Standard Formula*
- S.32.01.22 – *Undertakings in the scope of the group*

Gruppo Assicurativo Poste Vita SpA
S.02.01.02 - Balance Sheet

		Solvency II value
Assets		
Intangible assets	R0030	
Deferred tax assets	R0040	439,425
Pension benefit surplus	R0050	0
Property, plant & equipment held for own use	R0060	11,810
Investments (other than assets held for index-linked and unit-linked contracts)	**R0070**	**123,960,530**
Property (other than for own use)	R0080	
Holdings in related undertakings, including participations	R0090	106,953
Equities	*R0100*	*16,527*
Equities - listed	R0110	16,230
Equities - unlisted	R0120	297
Bonds	*R0130*	*97,230,372*
Government Bonds	R0140	80,963,071
Corporate Bonds	R0150	15,646,804
Structured notes	R0160	546,023
Collateralised securities	R0170	74,474
Collective Investments Undertakings	R0180	26,606,678
Derivatives	R0190	
Deposits other than cash equivalents	R0200	
Other investments	R0210	
Assets held for index-linked and unit-linked contracts	**R0220**	2,616,272
Loans and mortgages	R0230	
Loans on policies	R0240	
Loans and mortgages to individuals	R0250	
Other loans and mortgages	R0260	
Reinsurance recoverables from:	**R0270**	**16,542**
Non-life and health similar to non-life	R0280	26,318
Non-life excluding health	R0290	13,786
Health similar to non-life	R0300	12,532
Life and health similar to life, excluding health and index-linked and unit-linked	**R0310**	**-9,776**
Health similar to life	R0320	-20,519
Life excluding health and index-linked and unit-linked	R0330	10,743
Life index-linked and unit-linked	R0340	
Deposits to cedants	R0350	
Insurance and intermediaries receivables	R0360	28,213
Reinsurance receivables	R0370	7,523
Receivables (trade, not insurance)	R0380	14,499
Own shares (held directly)	R0390	
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400	
Cash and cash equivalents	R0410	1,652,973
Any other assets, not elsewhere shown	R0420	2,475,877
Total assets	**R0500**	**131,223,664**

Liabilities		
Technical provisions - non-life	**R0510**	128,053
Technical provisions - non-life (excluding health)	**R0520**	54,167
TP calculated as a whole	R0530	
Best estimate	R0540	49,052
Risk margin	R0550	5,114
Technical provisions - health (similar to non-life)	**R0560**	73,886
TP calculated as a whole	R0570	
Best estimate	R0580	66,236
Risk margin	R0590	7,650
TP - life (excluding index-linked and unit-linked)	**R0600**	**117,479,141**
Technical provisions - health (similar to life)	**R0610**	**-11,455**
TP calculated as a whole	R0620	
Best estimate	R0630	-24,184
Risk margin	R0640	12,729
TP - life (excluding health and index-linked and unit-linked)	**R0650**	**117,490,596**
TP calculated as a whole	R0660	
Best estimate	R0670	115,954,072
Risk margin	R0680	1,536,525
TP - index-linked and unit-linked	**R0690**	**2,663,714**
TP calculated as a whole	R0700	
Best estimate	R0710	2,628,653
Risk margin	R0720	35,062
Contingent liabilities	R0740	10,600
Provisions other than technical provisions	R0750	
Pension benefit obligations	R0760	3,840
Deposits from reinsurers	R0770	0
Deferred tax liabilities	R0780	1,845,310
Derivatives	R0790	155
Debts owed to credit institutions	R0800	
Financial liabilities other than debts owed to credit institutions	R0810	5,070
Insurance & intermediaries payables	R0820	152,921
Reinsurance payables	R0830	5,336
Payables (trade, not insurance)	R0840	55,491
Subordinated liabilities	**R0850**	**1,013,440**
Subordinated liabilities not in BOF	R0860	14,120
Subordinated liabilities in BOF	R0870	999,320
Any other liabilities, not elsewhere shown	R0880	600,792
Total liabilities	**R0900**	**123,963,865**

Excess of assets over liabilities	**R1000**	**7,259,799**

Gruppo Assicurativo Poste Vita SpA
S.05.01.02 - Premiums, claims and expenses by line of business

	Medical expense insurance	Income protection insurance	Workers' compensation	Fire and other damage to property insurance	General liability insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Total
Premiums written									
Gross - Direct Business	46,250	81,063	0	15,236	18,292	2,848	359	23,117	187,166
Gross - Proportional reinsurance accepted									0
Gross - Non-proportional reinsurance									
Reinsurers' share	22,126	6,303	0	4,210	5,394	1,410	190	-99	39,534
Net	24,124	74,760	0	11,026	12,899	1,438	169	23,216	147,632
Premiums earned									
Gross - Direct Business	46,152	70,079	0	14,114	18,068	2,838	393	15,996	167,641
Gross - Proportional reinsurance accepted									0
Gross - Non-proportional reinsurance									
Reinsurers' share	22,155	7,279	0	4,066	5,372	1,407	197	1,787	42,264
Net	23,997	62,800	0	10,048	12,696	1,431	196	14,209	125,376
Claims incurred									
Gross - Direct Business	13,833	14,666		2,102	707	411	-39	3,326	35,006
Gross - Proportional reinsurance accepted									0
Gross - Non-proportional reinsurance									
Reinsurers' share	7,630	3,099		64	-246	126	-34	1,224	11,862
Net	6,203	11,567		2,038	953	284	-5	2,103	23,143
Changes in other technical provisions									
Gross - Direct Business	0	-31		73	0	0	0	0	42
Gross - Proportional reinsurance accepted									0
Gross - Non-proportional reinsurance									
Reinsurers' share				18					18
Net		-31		55					24
Expenses incurred	2,816	24,409	0	2,087	2,729	-10	-28	9,295	41,299
Other expenses									
Total expenses									41,299

	Line of Business for: life insurance obligations				Total
	Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	
Premiums written					
Gross	19,042	15,770,984	740,129	79,750	16,609,905
Reinsurers' share	7,615			10,030	17,645
Net	11,427	15,770,984	740,129	69,720	16,592,259
Premiums earned					
Gross	19,042	15,770,984	740,129	79,750	16,609,905
Reinsurers' share	7,615	0	0	10,030	17,645
Net	11,427	15,770,984	740,129	69,720	16,592,259
Claims incurred					
Gross	2,193	9,369,864	1,487,411	23,398	10,882,866
Reinsurers' share	656	0	0	6,244	6,900
Net	1,537	9,369,864	1,487,411	17,154	10,875,966
Changes in other technical provisions					
Gross	-13,562	-8,382,204	857,859	-18,014	-7,555,921
Reinsurers' share	7,099	0	0	-4,661	2,438
Net	-20,661	-8,382,204	857,859	-13,353	-7,558,359
Expenses incurred	388	443,142	25,653	13,259	482,443
Other expenses					
Total expenses					482,443

Gruppo Assicurativo Poste Vita SpA
S.22.01.22 - Impact of long term guarantees and transitionals measures

	Amount with Long Term Guarantee measures and transitionals	Impact of transitional on technical provisions	Impact of transitional on interest rate	Impact of volatility adjustment set to zero	Impact of matching adjustment set to zero
Technical provisions	120,270,908	0		1,532,512	
Basic own funds	8,259,119	0		-1,059,958	
Eligible own funds to meet Solvency Capital Requirement	8,259,119	0		-1,059,958	
Solvency Capital Requirement	3,909,824	0		-68,759	

Gruppo Assicurativo Poste Vita SpA
S.23.01.22 - Own funds

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
Basic own funds before deduction for participations in other financial sector						
Ordinary share capital (gross of own shares)	R0010	**1,216,608**	1,216,608			
Non-available called but not paid in ordinary share capital at group level	R0020					
Share premium account related to ordinary share capital	R0030					
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	R0040					
Subordinated mutual member accounts	R0050					
Non-available subordinated mutual member accounts at group level	R0060					
Surplus funds	R0070					
Non-available surplus funds at group level	R0080					
Preference shares	R0090					
Non-available preference shares at group level	R0100					
Share premium account related to preference shares	R0110					
Non-available share premium account related to preference shares at group level	R0120					
Reconciliation reserve	R0130	**6,043,191**	6,043,191			
Subordinated liabilities	**R0140**	**999,320**			999,320	
Non-available subordinated liabilities at group level	R0150					
An amount equal to the value of net deferred tax assets	R0160					
The amount equal to the value of net deferred tax assets not available at the group level	R0170					
Other items approved by supervisory authority as basic own funds not specified above	R0180					
Non available own funds related to other own funds items approved by supervisory authority	R0190					
Minority interests (if not reported as part of a specific own fund item)	R0200					
Non-available minority interests at group level	R0210					
Own funds from the financial statements that shall not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	**R0220**					
Own funds from the financial statements that shall not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						
Deductions	**R0230**					
Deductions for participations in other financial undertakings, including non-regulated undertakings carrying out financial activities	R0230					
whereof deducted according to art 228 of the Directive 2009/138/EC	R0240					
Deductions for participations where there is non-availability of information (Article 229)	R0250					
Deduction for participations included by using D&A when a combination of methods is used	R0260					
Total of non-available own fund items	**R0270**					
Total deductions	**R0280**					
Total basic own funds after deductions	**R0290**	**8,259,119**	**7,259,799**		**999,320**	
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	R0300					
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	R0310					
Unpaid and uncalled preference shares callable on demand	R0320					
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330					
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340					
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350					
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360					
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370					
Non available ancillary own funds at group level	R0380					
Total ancillary own funds	**R0400**					

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
Total available own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)	**R0520**	**8,259,119**	7,259,799		999,320	
Total available own funds to meet the minimum consolidated group SCR	**R0530**	**8,259,119**	7,259,799		999,320	
Total eligible own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)	**R0560**	**8,259,119**	7,259,799		999,320	
Total eligible own funds to meet the minimum consolidated group SCR	**R0570**	**7,616,110**	7,259,799		356,310	
Minimum consolidated Group SCR	**R0610**	**1,781,552**				
Ratio of Eligible own funds to Minimum Consolidated Group SCR	**R0650**	**427.50%**				
Total eligible own funds to meet the group SCR (including own funds from other financial sector and from the undertakings included via D&A)	**R0660**	**8,259,119**	7,259,799		999,320	
Group SCR	**R0680**	**3,909,824**				
Ratio of Eligible own funds to group SCR including other financial sectors and the undertakings included via D&A	**R0690**	**211.24%**				

Reconciliation reserve		
Excess of assets over liabilities	R0700	**7,259,799**
Own shares (included as assets on the balance sheet)	R0710	
Foreseeable dividends, distributions and charges	R0720	
Other basic own fund items	R0730	**1,216,608**
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740	
Other non available own funds	R0750	
Reconciliation reserve before deduction for participations in other financial sector	**R0760**	**6,043,191**
Expected profits		
Expected profits included in future premiums (EPIFP) - Life Business	R0770	1,241,530
Expected profits included in future premiums (EPIFP) - Non- life business	R0780	16,359
Total Expected profits included in future premiums (EPIFP)	**R0790**	**1,257,889**

Gruppo Assicurativo Poste Vita SpA
S.25.01.22 - Solvency Capital Requirement - for groups on Standard Formula

	Gross solvency capital requirement	USP	Simplifications
Market risk	5,866,869		
Counterparty default risk	218,208		
Life underwriting risk	2,692,820		
Health underwriting risk	62,139		
Non-life underwriting risk	34,139		
Diversification	-1,737,124		
Intangible asset risk			
Basic Solvency Capital Requirement	**7,137,051**		

Calculation of Solvency Capital Requirement

Operational risk	646,121
Loss-absorbing capacity of technical provisions	-2,650,298
Loss-absorbing capacity of deferred taxes	-1,231,890
2003/41/EC	
Solvency capital requirement excluding capital add-on	3,900,984
Capital add-on already set	**8,840**
Solvency capital requirement	3,909,824
Other information on SCR	
Capital requirement for duration-based equity risk sub-module	
Total amount of Notional Solvency Capital Requirements for remaining part	
Total amount of Notional Solvency Capital Requirements for ring fenced funds	
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	
Diversification effects due to RFF nSCR aggregation for article 304	
Minimum consolidated group solvency capital requirement	1,781,552
Information on other entities	
Capital requirement for other financial sectors (Non-insurance capital requirements)	
Credit institutions, investment firms and financial institutions, alternative investment	
Institutions for occupational retirement provisions	
Capital requirement for other financial sectors (Non-insurance capital requirements) - Capital requirement for non- regulated entities carrying out financial activities	
Capital requirement for non-controlled participation requirements	
Capital requirement for residual undertakings	
Overall SCR	
SCR for undertakings included via D and A	
Solvency capital requirement	3,909,824

Gruppo Assicurativo Poste Vita SpA
S.32.01.22 - Undertakings in the scope of the group

Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Legal Name of the undertaking	Type of undertaking	Legal form	Category (mutual/non mutual)	Supervisory Authority	% capital share	% used for the establishment of consolidated accounts	% voting rights
IT	815600C3162E56F1CB29	1 - LEI	POSTE ASSICURA SpA	2 - Non life insurance undertaking	SpA.	2 - Non-mutual	Istituto per la Vigilanza sulle	100%	100%	100%
IT	8156001CB3B48E80F923	1 - LEI	POSTE VITA SpA	4 - Composite undertaking	SpA.	2 - Non-mutual	Istituto per la Vigilanza sulle			
IT	PWS	2 - Specific code	POSTE WELFARE SERVIZI SRL	99 - Other	S.R.L	2 - Non-mutual		100%	100%	100%

Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Legal Name of the undertaking	Other criteria	Level of influence	Proportional share used for group solvency calculation	Yes/No	Date of decision if art. 214 is applied	Method used and under method 1, treatment of the undertaking
IT	815600C3162E56F1CB29	1 - LEI	POSTE ASSICURA SpA		1 - Dominant	100%	1 - Included in the scope		1 - Method 1: Full consolidation
IT	8156001CB3B48E80F923	1 - LEI	POSTE VITA SpA				1 - Included in the scope		1 - Method 1: Full consolidation
IT	PWS	2 - Specific code	POSTE WELFARE SERVIZI SRL		1 - Dominant	100%	1 - Included in the scope		1 - Method 1: Full consolidation

Poste Vita SpA
Regarding article 4 of Implementing Regulation 2015/2452, Poste Vita's quantitative reporting templates listed below, to be annexed to this Report, are shown at 31 December 2018, with amounts in thousands of euros.

- S.02.01.02 - *Balance Sheet*
- S.05.01.02 - *Premiums, claims and expenses by line of business*
- S.12.01.02 - *Life and Health SLT Technical Provisions*
- S.22.01.21 - *Impact of long term guarantees and transitional measures*
- S.23.01.01 - *Own funds*
- S.25.01.21 - *Solvency Capital Requirement - for undertakings on Standard Formula*
- S.28.02.01 - *Minimum capital Requirement - Both life and non-life insurance activity*

Poste Vita SpA
S.02.01.02 Balance Sheet

		Solvency II value
Assets		
Intangible assets	R0030	
Deferred tax assets	R0040	429,446
Pension benefit surplus	R0050	
Property, plant & equipment held for own use	R0060	8,489
Investments (other than assets held for index-linked and unit-linked contracts)	**R0070**	**123,854,341**
Property (other than for own use)	R0080	
Holdings in related undertakings, including participations	R0090	286,047
Equities	*R0100*	*16,527*
Equities - listed	R0110	16,230
Equities - unlisted	R0120	297
Bonds	*R0130*	*96,945,089*
Government Bonds	R0140	80,696,643
Corporate Bonds	R0150	15,627,950
Structured notes	R0160	546,023
Collateralised securities	R0170	74,474
Collective Investments Undertakings	R0180	26,606,678
Derivatives	R0190	
Deposits other than cash equivalents	R0200	
Other investments	R0210	
Assets held for index-linked and unit-linked contracts	**R0220**	2,616,272
Loans and mortgages	R0230	
Loans on policies	R0240	
Loans and mortgages to individuals	R0250	
Other loans and mortgages	R0260	
Reinsurance recoverables from:	**R0270**	**-9,776**
Non-life and health similar to non-life	R0280	
Non-life excluding health	R0290	
Health similar to non-life	R0300	
Life and health similar to life, excluding health and index-linked and unit-linked	**R0310**	**-9,776**
Health similar to life	R0320	-20,519
Life excluding health and index-linked and unit-linked	R0330	10,743
Life index-linked and unit-linked	R0340	
Deposits to cedants	R0350	
Insurance and intermediaries receivables	R0360	27,076
Reinsurance receivables	R0370	3,657
Receivables (trade, not insurance)	R0380	13,537
Own shares (held directly)	R0390	
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400	
Cash and cash equivalents	R0410	1,629,324
Any other assets, not elsewhere shown	R0420	2,469,110
Total assets	**R0500**	**131,041,476**

Liabilities		
Technical provisions - non-life	**R0510**	
Technical provisions - non-life (excluding health)	**R0520**	
TP calculated as a whole	R0530	
Best estimate	R0540	
Risk margin	R0550	
Technical provisions - health (similar to non-life)	**R0560**	
TP calculated as a whole	R0570	
Best estimate	R0580	
Risk margin	R0590	
TP - life (excluding index-linked and unit-linked)	**R0600**	**117,479,141**
Technical provisions - health (similar to life)	**R0610**	**-11,455**
TP calculated as a whole	R0620	
Best estimate	R0630	-24,184
Risk margin	R0640	12,729
TP - life (excluding health and index-linked and unit-linked)	**R0650**	**117,490,596**
TP calculated as a whole	R0660	
Best estimate	R0670	115,954,072
Risk margin	R0680	1,536,525
TP - index-linked and unit-linked	**R0690**	**2,663,714**
TP calculated as a whole	R0700	
Best estimate	R0710	2,628,653
Risk margin	R0720	35,062
Contingent liabilities	R0740	10,600
Provisions other than technical provisions	R0750	
Pension benefit obligations	R0760	1,870
Deposits from reinsurers	R0770	
Deferred tax liabilities	R0780	1,826,612
Derivatives	R0790	155
Debts owed to credit institutions	R0800	
Financial liabilities other than debts owed to credit institutions	R0810	5,071
Insurance & intermediaries payables	R0820	142,979
Reinsurance payables	R0830	4,172
Payables (trade, not insurance)	R0840	42,242
Subordinated liabilities	**R0850**	**1,013,440**
Subordinated liabilities not in BOF	R0860	14,120
Subordinated liabilities in BOF	R0870	999,320
Any other liabilities, not elsewhere shown	R0880	591,681
Total liabilities	**R0900**	**123,781,677**

Excess of assets over liabilities	**R1000**	**7,259,799**

Poste Vita SpA
S.05.01.02 - Premiums, claims and expenses by line of business

	Line of Business for: life insurance obligations				Total
	Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	
Premiums written					
Gross	19,042	15,770,984	740,129	79,750	**16,609,905**
Reinsurers' share	7,615			10,030	**17,645**
Net	**11,427**	**15,770,984**	**740,129**	**69,720**	**16,592,259**
Premiums earned					
Gross	19,042	15,770,984	740,129	79,750	**16,609,905**
Reinsurers' share	7,615	0	0	10,030	**17,645**
Net	**11,427**	**15,770,984**	**740,129**	**69,720**	**16,592,259**
Claims incurred					
Gross	2,193	9,369,864	1,487,411	23,398	**10,882,866**
Reinsurers' share	656	0	0	6,244	**6,900**
Net	**1,537**	**9,369,864**	**1,487,411**	**17,154**	**10,875,966**
Changes in other technical provisions					
Gross	-13,562	-8,382,204	857,859	-18,014	**-7,555,921**
Reinsurers' share	7,099	0	0	-4,661	**2,438**
Net	**-20,661**	**-8,382,204**	**857,859**	**-13,353**	**-7,558,359**
Expenses incurred	**388**	**443,142**	**25,653**	**13,259**	**482,443**
Other expenses					
Total expenses					**482,443**

Poste Vita SpA
S.12.01.02 - Life and Health SLT Technical Provisions

	Insurance with profit participation	Index-linked and unit-linked insurance		Other life insurance		Total (Life other than health insur-ance, including Unit-Linked)	Health insurance (direct business)	Total (Health similar to life insurance)
			Contracts with options or guarantees		Contracts with options or guarantees		Contracts with options or guarantees	
Technical provisions calculated as a whole						**0**		**0**
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole						**0**		**0**
Technical provisions calculated as a sum of BE and RM								
Best Estimate								
Gross Best Estimate	115,953,399		2,628,653		672	**118,582,724**	-24,184	**-24,184**
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	0		0		10,743	**10,743**	-20,519	**-20,519**
Best estimate minus recoverables from reinsurance/SPV and Finite Re	**115,953,399**		**2,628,653**		**-10,070**	**118,571,982**	**-3,666**	**-3,666**
Risk Margin	1,502,324	35,062		34,201		**1,571,586**		**12,729**
Amount of the transitional on Technical Provisions								
Technical Provisions calculated as a whole						**0**		**0**
Best estimate						**0**		**0**
Risk margin						**0**		**0**
Technical provisions - total	**117,455,723**	**2,663,714**		**34,873**		**120,154,311**		**-11,455**

Poste Vita SpA
S.22.01.21 - Impact of long term guarantees measures and transitionals

	Amount with Long Term Guarantee measures and transitionals	Impact of transitional on technical provisions	Impact of transitional on interest rate	Impact of volatility adjustment set to zero	Impact of matching adjustment set to zero
Technical provisions	120,142,856	0	0	1,532,512	0
Basic own funds	8,259,119	0	0	-1,059,958	0
Eligible own funds to meet Solvency Capital Requirement	8,259,119	0	0	-1,059,958	0
Solvency Capital Requirement	3,901,043	0	0	-73,388	0
Eligible own funds to meet Minimum Capital Requirement	7,610,893	0	0	-1,066,563	0
Minimum Capital Requirement	1,755,469	0	0	-33,025	0

Poste Vita SpA
S.23.01.01 - Own funds

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation (EU) 2015/35						
Ordinary share capital (gross of own shares)	R0010	**1,216,608**	1,216,608			
Share premium account related to ordinary share capital	R0030					
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	R0040					
Subordinated mutual member accounts	R0050					
Surplus funds	R0070					
Preference shares	R0090					
Share premium account related to preference shares	R0110					
Reconciliation reserve	R0130	**6,043,192**	6,043,192			
Subordinated liabilities	R0140	**999,320**			999,320	
An amount equal to the value of net deferred tax assets	R0160					
Other own fund items approved by the supervisory authority as basic own funds not specified above	R0180					
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II OF						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220					
Deductions						
Deductions for participations in financial and credit institutions	R0230					
Total basic own funds after deductions	**R0290**	**8,259,119**	**7,259,799**		**999,320**	
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	R0300					
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	R0310					
Unpaid and uncalled preference shares callable on demand	R0320					
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330					
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340					
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350					
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360					
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370					
Other ancillary own funds	R0390					
Total ancillary own funds	**R0400**					
Available and eligible own funds						
Total available own funds to meet the SCR	**R0500**	**8,259,119**	**7,259,799**		**999,320**	
Total available own funds to meet the MCR	**R0510**	**8,259,119**	**7,259,799**		**999,320**	
Total eligible own funds to meet the SCR	**R0540**	**8,259,119**	**7,259,799**		**999,320**	
Total eligible own funds to meet the MCR	**R0550**	**7,610,893**	**7,259,799**		**351,094**	
SCR	**R0580**	**3,901,043**				
MCR	**R0600**	**1,755,469**				
Ratio of Eligible own funds to SCR	**R0620**	**211.72%**				
Ratio of Eligible own funds to MCR	**R0640**	**433.55%**				

Reconciliation reserve		
Excess of assets over liabilities	R0700	**7,259,799**
Own shares (held directly and indirectly)	R0710	
Foreseeable dividends, distributions and charges	R0720	
Other basic own fund items	R0730	**1,216,608**
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740	
Reconciliation reserve	**R0760**	**6,043,192**
Expected profits		
Expected profits included in future premiums (EPIFP) - Life Business	R0770	1,241,530
Expected profits included in future premiums (EPIFP) - Non- life business	R0780	
Total Expected profits included in future premiums (EPIFP)	**R0790**	**1,241,530**

Poste Vita SpA
S.25.01.21 - Solvency Capital Requirement - for undertakings on Standard Formula

	Gross solvency capital requirement	USP	Simplifications
Market risk	5,899,165		
Counterparty default risk	214,491		
Life underwriting risk	2,692,820		
Health underwriting risk	17,495		
Non-life underwriting risk			
Diversification	-1,679,818		
Intangible asset risk			
Basic Solvency Capital Requirement	**7,144,153**		

Calculation of Solvency Capital Requirement

Operational risk	641,053
Loss-absorbing capacity of technical provisions	-2,652,255
Loss-absorbing capacity of deferred taxes	-1,231,908
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	
Solvency capital requirement excluding capital add-on	3,901,043
Capital add-on already set	
Solvency capital requirement	3,901,043
Other information on SCR	
Capital requirement for duration-based equity risk sub-module	
Total amount of Notional Solvency Capital Requirements for remaining part	
Total amount of Notional Solvency Capital Requirements for ring fenced funds	
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	
Diversification effects due to RFF nSCR aggregation for article 304	

Poste Vita SpA

S.28.02.01 - Minimum capital Requirement - Both life and non-life insurance activity

Linear formula component for life insurance and reinsurance obligations

MCR calculation Life	Non-life activities		Life activities	
	Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk	Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
Obligations with profit participation - guaranteed benefits			108,876,419	
Obligations with profit participation - future discretionary benefits			7,076,980	
Index-linked and unit-linked insurance obligations			2,628,653	
Other life (re)insurance and health (re)insurance obligations				
Total capital at risk for all life (re)insurance obligations				14,091,820

	Non-life activities	Life activities
Linear formula component for life insurance and reinsurance obligations		**3,688,689**

Overall MCR calculation

Linear MCR	3,688,689
SCR	3,901,043
MCR cap	1,755,469
MCR floor	975,261
Combined MCR	1,755,469
Absolute floor of the MCR	5,400

Minimum Capital Requirement	**1,755,469**

Notional non-life and life MCR calculation	Non-life activities	Life activities
Notional linear MCR		3,688,689
Notional SCR excluding add-on (annual or latest calculation)		3,901,043
Notional MCR cap		1,755,469
Notional MCR floor		975,261
Notional Combined MCR		1,755,469
Absolute floor of the notional MCR		
Notional MCR		1,755,469

Poste Assicura SpA

Regarding article 4 of Implementing Regulation 2015/2452, Poste Assicura's quantitative reporting templates listed below, to be annexed to this Report, are shown at 31 December 2018, with amounts in thousands of euros.

- S.02.01.02 - *Balance Sheet*
- S.05.01.02 - *Premiums, claims and expenses by line of business*
- S.17.01.02 - *Non - life Technical Provisions*
- S.19.01.21 - *Non-life Insurance Claims*
- S.23.01.01 - *Own funds*
- S.25.01.21 - *Solvency Capital Requirement - for undertakings on Standard Formula*
- S.28.01.01 - *Minimum capital Requirement - Only life or only non-life insurance or reinsurance activity*

Poste Assicura SpA
S.02.01.02 - Balance Sheet

		Solvency II value
Assets		
Intangible assets	R0030	
Deferred tax assets	R0040	9,088
Pension benefit surplus	R0050	
Property, plant & equipment held for own use	R0060	3,084
Investments (other than assets held for index-linked and unit-linked contracts)	**R0070**	**285,283**
Property (other than for own use)	R0080	
Holdings in related undertakings, including participations	R0090	
Equities	*R0100*	
Equities - listed	R0110	
Equities - unlisted	R0120	
Bonds	*R0130*	*285,283*
Government Bonds	R0140	266,428
Corporate Bonds	R0150	18,855
Structured notes	R0160	
Collateralised securities	R0170	
Collective Investments Undertakings	R0180	
Derivatives	R0190	
Deposits other than cash equivalents	R0200	
Other investments	R0210	
Assets held for index-linked and unit-linked contracts	**R0220**	
Loans and mortgages	R0230	
Loans on policies	R0240	
Loans and mortgages to individuals	R0250	
Other loans and mortgages	R0260	
Reinsurance recoverables from:	**R0270**	**26,318**
Non-life and health similar to non-life	R0280	26,318
Non-life excluding health	R0290	13,786
Health similar to non-life	R0300	12,532
Life and health similar to life, excluding health and	**R0310**	
Health similar to life	R0320	
Life excluding health and index-linked and unit-linked	R0330	
Life index-linked and unit-linked	R0340	
Deposits to cedants	R0350	
Insurance and intermediaries receivables	R0360	6,583
Reinsurance receivables	R0370	3,865
Receivables (trade, not insurance)	R0380	2,369
Own shares (held directly)	R0390	
Amounts due in respect of own fund items or initial fund	R0400	
Cash and cash equivalents	R0410	13,242
Any other assets, not elsewhere shown	R0420	6,665
Total assets	**R0500**	**356,497**

Liabilities		
Technical provisions - non-life	**R0510**	128,053
Technical provisions - non-life (excluding health)	**R0520**	54,167
TP calculated as a whole	R0530	
Best estimate	R0540	49,052
Risk margin	R0550	5,114
Technical provisions - health (similar to non-life)	**R0560**	73,886
TP calculated as a whole	R0570	
Best estimate	R0580	66,236
Risk margin	R0590	7,650
TP - life (excluding index-linked and unit-linked)	**R0600**	
Technical provisions - health (similar to life)	**R0610**	
TP calculated as a whole	R0620	
Best estimate	R0630	
Risk margin	R0640	
TP - life (excluding health and index-linked and unit-linked)	**R0650**	
TP calculated as a whole	R0660	
Best estimate	R0670	
Risk margin	R0680	
TP - index-linked and unit-linked	**R0690**	
TP calculated as a whole	R0700	
Best estimate	R0710	
Risk margin	R0720	
Contingent liabilities	R0740	
Provisions other than technical provisions	R0750	
Pension benefit obligations	R0760	288
Deposits from reinsurers	R0770	
Deferred tax liabilities	R0780	18,698
Derivatives	R0790	
Debts owed to credit institutions	R0800	
Financial liabilities other than debts owed to credit	R0810	
Insurance & intermediaries payables	R0820	15,387
Reinsurance payables	R0830	1,164
Payables (trade, not insurance)	R0840	14,359
Subordinated liabilities	**R0850**	
Subordinated liabilities not in BOF	R0860	
Subordinated liabilities in BOF	R0870	
Any other liabilities, not shown elsewhere	R0880	8,374
Total liabilities	**R0900**	**186,323**

Excess of assets over liabilities	**R1000**	**170,174**

Poste Assicura SpA

S.05.01.02 - Premiums, claims and expenses by line of business

	Medical expense insurance	Income protection insurance	Workers' compensation	Fire and other damage to property insurance	General liability insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Total
Premiums written									
Gross - Direct Business	46,250	81,063	0	15,236	18,292	2,848	359	23,117	187,166
Gross - Proportional reinsurance									0
Gross - Non-proportional reinsurance									0
Reinsurers' share	22,126	6,303	0	4,210	5,394	1,410	190	-99	39,534
Net	24,124	74,760	0	11,026	12,899	1,438	169	23,216	147,632
Premiums earned									
Gross - Direct Business	46,152	70,079	0	14,114	18,068	2,838	393	15,996	167,641
Gross - Proportional reinsurance									0
Gross - Non-proportional reinsurance									0
Reinsurers' share	22,155	7,279	0	4,066	5,372	1,407	197	1,787	42,264
Net	23,997	62,800	0	10,048	12,696	1,431	196	14,209	125,376
Claims incurred									
Gross - Direct Business	13,833	14,666		2,102	707	411	-39	3,326	35,006
Gross - Proportional reinsurance									0
Gross - Non-proportional reinsurance									0
Reinsurers' share	7,630	3,099		64	-246	126	-34	1,224	11,862
Net	6,203	11,567		2,038	953	284	-5	2,103	23,143
Changes in other technical									
Gross - Direct Business	0	-31		73	0	0	0	0	42
Gross - Proportional reinsurance									0
Gross - Non-proportional reinsurance									0
Reinsurers' share				18					18
Net		-31		55					24
Expenses incurred	2,816	24,409	0	2,087	2,729	-10	-28	9,295	41,299
Other expenses									
Total expenses									41,299

Poste Assicura SpA
S.17.01.02 - Non - life Technical Provisions

	Medical expense insurance	Income protection insurance	Fire and other damage to property insurance	General liability insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Total
Technical provisions calculated as a whole								
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole								
Technical Provisions calculated as a sum of BE and RM								
Best estimate								
Premium provisions								
Gross - Total	-3,668	16,164	-1,102	-1,523	-222	22	24,557	34,228
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	-1,099	1,591	-150	-54	15	5	3,086	3,394
Net Best Estimate of Premium Provisions	-2,569	14,573	-952	-1,469	-237	17	21,472	30,833
Claims provisions								
Gross - Total	15,175	38,565	6,948	12,972	1,408	79	5,913	81,061
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	4,505	7,534	2,910	4,575	916	55	2,428	22,924
Net Best Estimate of Claims Provisions	10,669	31,030	4,038	8,397	492	25	3,486	58,137
Total Best estimate - gross	11,507	54,728	5,846	11,449	1,185	101	30,471	115,288
Total Best estimate - net	8,100	45,603	3,086	6,928	254	41	24,957	88,970
Risk margin	1,945	5,705	895	1,744	89	15	2,371	12,764
Amount of the transitional on Technical Provisions								
TP as a whole								
Best estimate								
Risk margin								
Technical provisions - total								
Technical provisions - total	13,452	60,433	6,741	13,194	1,274	116	32,842	128,053
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	3,407	9,125	2,760	4,521	931	60	5,513	26,318
Technical provisions minus recoverables from reinsurance/SPV and Finite Re- total	10,046	51,308	3,981	8,672	343	56	27,328	101,735

Poste Assicura SpA
S.19.01.21 - Non-life Insurance Claims

Gross Claims Paid (non-cumulative)

	Development year (absolute amount)											In Current year	Sum of years (cumulative)
	0	1	2	3	4	5	6	7	8	9	10 & +		
Prior											0		
2009													
2010	337	701	747	22	114	32	5	78	130			130	2,168
2011	1,587	2,860	883	111	112	288	111	582				582	6,534
2012	3,451	4,501	1,856	503	157	155	253					253	10,875
2013	5,168	6,327	2,108	537	330	215						215	14,685
2014	5,760	7,437	2,433	675	378							378	16,684
2015	7,202	8,451	2,445	953								953	19,051
2016	7,950	9,350	1,870									1,870	19,170
2017	10,044	12,290										12,290	22,334
2018	15,413											15,413	15,413
											Total	**32,083**	**126,913**

Gross undiscounted Best Estimate Claims Provisions

	Development year (absolute amount)											Year end (discounted data)
	0	1	2	3	4	5	6	7	8	9	10 & +	
Prior												
2008												
2009												
2010	0	0	0	0	0	0	744	516	136			136
2011	0	0	0	0	0	1,790	1,351	1,434				1,434
2012	0	0	0	0	1,900	1,489	1,154					1,154
2013	0	0	0	4,050	3,044	2,589						2,589
2014	0	0	11,444	7,821	3,620							3,620
2015	0	19,458	15,065	10,661								10,661
2016	31,184	15,973	12,652									12,652
2017	28,335	12,967										12,967
2018	32,483											32,483
											Total	**77,696**

Poste Assicura SpA
S.23.01.01 - Own funds

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation (EU) 2015/35						
Ordinary share capital (gross of own shares)	R0010	25,000	25,000			
Share premium account related to ordinary share capital	R0030					
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	R0040					
Subordinated mutual member accounts	R0050					
Surplus funds	R0070					
Preference shares	R0090					
Share premium account related to preference shares	R0110					
Reconciliation reserve	R0130	145,174	145,174			
Subordinated liabilities	R0140					
An amount equal to the value of net deferred tax assets	R0160					
Other own fund items approved by the supervisory authority as basic own funds not specified	R0180					
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220					
Deductions						
Deductions for participations in financial and credit institutions	R0230					
Total basic own funds after deductions	**R0290**	**170,174**	**170,174**			
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	R0300					
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	R0310					
Unpaid and uncalled preference shares callable on demand	R0320					
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330					
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340					
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350					
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360					
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370					
Other ancillary own funds	R0390					
Total ancillary own funds	**R0400**					
Available and eligible own funds						
Total available own funds to meet the SCR	**R0500**	**170,174**	**170,174**			
Total available own funds to meet the MCR	**R0510**	**170,174**	**170,174**			
Total eligible own funds to meet the SCR	**R0540**	**170,174**	**170,174**			
Total eligible own funds to meet the MCR	**R0550**	**170,174**	**170,174**			
SCR	**R0580**	**63,329**				
MCR	**R0600**	**26,083**				
Ratio of Eligible own funds to SCR	**R0620**	**268.72%**				
Ratio of Eligible own funds to MCR	**R0640**	**652.44%**				

Reconciliation reserve			
Excess of assets over liabilities	R0700	170,174	
Own shares (held directly and indirectly)	R0710		
Foreseeable dividends, distributions and charges	R0720		
Other basic own fund items	R0730	25,000	
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740		
Reconciliation reserve	**R0760**	**145,174**	
Expected profits			
Expected profits included in future premiums (EPIFP) - Life Business	R0770		
Expected profits included in future premiums (EPIFP) - Non- life business	R0780	16,359	
Total Expected profits included in future premiums (EPIFP)	**R0790**	**16,359**	

Poste Assicura SpA
S.25.01.21 - Solvency Capital Requirement - for undertakings on Standard Formula

	Gross solvency capital requirement	USP	Simplifications
Market risk	9,965		
Counterparty default risk	3,096		
Life underwriting risk			
Health underwriting risk	50,441		
Non-life underwriting risk	34,139		
Diversification	-31,013		
Intangible asset risk			
Basic Solvency Capital Requirement	**66,628**		

Calculation of Solvency Capital Requirement

	C0100
Operational risk	5,068
Loss-absorbing capacity of technical provisions	
Loss-absorbing capacity of deferred taxes	-17,207
2003/41/EC	
Solvency capital requirement excluding capital add-on	54,489
Capital add-on already set	**8,840**
Solvency capital requirement	63,329
Other information on SCR	
Capital requirement for duration-based equity risk sub-module	
Total amount of Notional Solvency Capital Requirements for remaining part	
Total amount of Notional Solvency Capital Requirements for ring fenced funds	
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	
Diversification effects due to RFF nSCR aggregation for article 304	

Poste Assicura SpA
S.28.01.01 - Minimum capital Requirement - Only life or only non-life insurance or reinsurance activity

Linear formula component for non-life insurance and reinsurance obligations

MCR calculation Non Life	Non-life activities	
	Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
Medical expense insurance and proportional reinsurance	8,100	22,395
Income protection insurance and proportional reinsurance	45,603	78,736
Workers' compensation insurance and proportional reinsurance		
Motor vehicle liability insurance and proportional reinsurance		
Other motor insurance and proportional reinsurance		
Marine, aviation and transport insurance and proportional reinsurance		
Fire and other damage to property insurance and proportional reinsurance	3,086	11,728
General liability insurance and proportional reinsurance	6,928	12,882
Credit and suretyship insurance and proportional reinsurance		
Legal expenses insurance and proportional reinsurance	254	1,426
Assistance and proportional reinsurance	41	198
Miscellaneous financial loss insurance and proportional reinsurance	24,957	29,695
Non-proportional health reinsurance		
Non-proportional casualty reinsurance		
Non-proportional marine, aviation and transport reinsurance		
Non-proportional property reinsurance		

Linear formula component for life insurance and reinsurance obligations

MCR calculation Life	Life activities	
	Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
Obligations with profit participation - guaranteed benefits		
Obligations with profit participation - future discretionary benefits		
Index-linked and unit-linked insurance obligations		
Other life (re)insurance and health (re)insurance obligations		
Total capital at risk for all life (re)insurance obligations		

	Non-life activities	Life activities
MCRNL Result	26,083	
MCRL Result		

Overall MCR calculation

Linear MCR	26,083
SCR	63,329
MCR cap	28,498
MCR floor	15,832
Combined MCR	26,083
Absolute floor of the MCR	3,700

Minimum Capital Requirement	**26,083**