Financial Office

CONSOLIDATED
INTERIM REPORT 2018

CONTENTS

Corporate officers

BOARD OF DIRECTORS(1)

Chairwoman	Maria Bianca Farina
Chief Executive Officer	Matteo Del Fante (2)
Director	Antonio Nervi
Director	Francesca Sabetta (3)
Director	Dario Frigerio
Director	Roberto Giacchi
Director	Gianluigi Baccolini

BOARD OF STATUTORY AUDITORS(1)

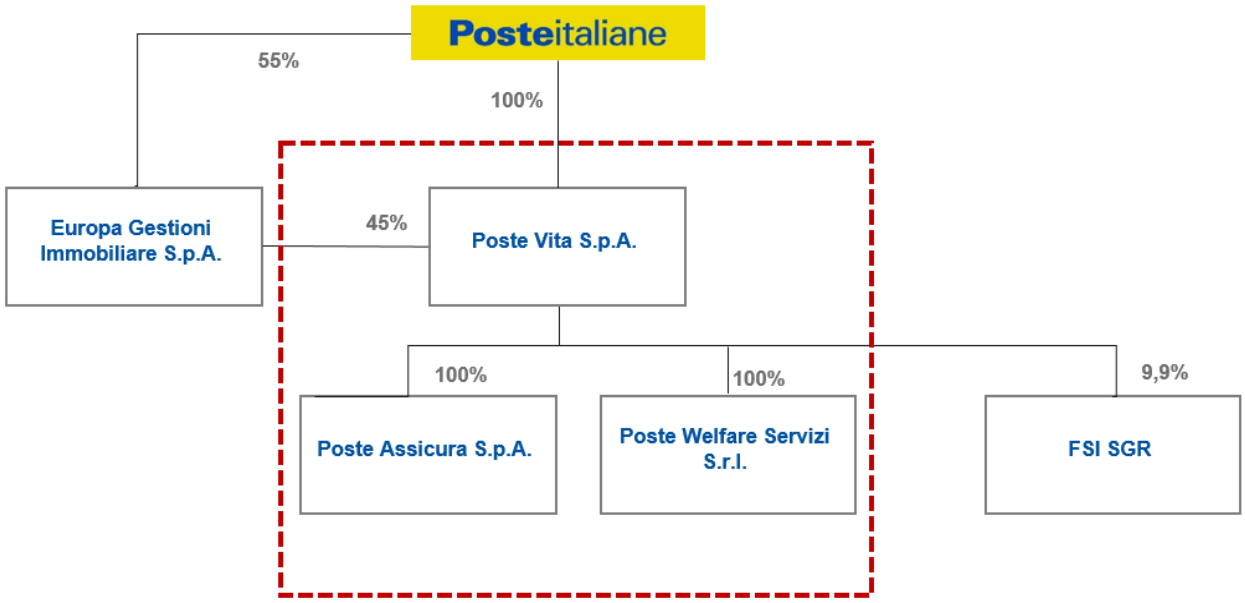
Chairman	Marco Fazzini
Auditor	Marco De Iapinis
Auditor	Barbara Zanardi
Alternate	Maria Giovanna Basile
Alternate	Massimo Porfiri

INDEPENDENT AUDITORS(4) BDO Italia SpA

1. The Board of Directors and the Board of Statutory Auditors were appointed by the shareholders at the General Meeting held on 19 June 2017 and will serve for three-year terms of office, until approval of the financial statements for 2019.
2. Following Tania Giallatini's resignation as a Director, on 26 July 2017, Poste Vita's Board of Directors coopted Matteo Del Fante to serve as a Director. At the same meeting, Mr Del Fante was also appointed Poste Vita's Chief Executive Officer.
3. Francesca Sabetta resigned as a Director of Poste Vita SpA with effect from 20 April 2018.
4. Appointment approved by the shareholders at the General Meeting of 29 April 2014.

Group structure

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



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

The scope of consolidation includes the subsidiary, Poste Assicura SpA, an insurance company founded in 2010 to provide non-life insurance, excluding motor insurance, and a wholly owned subsidiary of the Parent Company, Poste Vita, and Poste Welfare Servizi Srl, a company that primarily provides its customers with administrative, technical and software assistance relating to the management of health funds and data acquisition and validation. The latter company is also a wholly owned subsidiary of Poste Vita.

The Parent Company also holds a non-controlling interest in Europa Gestioni Immobiliari SpA, a real estate company tasked with the management and development of Poste Italiane's properties no longer used in operations. This investment is not accounted for on a line-by-line basis, but using the equity method.

EXECUTIVE SUMMARY

In keeping with the strategic objectives set out in the business plan, in the first half of 2018, 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.

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

RECLASSIFIED INCOME STATEMENT €m

for the six months ended 30 June	2018			2017		
	Non-life business	Life business	Total	Non-life business	Life business	Total
Net premium revenue	**61.7**	**8,813.8**	**8,875.5**	**49.0**	**11,048.9**	**11,097.9**
Gross premium revenue	*81.6*	*8,820.5*	*8,902.1*	*64.7*	*11,057.8*	*11,122.5*
Outward reinsurance premiums	*(19.9)*	*(6.7)*	*(26.5)*	*(15.8)*	*(8.9)*	*(24.6)*
Fee and commission income		**8.7**	**8.7**		4.6	4.6
Net finance income from assets related to traditional products	**2.1**	**901.6**	**903.7**	**2.0**	**1,715.5**	**1,717.5**
Income	*2.1*	*1,415.9*	*1,418.0*	1.9	1,367.0	1,368.9
Realised gains and losses	*0.0*	*155.3*	*155.3*	0.0	97.9	97.9
Unrealised gains and losses	*0.0*	*(669.6)*	*(669.6)*		250.6	250.6
Net finance income from assets related to index- and unit-linked products		**(18.4)**	**(18.4)**		69.9	69.9
Net change in technical provisions	**(14.4)**	**(9,071.4)**	**(9,085.9)**	**(14.2)**	**(12,165.6)**	**(12,179.7)**
Claims paid	*(17.5)*	*(3,956.9)*	*(3,974.4)*	*(12.0)*	*(5,137.7)*	*(5,149.6)*
Change in technical provisions	*(5.6)*	*(5,118.3)*	*(5,123.9)*	*(8.3)*	*(7,036.3)*	*(7,044.5)*
Share attributable to reinsurers	*8.6*	*3.9*	*12.4*	*6.1*	*8.3*	*14.4*
Investment management expenses	**(0.2)**	**(22.3)**	**(22.5)**	(0.2)	(19.9)	(20.1)
Acquisition and administration costs	**(20.2)**	**(265.5)**	**(285.8)**	(19.9)	(288.0)	(307.9)
Net commissions and other acquisition costs	*(9.3)*	*(223.7)*	*(233.0)*	(6.4)	(243.5)	(249.9)
Operating costs	*(10.9)*	*(41.8)*	*(52.7)*	(13.5)	(44.5)	(58.0)
Other revenues/(costs), net	**3.8**	**(17.4)**	**(13.7)**	2.8	(32.3)	(29.5)
GROSS OPERATING PROFIT	**32.7**	**329.1**	**361.8**	**19.5**	**333.1**	**352.6**
Net finance income from investment of free capital		43.4	43.4		30.5	30.5
Interest expense on subordinated debt		(15.1)	(15.1)		(13.6)	(13.6)
PROFIT BEFORE TAX	**32.7**	**357.4**	**390.1**	**19.5**	**350.0**	**369.4**
Income tax expense	(9.3)	(128.8)	(138.1)	(5.3)	(129.6)	(134.9)
NET PROFIT	**23.4**	**228.6**	**251.9**	**14.2**	**220.4**	**234.6**

The **Life business generated gross premium revenue** of €8.8 billion, marking a decline with respect to the first half of 2017 (€11 billion), but reflecting an uneven performance depending on class of business. Class III premiums amount to €416 million, marking a significant improvement with respect to the €232 million of the same period of 2017 (growth of 79%), driven by inflows into the *PIR* (*Piano Individuale di Risparmio*) product launched from the second half of 2017, amounting to €225 million, and the positive performance of the multiclass product which, with net premium revenue of €299 million (including €148 million generated by sales of Class III products), registered growth of 45% compared with 2017.

After years of significant growth, and within the context of a shrinking market, gross premium revenue from sales of Class I and V investment and savings products (traditional separately managed accounts), including pension products, amounts to €8.4 billion, down from the €10.8 billion of the first half of 2017. Net premium revenue of €4.9 billion remained positive (€5.9 billion in the first half of 2017), contributing significantly to the growth in assets under management, in line with the stated aim of consolidating the group's market leadership.

Sales of regular premium products also performed well (*Multiutile Ricorrente*, *Long Term Care*, *Posta Futuro Da Grande*), with over 34 thousand policies sold during the period, as did sales of the *PostaPrevidenzaValore* product which, with almost 29 thousand policies sold during the period and a total number of members that has reached 966 thousand. This has enabled the Company to consolidate its leadership in the pensions market.

Sales of pure risk policies (term life insurance), sold in stand-alone versions (not bundled together with products of a financial nature), recorded sales of over 93 thousand new policies during the period (gross of cancellations), whilst the number of new policies, again of a pure risk nature, sold bundled together with financial obligations deriving from mortgages and loans sold through Poste Italiane's network totalled approximately 44.3 thousand.

While the contribution of the **Non-life business** to the Group's results is still limited, sales in this area have also performed well, with total gross premium revenue for the period of approximately €96.4 million (€81.6 million after the change in technical provisions), up 32% on the same period of 2017 (€73.3 million). Growth was driven by all the types of policy: i) CPI up 44%; ii) Property and Personal up 11% 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 €4.1 million in the first half of 2017 to €14.3 million, driven by the launch of the health care fund for the Poste Italiane Group's employees from April 2018 and by growing inflows into other health care funds and collective accident policies.

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 3.25% for *PostaPrevidenza* accounts and 2.76% for *PostaValorePiù* accounts.

The negative performances of the financial markets during the period, above all the increase in the spread between ten-year Italian Treasury Notes (BTPs) and German Bunds from May 2018, was reflected in an overall reduction in unrealised gains, which are down from €8.3 billion at the beginning of the year to €3.4 billion at 30 June. The investment of **"free capital"** generated net finance income of approximately €43.4 million, an increase on the figure for the first six months of 2017 (€30.5 million).

As a result of the above operating and financial performance, **technical provisions** for the Life business's direct Italian portfolio amount to €121.1 billion (€115.3 billion at the end of 2017). This includes €116.5 billion in mathematical provisions for Class I and V products (up on €110.5 billion at the end of 2017) and provisions for products where the investment risk is borne by policyholders, amounting to approximately €3.2 billion (down from the €3.5 billion of 31 December 2017). Deferred Policyholder Liability (DPL) provisions, linked to the above change in the fair value of the financial instruments covering the provisions, amount to approximately €3.3 billion, down from €8.2 billion at the beginning of the year.

Technical provisions for the Non-life business, before the portion ceded to reinsurers, amount to €160.2 million at the end of the period, up 12.7% compared with the end of 2017 (€160.2 million), reflecting the growth in business.

With regard to **organisational aspects**, the period witnessed a reduction in the cost of consultants' fees and of external professionals, as well as completion of the amortisation of the "PASS" operating system used by the Non-life business. This resulted in **operating costs** of approximately €52.7 million in the first half of 2018, down from €58.0 million in the first half of 2017. This means that operating costs continue to remain at around 0.6% of earned premiums and 0.1% of provisions, figures broadly in line with 30 June 2017.

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The above operating and financial performance has resulted in **EBITDA** of €390.1 million for the period (€369.4 million for the same period of 2017). After tax, **net profit** amounts to €251.9 million, up 7.4% on the €234.6 million of the first half of 2017.

Key performance indicators

A summary of the principal KPIs is shown below:

(€m)

PRINCIPAL FINANCIAL KPIs	30 June 2018	31 December 2017	Increase/(decrease)	
Equity	3,194.3	3,369.3	-175.0	-5.2%
Technical provisions	124,581.0	123,650.6	930.4	0.8%
Financial investments*	127,187.2	126,824.0	363.2	0.3%
Solvency II ratio	185.1%	279.4%	-94.3%	
Workforce	551	535	16	

PRINCIPAL OPERATIONAL KPIs	30 June 2018	30 June 2017	Increase/(decrease)	
Gross premium revenue	8,902.1	11,122.5	-2,220.4	-20.0%
Net profit	251.9	234.6	17.4	7.4%
ROE**	15.8%	14.9%	0.9%	0.9%
Operating costs / Earned premiums	0.6%	0.5%	-0.1	
Operating costs / Provisions	0.1%	0.1%	0.0	

*** including cash**

**** in calculating this indicator, the figure for equity was determined net of the FVOCI reserve**

ECONOMIC AND MARKET ENVIRONMENT

Economic and market environment

Global economic growth remained strong during the second quarter of 2018, though the outlook is less positive given concerns over US trade policy and over the Brexit talks. The rising price of oil has caused inflation to rise in advanced economies, although price pressures remain under control. Against this backdrop, the process of normalising monetary policy continues to be gradual, allowing the financial markets to adapt to the new environment without any major shocks.

Growth in the United States remains strong, with spare capacity continuing to decline, full employment (the unemployment rate is 3.8%) and core inflation having returned to 2%, in line with the Federal Reserve's target. In this context, in June, the Federal Reserve raised the cost of borrowing by 25 basis points (to within the 1.75%-2.00% range) and eliminated its forward guidance. The central bank remains committed to gradual increases in interest rates, although according to the so-called dot plot, there should be 4, and no longer 3, rate rises in 2018, despite the fact that the target range remains 3.00%-3.25%. At the same time, having eliminated forward guidance, the Federal Reserve may consider itself free to raise rates as it wishes, based solely on macroeconomic data.

Eurozone growth continues apace, despite macroeconomic data pointing to a slowdown in both exports and a number of different variables (e.g. climatic factors or strikes). At the moment, the slowdown is not expected to bring a halt to the current growth phase, but downside risks are increasing as a result of international tensions and the US's growing appetite for protectionist policies. The rise in the oil price has driven up inflation, which is up from 1.4% at the end of 2017 to 2.0% in June 2018, but a lasting, sustained increase in consumer prices is likely to also lead to a rise in core inflation. Against this backdrop, as widely expected, at its June meeting, the ECB left interest rates unchanged and announced the end of its asset purchase programme (APP) at the end of the year, although the central bank intends to continue to reinvest the proceeds after this date. The ECB specified that interest rates will remain at current levels at least until the end of summer 2019, whilst it intends to halve its purchases from €30 to €15 billion a month between October and the end of the year.

Among the BRIC economies (Brazil, Russia, India and China), economic growth in India remains robust, whilst the slowdown in China is continuing. Brazil and Russia, which have both come out of recession, have seen ongoing improvements in their economic prospects, though growth remains weak.

Financial market trends

At the end of the second quarter of 2018, the year yields on ten-year US and German government bonds stood at 2.86% and 0.30%, respectively, compared with 2.40% and 0.42% at the beginning of the year.

In Europe, the decline in yields primarily reflects the absence of significant inflationary pressures and the gradual normalisation of the ECB's monetary policy within the context of albeit slowing expansion. In the US, the return of the yield to above 3%, in May, reflects the strengthening economic cycle and fears that the Federal Reserve may accelerate interest rate rises.

At the same date, the yield on 10-year Italian Treasury Notes (BTPs) stood at 2.68%, compared with 2.01% at the end of 2017. In the same period, the spread with respect to ten-year German government bonds rose from 158 to 237 basis points. The yields on Italian debt are subject to the uncertainty surrounding the new government's policies which, in June, led the yield on ten-year bonds to rise to above 3.10%.

The Poste Vita Group is monitoring the operational and financial impact of any further increase in the spread. Furthermore, the parent, Poste Italiane, has given a commitment to inject fresh capital into Poste Vita should the solvency ratio fall below 130%.

Euro-denominated investment grade corporate bonds has continued to benefit from purchases by the ECB and the widespread improvement in the macroeconomic environment. As a result of the increase in free-risk rates, the average yield on BBB-rated investment grade issues has risen from 1.05% at the beginning of the year to 1.20%.

Global equity markets have not performed particularly well since the start of the year: the MSCI World Index is down 0.7%, the S&P 500 up 1.7%% and the Eurostoxx 50 down 3.09%. Falls in emerging stock markets have been even sharper, with an overall decline of 7.6%. Fears that the Federal Reserve could accelerate interest rate rises and concerns over a number of technology stocks (impacting equity markets in the first quarter) have now been joined by fears of the effects on global economic growth of the US government's protectionist leanings.

On the foreign exchange markets, the euro has fallen 2.5% against the US dollar.

Life insurance market

Based on the available official data (source: ANIA), new business for Life insurance policies at 31 May 2018 amounts to €36.4 billion (up 3.8% on the same period of the previous year). If new Life business reported by EU insurers is taken into account, the figure rises to €43.1 billion, substantially in line (up 0.2%) with the same period of 2017. Analysing the composition and performance of new business, Class I premiums amount to €23.3 billion, up 2.2% compared with the same period of the previous year, whilst new business for Class V policies has also performed well, with premium revenue rising 6.3% to €0.7 billion. New business for unit-linked Class III Life products has seen strong growth in the first five months of the year, rising 6.8% compared with the same period of 2017 to €12.3 billion. Sales of long-term care products (Class IV) have also performed well, with premium revenue, albeit modest, rising more than 56% compared with the same period of 2017 to €7 million.

New business and contributions relating to individual pension plans are slightly up (0.9%) at the end of May 2018 compared with the same period of 2017, reaching a total of €0.5 billion since the beginning of the year.

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

RAMO/PRODOTTO	Premi nel mese	Distrib. (%)	Var. (%) 18/17	N° polizze da inizio anno	Premi da inizio anno	Distrib. (%)	Var. (%) 18/17
Vita - ramo I	4.699.048	62,1%	-1,1%	1.174.584	23.316.314	64,1%	2,2%
Capitalizzazioni - ramo V	173.167	2,3%	65,1%	3.731	714.489	2,0%	6,3%
Linked - ramo III	2.689.813	35,5%	9,8%	319.526	12.313.354	33,8%	6,8%
- di cui: unit-linked	*2.689.813*	*35,5%*	*9,8%*	*319.526*	*12.313.354*	*33,8%*	*6,8%*
- di cui: index-linked	-	*0,0%*	-	-	-	*0,0%*	-
Malattia – ramo IV	1.782	0,0%	47,3%	12.314	6.892	0,0%	56,7%
Fondi pensione aperti – ramo VI	8.750	0,1%	-18,9%	31.718	50.906	0,1%	4,5%
Imprese italiane-extra UE	**7.572.560**	**100,0%**	**3,5%**	**1.541.873**	**36.401.955**	**100,0%**	**3,8%**
Imprese UE	1.413.982		-23,7%		6.670.847		-15,7%
Totale	**8.986.542**		**-2,0%**		**43.072.802**		**0,2%**

With regard, finally, to distribution channel, over 70% of new business was obtained through banks and post offices, with premium revenue of €26.0 billion up 7.0% compared with the first five months of 2017. In terms of agents as a whole, the volume of new business amounted to €5.0 billion in the first five months of 2018, marking growth of 2.4% compared with the same period of 2017.

The performance of new business obtained through authorised financial advisors was, on the other hand, negative, with premium revenue of €5.2 billion marking a decline of 9.2% compared with the figure for the same period of 2017.

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

CANALE DISTRIBUTIVO	Premi nel mese	Distrib. (%)	Var. (%) 18/17	Premi da inizio anno	Distrib. (%)	Var. (%) 18/17
Sportelli bancari e postali	5.328.039	70,4%	4,2%	26.018.383	71,5%	7,0%
Agenti	807.683	10,7%	3,2%	3.647.942	10,0%	1,1%
Agenzie in economia	249.127	3,3%	11,8%	1.328.416	3,6%	6,2%
Consulenti finanziari abilitati	1.131.130	14,9%	-1,7%	5.168.786	14,2%	-9,2%
Altre forme (inclusi Broker)	56.581	0,7%	20,5%	238.428	0,7%	20,9%
Imprese italiane-extra UE	**7.572.560**	**100,0%**	**3,5%**	**36.401.955**	**100,0%**	**3,8%**

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

Single premiums continued to be the preferred form of payment for policyholders, representing 94% of total premiums written and 60% of policies by number.

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

		RIPARTIZIONE PREMI PER CANALE					
TIPOLOGIA DI PREMIO	**N° polizze/ adesioni**	**Sportelli bancari e postali**	**Agenti**	**Agenzie in econom.**	**Consul. finanziari abilitati**	**Altre forme (inclusi Broker)**	**Totale**
Annui	**15,9%**	0,3%	2,2%	3,9%	0,2%	1,1%	**0,6%**
Unici	**60,4%**	93,8%	89,9%	82,2%	98,5%	90,0%	**93,6%**
Ricorrenti	**23,7%**	5,9%	7,9%	13,9%	1,3%	9,0%	**5,8%**
Totale	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**

Non-life insurance market

Based on the available official data (source: ANIA), total direct Italian premiums in the Non-life insurance market, thus including policies sold by Italian and overseas insurers, amounted to €9.1 billion at the end of the first quarter of 2018, slightly up on the same period of 2017 (an increase of

1.7%). This marks the fourth consecutive quarter reversing the negative trend seen over the last five years. The performance was helped by both the slight increase in premium revenue from vehicle insurance and further growth in other Non-life classes.

In detail, third-party land vehicle premiums amount to €3.4 billion, down 0.2% on the first quarter of 2017 (when the reduction was 3.5%), whilst land vehicle hull premiums amount to €0.8 billion, up 6.8% on the same period of the previous year. Other classes have continued the positive trend of recent quarters, with premium revenue of over €4.8 billion in the first quarter of 2018, an increase of 2.1%.

Other classes, in terms of volumes and growth rate, include general third-party liability insurance, with premium revenue of €1.0 billion up 4.5%, medical, with premiums of €0.7 billion (up 3.2%), and other property insurance, with premiums of €0.7 billion (up 2.9%).

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

Rami	PREMI ITA ed EXTRA UE**	QUOTA MERCATO ITA ed EXTRA UE	PREMI UE***	QUOTA MERCATO UE	PREMI TOTALI	VAR.* % PREMI ITA ed EXTRA UE	VAR.* % PREMI UE	VAR.* % PREMI TOTALI
	al I trim. 2018	al I trim. 2018	al I trim. 2018	al I trim. 2018	al I trim. 2018	2018/2017	2018/2017	2018/2017
R.C. Autoveicoli terrestri	3.265	95,2%	163	4,8%	3.428	-0,5%	7,4%	-0,2%
Corpi di veicoli terrestri	737	91,8%	66	8,2%	803	6,9%	6,0%	6,8%
Totale settore Auto	**4.002**	**94,6%**	**229**	**5,4%**	**4.231**	**0,8%**	**7,0%**	**1,1%**
Infortuni	749	85,3%	129	14,7%	879	-0,6%	-4,2%	-1,1%
Malattia	688	95,3%	34	4,7%	722	3,0%	5,4%	3,2%
Corpi di veicoli ferroviari	2	88,9%	0	11,1%	2	153,3%	19,1%	125,3%
Corpi di veicoli aerei	1	41,3%	2	58,7%	3	18,5%	7,6%	11,9%
Corpi veicoli marittimi	54	78,2%	15	21,8%	69	-4,3%	25,5%	0,9%
Merci trasportate	46	50,8%	45	49,2%	91	0,1%	6,9%	3,3%
Incendio ed elementi naturali	509	89,4%	60	10,6%	570	-1,9%	-0,7%	-1,8%
Altri danni ai beni	574	84,7%	104	15,3%	678	3,2%	1,3%	2,9%
R.C. Aeromobili	3	63,2%	2	36,8%	5	26,4%	22,1%	24,8%
R.C. Veicoli marittimi	3	85,1%	0	14,9%	3	-5,4%	5,2%	-3,9%
R.C. Generale	678	65,6%	355	34,4%	1.033	3,1%	7,1%	4,5%
Credito	18	11,7%	134	88,3%	151	33,4%	11,8%	13,9%
Cauzione	95	77,0%	28	23,0%	123	-3,7%	-10,4%	-5,3%
Perdite pecuniarie	142	73,8%	51	26,2%	193	-3,1%	10,9%	0,2%
Tutela Legale	91	86,2%	15	13,8%	106	6,6%	15,0%	7,7%
Assistenza	177	90,1%	19	9,9%	197	7,2%	-3,7%	6,0%
Totale altri rami danni	**3.832**	**79,4%**	**993**	**20,6%**	**4.825**	**1,5%**	**4,6%**	**2,1%**
Totale rami danni	**7.834**	**86,5%**	**1.221**	**13,5%**	**9.055**	**1,1%**	**5,1%**	**1,7%**

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

In terms of distribution channel, as regards policies sold by Italian and overseas insurers, agents continue to lead the way with a market share of 75.2%, slightly down on the figure for the end of the first quarter of 2017 (75.8%). Brokers represent the second most popular channel for Non-life products, with a market share of 8.8%, whilst the market share of banks and post offices is in line with the same period of 2017 at 6.4%. Direct sales accounted for 9.3% of the market at the end of the first quarter of 2018, up compared with the first quarter of 2017 (8.9%)

DISTRIBUZIONE % PREMI PORTAFOGLIO DIRETTO AL I TRIMESTRE 2018 (imprese italiane e rappresentanze imprese extra-UE)

Rami	Agenti	Broker (esclusi Preventivatori)	Sportelli bancari	Consulenti finanziari abilitati	Vendita diretta: Direzione-Agenzie in economia	Vendita diretta: Vendita telefonica	Vendita diretta: Internet (inclusi preventivatori)	Totale	Preventivatori
R.C. Autoveicoli terrestri	84,9	3,4	2,8	0,0	0,7	1,7	6,5	100,0	2,9
Corpi veicoli terrestri	74,7	13,0	4,2	0,1	2,0	1,4	4,6	100,0	1,5
Totale settore Auto	**83,0**	**5,2**	**3,1**	**0,0**	**1,0**	**1,7**	**6,1**	**100,0**	**2,7**
Infortuni	72,7	6,5	11,7	0,6	6,1	1,0	1,5	100,0	0,6
Malattia	34,0	22,3	13,0	1,2	29,3	0,1	0,1	100,0	0,0
Corpi veicoli ferroviari	65,8	5,1	0,0	0,0	29,1	0,0	0,0	100,0	0,0
Corpi veicoli aerei	10,8	86,4	-1,2	0,0	3,9	0,0	0,0	100,0	0,0
Corpi veicoli marittimi	9,3	90,6	0,0	0,0	0,0	0,0	0,0	100,0	0,0
Merci trasportate	54,8	38,8	0,6	0,0	5,8	0,0	0,0	100,0	0,0
Incendio ed elementi naturali	75,3	9,5	9,4	0,3	5,2	0,2	0,2	100,0	0,0
Altri danni ai beni	82,7	10,1	5,1	0,1	1,6	0,1	0,2	100,0	0,0
R.C. Aeromobili	12,0	81,7	0,0	0,0	6,3	0,0	0,0	100,0	0,0
R.C. Veicoli marittimi	93,0	5,4	0,3	0,0	0,5	0,5	0,3	100,0	0,0
R.C. Generale	82,6	8,8	4,9	0,1	3,3	0,1	0,1	100,0	0,0
Credito	30,9	20,8	23,3	0,0	25,0	0,0	0,0	100,0	0,0
Cauzione	78,1	17,2	0,0	0,0	4,7	0,0	0,0	100,0	0,0
Perdite pecuniarie	34,9	9,8	45,7	0,4	7,5	0,8	0,9	100,0	0,2
Tutela legale	76,8	5,6	9,8	0,1	1,0	1,9	4,7	100,0	1,6
Assistenza	75,6	4,7	8,8	0,3	2,3	2,5	6,0	100,0	2,1
Totale altri rami danni	**67,0**	**12,7**	**10,0**	**0,4**	**8,7**	**0,5**	**0,8**	**100,0**	**0,3**
Totale danni	**75,2**	**8,8**	**6,4**	**0,2**	**4,7**	**1,1**	**3,5**	**100,0**	**1,5**

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OPERATING REVIEW

Premium revenue, net of outward reinsurance premiums, totalling approximately €8.8 billion, is down 20% compared with the €11.1 billion of the same period of 2017. The table below breaks down net premium revenue by type of business compared with the same period of 2017.

(€m)

Premium revenue for the six months ended 30 June	2018	2017	Increase/(decrease)	
Class I	8,333.1	10,763.2	(2,430.1)	(22.6%)
Class III	416.3	232.0	184.3	79.4%
Class IV	15.4	14.4	1.1	7%
Class V	55.7	48.2	7.5	15.6%
Gross "Life" premium revenue	8,820.5	11,057.8	(2,237.3)	(20.2%)
Outward reinsurance premiums	(6.7)	(8.9)	2.2	(24.8%)
Net "Life" premium revenue	***8,813.8***	***11,048.9***	**(2,235.1)**	**(20.2%)**
Non-life premiums	96.4	73.3	23.1	31.5%
Outward reinsurance premiums	(20.0)	(18.1)	(1.9)	10.3%
Change in premium reserve	(14.8)	(8.6)	(6.2)	72.6%
Change in share of premium reserve attributable to reinsurers	0.1	2.4	(2.3)	(96.2%)
Net "Non-life" premium revenue	***61.7***	***49.0***	12.7	**26.0%**
Total net premium revenue for the period	**8,875.5**	**11,097.9**	**(2,222.3)**	**(20.0%)**

Life business

Life business operations were aimed almost exclusively at the marketing of Class I and V investment and savings products (traditional separately managed accounts), with **total premium revenue** of approximately €8.4 billion (€10.8 billion in the same period of 2017). Total revenue from the sale of Class III products rose but remained marginal at €0.4 billion (€0.2 billion in the first half of 2017).

The following table shows a summary of premium revenue for the period by class, net of outward reinsurance premiums:

Premium revenue for the six months ended 30 June	2018	2017	Increase/(decrease)	(€m)
Class I	8,333.1	10,763.2	(2,430.1)	(22.6%)
Class III	416.3	232.0	184.3	79.4%
Class IV	15.4	14.4	1.1	7%
Class V	55.7	48.2	7.5	15.6%
Gross "Life" premium revenue	8,820.5	11,057.8	(2,237.3)	(20.2%)
Outward reinsurance premiums	(6.7)	(8.9)	2.2	(24.8%)
Net "Life" premium revenue	***8,813.8***	***11,048.9***	**(2,235.1)**	**(20.2%)**

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

Breakdown of gross premium revenue for the life business for the six months ended 30 June	2018	2017	Increase/(decrease)	(€m)
Regular premiums	**1,039.7**	**1,042.5**	**(2.7)**	**(0.3%)**
- of which first year	182.40	273.6	(91.2)	(33.3%)
- of which subsequent years	857.34	768.8	88.5	11.5%
Single premiums	7,780.8	10,015.3	(2,234.5)	(22.3%)
Total	**8,820.5**	**11,057.8**	**(2,237.3)**	**(20.2%)**

Sales of regular premium products also performed well (*Multiutile Ricorrente, Long Term Care, Posta Futuro Da Grande*), with over 34 thousand policies sold during the period, as did sales of the *PostaPrevidenzaValore* product which, with more than 29 thousand policies sold during the period and a total number of members amounting to 966 thousand, has enabled the Company to consolidate its leadership in the pensions market.

Sales of pure risk policies (term life insurance), sold in stand-alone versions[1], recorded sales of over 93 thousand new policies during the period, whilst the number of new policies, again of a pure risk nature, sold bundled together with financial obligations deriving from mortgages and loans sold through Poste Italiane's network totalled approximately 44.3 thousand.

Non-life business

During the period, the Non-life business continued with specific marketing and commercial initiatives aimed at improving the health and protection product offering, including a review and expansion of the cover provided and the launch of discounts on existing products.

The collective welfare products launched last year continued to record growth during the first half, with revenue rising approximately €10.1 million.

Sales of goods and property protection policies also grew, rising 14% compared with the figure for the first half of 2017. This reflects the launch of the new *Posteprotezione Innova Casa Più* product (replaced, from 25 June 2018, by *Poste Casa 360).* As a result of the above, gross premium revenue for the first half of 2018 totals approximately €96.4 million, up 32% on the same period of the previous year.

[1] not bundled together with products of a financial nature.

(€m)

Gross premium revenue for the six months ended 30 June	2018	% share	2017	% share	Increase/ (decrease)	% inc./(dec.)
Goods and property	18.3	19%	16.1	22%	2.2	14%
Personal insurance	40.5	42%	36.8	50%	3.7	10%
Credit protection	23.3	24%	16.2	22%	7.1	44%
Welfare and other management	14.3	15%	4.2	6%	10.1	239%
Total	**96.4**	**100%**	**73.3**	**100%**	**23.1**	**32%**

The following table shows the distribution of gross Non-life premium revenue by line of business, showing: i) the pre-eminence of Accident insurance, accounting for 40%; ii) growth of approximately 70% in Medical insurance compared with the first half of 2017, after the above-mentioned increase in revenue generated by the Employee Benefits business; and iii) growth in financial loss policies due, as noted previously, to an increase in revenue from payment protection insurance.

(€m)

Gross premium revenue for the six months ended 30 June	2018	% share	2017	% share	Increase/ (decrease)	% inc./(dec.)
Accident	39.0	40%	33.2	45%	5.7	17%
Medical	23.1	24%	13.6	19%	9.5	70%
Fire and Natural Disaster	3.1	3%	2.8	4%	0.3	10%
Other Damage to Property	4.6	5%	3.9	5%	0.7	19%
General Liability	8.7	9%	7.7	10%	1.0	13%
Financial Loss	11.2	12%	5.8	8%	5.4	93%
Legal Expenses	1.5	2%	1.4	2%	0.0	3%
Assistance	5.3	6%	4.9	7%	0.5	9%
Total	**96.4**	**100%**	**73.3**	**100%**	**23.1**	**32%**

Payments and change in technical provisions

Claims paid during the first half of 2018 total €3,974.4 million, compared with €5,149.6 million in the same period of the previous year, as shown below:

(€m)

Payments in the six months ended 30 June	2018	2017	Increase/(decrease)	
Non-life business				
Claims paid	14.9	10.7	4.2	38.9%
Costs of settling claims	2.5	1.3	1.3	102.5%
Total Non-life claims paid	**17.5**	**12.0**	**5.5**	**45.6%**
Life business				
Amounts paid	3,951.3	5,129.8	(1,178.5)	(23.0%)
of which:				
Surrenders	1,728.2	1,540.5	187.7	12.2%
Maturities	1,454.8	2,933.8	(1,479.0)	(50.4%)
Claims	768.3	655.5	112.8	17.2%
Costs of settling claims	5.7	7.8	(2.1)	(27.5%)
Total Life claims paid	**3,956.9**	**5,137.6**	**(1,180.7)**	**(23.0%)**
Total	**3,974.4**	**5,149.6**	**(1,175.2)**	**(22.8%)**

Total claims paid on Non-life policies amount to €17.5 million, including settlement and direct costs of €2.2 million, up 45.6% on the figure for the first half of 2017 (€12 million). This reflects the growth in premium revenue.

Total claims paid on Life policies amount to €3,956.9 million, down on the €5,137.6 million of the same period of 2017. The reduction is primarily due to a decrease of approximately €1,479 million in expirations during the first half of 2018.

The **change in technical provisions,** totalling €5,123.9 million, is down on the €7.044.5 million recorded at 30 June 2017. This primarily reflects a matching increase in insurance liabilities, reflecting the above-mentioned operating performance. The decrease in mathematical provisions for class I, IV and V products, compared with the figure for the first half of 2017, primarily reflects the reduction in premium revenue. The figure also includes the reduction in Deferred Policyholder Liability (DPL) provisions, amounting to €673.4 million (an increase of €240 million at 30 June 2017), linked to the measurement of securities included in separately managed accounts and classified as FVTPL. The decrease of €312.4 million in mathematical provisions for Class III policies during the period primarily reflects financial market volatility.

(€m)

Change in technical provisions in the six months ended 30 June	2018	2017	Increase/(decrease)	
Non-life technical provisions	**5.6**	**8.3**	**(2.7)**	**(32.5%)**
Mathematical provisions for Class I, IV and V	6,097.6	7,729.9	(1,632.3)	(21.1%)
Mathematical provisions Class III	(312.4)	(939.4)	627.1	(66.7%)
DPL provisions	(673.4)	240.0	(913.4)	(380.6%)
Other technical provisions	6.5	5.8	0.7	12.3%
Total Life technical provisions	**5,118.3**	**7,036.3**	**(1,917.9)**	**(27.3%)**
Total	**5,123.9**	**7,044.5**	**(1,920.6)**	**(27.3%)**

With reference to policies ceded to reinsurers, claims paid in the period under review, inclusive of the change in technical provisions, amount to €12.4 million, down on the €14.4 million of the same period of 2017, as shown below:

(€m)

Claims expenses attributable to reinsurers in the six months ended 30 June	2018	2017	Increase/(decrease)	
Non-life business				
Claims paid	4.3	3.4	0.9	28.0%
Settlement costs	0.2	0.1	0.1	61.4%
Total Non-life insurance claims paid	**4.5**	**3.5**	**1.0**	**29.0%**
Change in technical provisions	4.1	2.6	1.5	57.4%
Total non-life insurance	**8.6**	**6.1**	**2.5**	**41.1%**
Life business				
Claims paid	3.3	3.8	(0.5)	(13.4%)
Settlement costs	0.0	0.0	0.0	0.0%
Total Life insurance claims paid	**3.3**	**3.8**	**(0.5)**	**(13.4%)**
Change in technical provisions	0.5	4.5	(4.0)	(88.3%)
Total life insurance	**3.9**	**8.3**	**(4.5)**	**(53.8%)**
Total	**12.4**	**14.4**	**(2.0)**	**(13.8%)**

Technical provisions

As a result of the above operating and financial performance, technical provisions amount to €124,581 million, slightly up on the €123,650.6 million of the end of 2017. The provisions are allocated as follows:

Technical provisions at 30 June	2018	2017	Increase/(decrease) (€m)	
Non-life classes:				
Premium reserve	79.1	64.3	14.8	23.1%
Outstanding claims provisions	101.5	95.8	5.7	5.9%
Other technical provisions	0.1	0.2	(0.1)	(56.7%)
Total non-life classes	**180.6**	**160.2**	**20.4**	**12.7%**
Life classes:				
Mathematical provisions	117,105.1	111,013.1	6,092.0	5.5%
Technical provisions for class III products	3,217.7	3,530.1	(312.4)	(8.8%)
Outstanding claims provisions	639.6	631.2	8.4	1.3%
DPL provisions	3,340.4	8,225.0	(4,884.6)	(59.4%)
Other technical provisions	97.5	91.0	6.5	7.2%
Total life classes	**124,400.4**	**123,490.4**	**910.0**	**0.7%**
Total	**124,581.0**	**123,650.6**	**930.4**	**0.8%**

Provisions for the Life classes amount to €124,400.4 million (€123,490.4 million at the end of 2017). These provisions are made to meet all of the Company's obligations and include mathematical provisions (€117,105.1 million), provisions for unit- and index-linked products (€3,217.7 million), outstanding claims provisions (€639.6 million), deferred policyholder liability (DPL) provisions made under the shadow accounting method, totalling €3,340.4 million, and other technical provisions (€97.5 million). The latter includes provisions for future expenses, totalling €93.9 million, provisions for supplementary insurance premiums, totalling €2.9 million, and provisions for with-profits policies, amounting to €0.7 million.

Deferred Policyholder Liability (DPL) provisions, amounting to €3,340.4 million at 30 June 2018, are down on the figure for the beginning of the year (€8,225.0 million). This reflects a reduction in the fair value of the financial instruments covering the insurance liabilities linked to separately managed accounts, as a result of the less positive performance of financial markets compared with the end of the previous year.

In this regard, it should be noted that for products whose revaluation is linked to the returns on separately managed accounts, the financial component of technical provisions is determined on the basis of realised income and expenses, as established by the applicable Italian accounting standards, without considering unrealised gains and losses. This generates a timing mismatch between liabilities and the assets designed to back them, which are recognised at fair value, in accordance with IFRS 9. In order, therefore, to report assets and liabilities intended to match each other in a consistent manner, the Company has, as in previous years, adopted the "shadow accounting" method introduced by IFRS 4. The criteria used for shadow accounting purposes are described in the notes to the financial statements.

Contracts classified as "insurance contracts" and those classified as "financial instruments with a discretionary participation feature", for which use is made of the same recognition and measurement criteria as in Italian GAAP, were subjected to the LAT - Liability Adequacy Test required by paragraph 15 of IFRS 4. The test was conducted by taking into account the present value of future cash flows, obtained by projecting the expected cash flows generated by the existing portfolio as of period end, based on adequate assumptions underlying expiration causes (death, termination, surrender, reduction) and expense trends.

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

Non-life technical provisions, before provisions ceded to reinsurers, amount to €180.6 million at the end of the period (€160.2 million at the end of 2017), and consist of: the premium reserve of €79.1 million, outstanding claims provisions of €101.5 million and other provisions of €0.1 million, relating solely to the ageing reserve. Outstanding claims provisions for claims incurred but not reported (IBNR) amount to €21 million. Changes in the premium reserve and outstanding claims provisions reflect the growth in premium revenue.

Distribution

The Poste Vita Group distributes its products through the post offices of the parent, Poste Italiane SpA – BancoPosta RFC, duly registered under letter D in the single register of insurance intermediaries as per ISVAP Regulation 5 of October 16, 2006. The sales network consists of around 13,000 post offices throughout the country. Insurance contracts are signed in the post offices by qualified and suitably trained personnel.

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

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

Total commissions paid for distribution, collection and portfolio maintenance services – paid under a specific agreement with the insurance broker, BancoPosta RFC – Poste Italiane SpA, expiring in March 2019 – amount to approximately €237.2 million (€258.2 million in the first half of 2017). On an accruals basis, the amount for the period totals €237.6 million, reflecting the amortisation of prepaid commissions (€255.8 million at 30 June 2017). The Insurance Group sells its collective policies through brokers, to which it paid commissions of €4 million during the period (€1.7 million in the first half of 2017).

Reinsurance strategy

Life business

The effects of existing treaties entered into with leading reinsurers, relating to Term Life Insurance policies and reinsurance coverage with regard to LTC (Long-Term Care) and CPI insurance, continued during the period.

Premiums ceded to reinsurers amount to €6.7 million (€8.9 million at 30 June 2017) and include €4.4 million for Class I products and a remaining €2.3 million for Class IV products. The share of claims expenses attributable to reinsurers, after technical provisions, amounts to €3.9 million (€8.3 million in the same period of 2017). As a result of this, **ceded policies**, including commissions received from reinsurers amounting to €0.8 million (€1.1 million in the first half of 2017) resulted in a loss of €2.0 million, compared with a positive result of €0.5 million for the same period of 2017).

Non-life business

The Board of Directors approved Guidelines applicable to passive reinsurance arrangements on 14 December 2016 (subsequently modified and approved by the Board of Directors on 7 December 2017) and, at its meeting of 13 February 2018, agreed the Reinsurance Plan for the current year, prepared in accordance with existing regulations (IVASS Circular 574/D). Briefly, the reinsurance structure applied in 2018, in accordance with the Guidelines and the Reinsurance Plan, is based on the following:

- retention of 100% of gross premium revenue in the Accident class for retail products, with reference to new business, in addition to the adoption of excess-of-loss treaties for personal (Accident) insurance due to risk and/or event to hedge against large losses. Quota share treaties continue to be valid in relation to the principal risks insured prior to 2013. These arrangements provide risk attaching coverage, with 50% of any losses covered. In this latter case, the excess-of-loss treaty for Accident policies covers the retained share;
- retention of 50% of the risk exposure for retail Medical products. The reinsurance strategy, applicable to the risks underlying policies in run-off, continues in the form of a quota share treaty with the ceded percentage based on pure premiums and providing risk attaching coverage. The same quota share reinsurance structure applies to all the risks attaching to new business and underlying the other products sold, but with retrocession of a flat commission and on a loss occurring basis;
- confirmation of the preference given to “bouquet, multi-line” reinsurance for Property and Liability products: proportional treaty bases on reinsurance cession in the Fire, Other Damage to Property, General Liability and Financial Loss classes, maintaining the commissions paid by reinsurers based on underwriting results, in addition to the adoption of excess-of-loss treaties per risk and/or event to protect against large losses;
- a reduction of the proportion of risks ceded in the Fire and Other Damage to Property and Financial Loss classes to 25%, in line with the approach for the General Liability class, excluding professional liability, which has been held at 90%;
- a reduction of the proportion of risks ceded to 55% and a further increase in reinsurance commissions (fixed commission + profit-sharing) for all Assistance policies written at 31 December 2017 and new policies in 2018;
- a reduction of the proportion of risks ceded to 50% and a further increase in reinsurance commissions (fixed commission + profit-sharing) for all Legal Expenses policies written at 31 December 2017 and new policies in 2018;
- the termination of treaties covering CPI products with effect from 1 January 2018. For the risks linked to the runoff credit protection policies, the reinsurance policy continues in the form of a quota share treaty with a ceded percentage of 50%. The cession rate continues to be based on pure premiums, providing risk attaching coverage;

- adoption of a treaty covering the main standard collective, closed-group corporate accident policies. This reinsurance structure has a loss occurring basis and is based on a quota share treaty with commercial premiums, with a cession rate of 50% and sliding-scale reinsurance commissions depending on the loss ratio, and an excess-of-loss treaty covering the retained share, extended to cover all Class 1 corporate policies, including non-standard ones;
- confirmation of an 80% quota share treaty for corporate medical risks and regarding the Open Medical Scheme, with a cession rate based on gross premium revenue, a flat reinsurance commission and with coverage provided on a risk attaching basis. In addition, a Stop Loss treaty has been introduced to cover Class 2 corporate policies, having a single layer providing coverage of up to 150%;
- use of optional and/or special acceptance reinsurance treaties, primarily in cases where the risk is not covered by the existing reinsurance treaty. This approach applies particularly to risks that do not meet the qualitative and quantitative criteria provided for in existing reinsurance treaties, but which Poste Assicura is normally willing to insure against, primarily corporate accident or medical policies. The entity of the risk retained by Poste Assicura and the most appropriate reinsurance structure are decided on, from time to time, based on the nature of the risk involved.

In keeping with existing reinsurance guidelines, in the first half of 2018, a number of changes were made with respect to the Reinsurance Plan agreed at the Board of Directors' meeting of 13 February 2018, following the signature of new reinsurance treaties.

The changes regard the section relating to reinsurance by treaty and are as follows:

- adoption of a treaty covering the RSM risk associated with corporate medical policies for the employees of associate companies forming part of the Poste Italiane Group. The reinsurance structure has a loss occurring basis and is based on a quota share treaty with commercial premiums, with a cession rate of 80% and a flat reinsurance commission for the first year and sliding-scale reinsurance commissions depending on the loss ratio for the second year;
- an addition to the "bouquet multiline" reinsurance agreement for property and liability insurance for new catastrophe policies: a proportionate treaty with a cession rate based on pure premiums and excess-of-loss cover, with an additional top layer for catastrophe events.

In view of the above reinsurance strategy and the operating performance, the degree of retained risk, in relation to the company's remaining exposure to claims following cessions to reinsurers, is equal to 63%, compared with 70% at the end of the first half of 2017.

The ratio of ceded premiums at the end of the period to gross premiums written is 21%, down compared with the figure for 30 June 2017 (25%).

Given the more than proportionate increase in premium revenue with respect to claims during the period, **ceded policies** report a loss of approximately €3.5 million, slightly worse (€0.4 million) than the loss of €3.1 million recorded in the same period of 2017.

Complaints

The Parent Company, Poste Vita, received 650 new complaints during the first half of 2018, compared with 819 in the first half of 2017. The average time taken to respond to complaints in the first six months of 2018 was around 13 days (15 days in the same period of 2017). The Company received 184 complaints regarding its Personal Injury Protection (PIP) product in the first half of 2018, compared with 273 received in the first half of 2017. The average time taken to respond to complaints during the period was around 14 days (15 days in the same period of 2017).

The subsidiary, Poste Assicura, received 570 new complaints in the same period (315 in the first half of 2017). The average time taken to respond to complaints in the first six months of 2018 was around 17 days (16 days in the same period of 2017), well within the 45-day time limit set by IVASS.

FINANCIAL POSITION

Financial investments

Financial investments amount to €126,422.7 million at 30 June 2018, broadly in line with the €125,917 million of the end of 2017 and reflecting the operating performance and financial market trends.

(€m)

	At 30 June 2018	At 31 December 2017	Increase/(decrease)	
Investments in associates	107.1	106.8	0.3	0.3%
Financial assets measured at amortised cost	1,418.0		1,418.0	n.s
Financial assets at fair value through OCI	94,801.9	96,078.9	(1,277.0)	(1.3%)
Financial assets at fair value through profit or loss	30,095.8	29,731.3	364.4	1.2%
Total financial investments	**126,422.7**	**125,917.0**	**505.7**	**0.4%**

Investments of €107.1 million refer to the shareholding in the associate, EGI, which is accounted for using the equity method. The company, which is owned by Poste Vita SpA and Poste Italiane SpA with 45% and 55% equity interests, respectively, operates primarily in real estate and is tasked with the management and development of the parent's non-operating properties. The figures for the first half of 2018 show that the company has equity of €237.9 million and made a net profit of approximately €0.7 million, down on the €0.9 million reported for the first half of 2017.

Financial assets measured at amortised cost, bring financial assets held to collect the contractual cash flows represented solely payments of principal and interest, amount to €1,418 million at the end of the period (before IFRS 9 become effective, these assets were classified as available-for-sale) and primarily regard the Company's free capital.

		30/06/2018	31/12/2017		
Titoli di capitale		-			
Titoli di debito		1,418.0			
di cui:	*titoli di stato*	1,398.8			
	corporate	19.2			
Quote di OICR		-			
Totale		**1,418.0**			

Financial assets measured at FVTOCI amount to approximately €94.8 billion (€96.1 million at 31 December 2017) relate to securities allocated to separately managed accounts (approximately €92.7 billion) and a residual portion attributable to the Company's free capital (approximately €2.1 billion).

(€m)

		At 30 June 2018	At 31 December 2017	Increase/(decrease)	
Equity instruments		-	18.3	(18.3)	(100.0%)
Debt securities		94,801.9	94,708.6	93.3	0.1%
of which:	*government bonds*	78,100.1	81,313.7	(3,213.6)	(4.0%)
	corporate bonds	16,701.8	13,394.9	3,306.9	24.7%
UCITS units		-	1,352.0	(1,352.0)	(100.0%)
Total		**94,801.9**	**96,078.9**	**(1,277.0)**	**(1.3%)**

The less positive performance of the financial markets during the period is reflected in a reduction in the fair value reserve for these instruments, which amounts to €3,811 million in potential gains (€8,089.6 million at the end of 2017), including: i) €3,820.9 million attributable to policyholders through the shadow accounting mechanism, as they relate to financial instruments included in separately managed accounts, and ii) €9.9 million relating to net losses on FVOCI financial assets included in the Company's free capital and, therefore, attributable to a specific equity reserve (equal to €6.9 million, net of the related taxation).

Financial assets at fair value through profit or loss (FVTPL) amount to approximately €30.1 billion (€29.7 billion at 31 December 2017) and regard:

- investments included in the Company's separately managed accounts, amounting to €26.0 billion, of which: i) approximately €24.4 billion invested in multi-asset, harmonised open-end funds of the UCITS (Undertakings for Collective Investment in Transferable Securities) type; ii) approximately €1.7 billion in callable bonds; and iii) €0.6 billion in real estate funds;
- financial instruments backing unit- and index-linked policies, totalling €3.2 billion;
- financial receivables of €0.2 billion relating to amounts due from mutual investment funds in the form of units subscribed for and yet to be called up at the end of the period.

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

(€m)

		At 30 June 2018	At 31 December 2017	Increase/(decrease)	
Equity instruments		117.7	57.2	60.5	105.8%
Debt securities		2,202.9	6,767.3	(4,564.4)	(67.4%)
of which:	*government bonds*	1,525.3	2,152.0	(626.8)	(29.1%)
	corporate bonds	677.6	4,615.2	(3,937.6)	(85.3%)
UCITS units		27,427.2	22,513.6	4,913.6	21.8%
Derivatives		135.1	183.7	(48.7)	(26.5%)
Receivables		213.0	209.5	3.4	1.6%
Total		**30,095.8**	**29,731.3**	**364.4**	**1.2%**

As shown in the table below, the performance of the financial markets resulted in the recognition of net unrealised losses of €684.1 million (relating almost entirely to multi-asset, harmonised open-end funds of the UCITS type), compared with net gains of €314.9 million recognised in the same period of 2017, including: i) €669.6 million in net losses on investments included in separately managed accounts and therefore entirely attributable to policyholders through the shadow accounting mechanism; ii) €14.3 million in net losses relating to assets backing unit and index-linked products, which are therefore largely offset by the corresponding revaluation of provisions; and iii) net losses of €0.1 million on securities included in the Company's free capital.

(€m)

	At 30 June 2018	At 30 June 2017	
Income/expenses on FVTPL	**Net gains/losses**	**Net gains/losses**	**Increase/ (decrease)**
Separately managed accounts	(669.6)	250.5	(920.2)
Assets backing unit-/index-linked policies	(14.3)	63.4	(77.8)
Free capital	(0.1)	0.9	(1.1)
Total	**(684.1)**	**314.9**	**(999.0)**

Regarding derivative transactions, at 30 June 2018 the only derivative instruments held include the warrants purchased to hedge the indexed component of certain Class III products. The following table shows the nominal and fair values at 30 June 2018 and the first-half performance for each product compared with the same period of 2017:

(€m)

Warrants	At 30 June 2018				At 31 December 2017		At 30 June 2017	
Policy	Nominal value	Fair value	Realised gains/losses	Unrealised gains/losses	Nominal value	Fair value	Realised gains/losses	Unrealised gains/losses
Alba	-	-	-	-	-	-	1.6	-
Terra	-	-	-	-	-	-	1.3	10.7
Quarzo	-	-	-	-	-	-	1.2	11.0
Titanium	-	-	8.0	-	621	45	0.9	8.4
Arco	165	33	-	(0.6)	165	34	0.5	5.1
Prisma	166	30	-	0.2	166	29	0.4	3.8
6Speciale	200	0	-	-	200	0	-	-
6Aavanti	200	0	-	-	200	0	-	-
6Sereno	173	17	-	(0.5)	173	18	0.2	2.4
Primula	176	16	-	(0.7)	176	17	0.2	2.1
Top5	224	17	-	(1.1)	224	18	0.2	2.6
Top5 edizione II	226	21	-	(1.3)	226	23	0.3	3.4
Total	**1,529**	**135**	**8.0**	**(4.0)**	**2,149**	**184**	**6.8**	**49.5**

The composition of the portfolio according to issuing country is in line with the situation in 2017, being marked by a strong prevalence of Italian government bonds, accounting for 67.1% of the total.

€m

Country	FVTPL	FVOCI	Amortised cost	TOTAL	% weighting
AUSTRALIA	26	406		432	0.3%
AUSTRIA		54		54	0.0%
BELGIUM	10	368	-	378	0.3%
CANADA		72		72	0.1%
DENMARK	1	127		128	0.1%
FINLAND		87		87	0.1%
FRANCE	117	3,142	4	3,263	2.6%
GERMANY	25	594		618	0.5%
JAPAN		22		22	0.0%
IRELAND	213	274		487	0.4%
ITALY	4,382	78,951	1,404	84,737	67.1%
LUXEMBOURG	24,841	282		25,124	19.9%
MEXICO		56		56	0.0%
NORWAY		26		26	0.0%
NEW ZEALAND		3		3	0.0%
NETHERLANDS	55	2,009	2	2,067	1.6%
PORTUGAL		99		99	0.1%
UK	348	1,613		1,961	1.6%
SLOVENIA		-		-	0.0%
SPAIN	44	3,150	8	3,203	2.5%
SWEDEN	4	316		320	0.3%
SWITZERLAND	-	233		233	0.2%
USA	30	2,916		2,946	2.3%
Total	**30,096**	**94,802**	**1,418**	**126,316**	**100.0%**

The distribution of the securities portfolio at 30 June 2018 by duration class is shown below:

€m

Duration	FVTPL	FVOCI	Amortised cost
up to 1	3,206	1,929	-
from 1 to 3	600	15,423	180
from 3 to 5	280	21,436	151
from 5 to 7	251	20,239	372
from 7 to 10	646	9,064	258
from 10 to 15	105	11,474	329
from 15 to 20	670	5,329	108
from 20 to 30	18	9,182	20
over 30	24,320	726	-
Total	**30,096**	**94,802**	**1,418**

Returns on Poste Vita's separately managed accounts, in the specific period under review (from 1 January 2018 to 30 June 2018) are as follows:

Separately managed accounts	Gross return	Average invested capital
	% rate	€m
Posta Valore Più	2.76%	107,948.7
Posta Pensione	3.25%	6,038.1

EQUITY AND SOLVENCY MARGIN

Equity amounts to €3,194.3 million at 30 June 2018, a reduction of €175.1 million compared with the end of 2017. In this respect, the adoption of IFRS 9 from 1 January 2018 has reduced equity overall by €143 million. In particular, the reduction in equity primarily reflects (€139.7 million) the reclassification of securities previously classified as "Available-for-sale" to "Financial assets at amortised cost". The reduction is thus due to the loss of unrealised gains on investments included in the Company's free capital and previously reflected in movements in the AFS reserves.

A comparison of equity at 30 June 2018 with the figure at 31 December 2017, after adjusting for IFRS 9, shows a reduction of €32.1 million. This primarily reflects: i) net profit for the period of €251.9 million; ii) the reduction in the valuation reserve for assets classified as FVTOCI, totalling €46 million; and iii) distribution of retained earnings of €237.8 million to the shareholder, Poste Italiane, in implementation of the shareholder resolution of 22 June 2018. Changes in equity during the period are shown below:

Patrimonio netto

(€m)	At 31 December 2017	Effects of IFRS 9 transition at 1 January 2018	Equity at 1 January 2018	Appropriation of net profit for 2017	Distribution of retained earnings	ECL reserve	FVTOCI reserve	Other gains and losses recognised directly through equity	Net profit for first half of 2018	At 30 June 2018
Share capital	**1,216.6**		**1,216.6**							**1,216.6**
Revenue reserves and other equity reserves:	**1,427.7**	**(3.3)**	**1,424.4**							**1,732.8**
Legal reserve	120.5		120.5	21.8						142.3
Extraordinary reserve	0.6		0.6							0.6
Organisation fund	2.6		2.6							2.6
Negative goodwill	0.4		0.4							0.4
Retained earnings	1,303.6	(3.3)	1,300.3	524.4	(237.8)					1,586.9
of which Retained earnings	1,303.6		1,303.6		(237.8)					1,065.8
of which FTA reserve		(3.3)	(3.3)							(3.3)
Reserve for FVTOCI financial assets	**178.9**	**(139.7)**	**39.2**			**(0.2)**	**(46.0)**			**(7.0)**
of which AFS/FVTOCI reserve	178.9	(140.7)	38.2				(46.0)			(7.7)
of which ECL reserve		1.0	1.0			(0.2)				0.8
Other gains and losses recognised directly through equity	**(0.1)**		**(0.1)**					**0.0**		**(0.1)**
Net profit	**546.2**		**546.2**	**(546.2)**					**251.9**	**251.9**
Total	**3,369.4**	**(143.0)**	**3,226.4**	**(0.0)**	**(237.8)**	**(0.2)**	**(46.0)**	**0.0**	**251.9**	**3,194.3**

In addition, the **subordinated debt** issued at 30 June 2018 amounts to €1,000 million (€1,000 million at 31 December 2017), including:

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

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

With regard to the Poste Vita Insurance Group's **solvency margin** at 30 June 2018, own funds qualifying for inclusion total €7,306 million, down €1,216 million compared with €8,522 million at the end of 2017.

In contrast, capital requirements rose significantly in the first half, increasing by approximately €896 million (from €3,050 million at the end of 2017 to €3,946 million at 30 June 2018).

The reduction in the solvency ratio primarily reflects financial market trends which, from May 2018, have had a negative impact on the fair value of the financial assets held by the Company. In addition, the increase in the spread, together with the increase in premium revenue, has caused a sharp rise in capital requirements compared with 31 December 2017, primarily reflecting technical and market risks.

As a result of the above trends, the Group's solvency ratio fell sharply in the second quarter 2018 (from 279% at 31 December 2017 to 185% in June 2018), whilst remaining above the regulatory requirement.

OPERATING RESULTS

The reclassified income statement by type of business for the six months ended 30 June 2018 is shown below, compared with the same period of 2017:

Life business

RECLASSIFIED INCOME STATEMENT				(€m)
for the six months ended 30 June	Life business			
	2018	2017	Increase/(decrease)	
Net premium revenue	**8,813.8**	**11,048.9**	**(2,235.1)**	**(20%)**
Gross premium revenue	*8,820.5*	11,057.8	(2,237.3)	(20%)
Outward reinsurance premiums	*(6.7)*	(8.9)	2.2	(25%)
Fee and commission income	**8.7**	**4.6**	**4.1**	**89%**
Net finance income from assets related to traditional products	**901.6**	**1,715.5**	**(813.9)**	**(47%)**
Income	*1,415.9*	1,367.0	48.9	4%
Realised gains and losses	*155.3*	97.9	57.4	59%
Unrealised gains and losses	*(669.6)*	250.6	(920.2)	(367%)
Net finance income from assets related to index- and unit-linked products	**(18.4)**	**69.9**	**(88.3)**	**(126%)**
Net change in technical provisions	**(9,071.4)**	**(12,165.6)**	**3,094.2**	**(25%)**
Claims paid	*(3,956.9)*	(5,137.7)	*1,180.7*	(23%)
Change in technical provisions	*(5,118.3)*	(7,036.3)	*1,917.9*	(27%)
Share attributable to reinsurers	*3.9*	8.3	*(4.5)*	(54%)
Investment management expenses	**(22.3)**	**(19.9)**	**(2.4)**	**12%**
Acquisition and administrative costs	**(265.5)**	**(288.0)**	**22.5**	**(8%)**
Net commissions and other acquisition costs	*(223.7)*	(243.5)	*19.9*	(8%)
Operating costs	*(41.8)*	(44.5)	*2.7*	(6%)
Other revenues/(costs), net	**(17.4)**	**(32.3)**	**14.9**	**(46%)**
GROSS OPERATING PROFIT	**329.1**	**333.1**	**(3.9)**	**(1%)**
Interest expense on subordinated debt	(15.1)	(13.6)	(1.5)	11%
PROFIT BEFORE TAX	**357.4**	**350.0**	**7.5**	**2%**
Income tax expense	(128.8)	(129.6)	0.8	(1%)
NET PROFIT	**228.6**	**220.4**	**8.2**	**4%**

Premium revenue for the first half of 2018, net of outward reinsurance premiums, amounts to €8,813.8 million, down 20% on the €11,048.9 million of the same period of 2017.

In terms of income from investments, **net finance income from securities related to traditional products** in the period totals €901.6 million, down €813.9 million compared with the figure for 2017. The negative performance of financial markets, linked to the increase in the spread, resulted in net unrealised losses in the first half of €669.6 million, compared with net unrealised gains of €250.6 million in the same period of 2017. These are, however, net losses on investments included in separately managed accounts and therefore entirely attributable to policyholders through the shadow accounting mechanism.

As a result of the impact of financial market volatility, **investments linked to index- and unit-linked products** produced net finance costs of approximately €18.4 million in the first half of 2018, compared with finance income of €69.9 million in the same period of 2017. This amount is almost entirely matched by a corresponding change in technical provisions.

Fee and commission income from the management of internal funds linked to unit-linked products amounts to €8.7 million, up €4.1 million compared with the figure for the first half of 2017 (€4.6 million) as a result of the increase in assets under management.

As a result of the above operating performance and the corresponding revaluation of insurance liabilities due to the positive financial performance, the matching **change in technical provisions for the life business**, after the portion ceded to reinsurers, amounts to €5,118.3 million at the end of the first half of 2018, compared with €7,036.3 million for the same period of 2017.

Claims paid to customers during the period amount to approximately €3,956.9 million, down on the €5,137.7 million of the same period of 2017, primarily reflecting a reduction in expirations in the first six months of 2018. Surrender costs total approximately €1,728.2 million, up 12.2% on the figure for the same period of 2017, when these costs totalled €1,540.5 million. The costs represent a 3.1% share of initial provisions (3.0% at 30 June 2017). This continues to be well below the industry average (compared with the latest figure of 6.96% published on ANIA's website for 31 March 2018). After taking into account the portion ceded to reinsurers, amounting to €3.9 million, the **net change in technical provisions** is €9,071.4 million at the end of the period, compared with €12,165.6 million for the same period of 2017.

Total **commissions** paid for distribution, collection and portfolio maintenance services amount to approximately €224.1 million (on an accruals basis, the amount for the period totals €224.5 million, reflecting the amortisation of prepaid commissions on the sale of pension products). This figure accounts for around 2.2% of earned premiums and is in line with the figure for the same period of 2017. After the commissions received from reinsurers, the figure is €223.7 million, compared with the €243.5 million recognised at 30 June 2017, reflecting the reduction in premium revenue during the first six months of 2018.

With regard to organisational aspects, the period witnessed a reduction in the cost of consultants' fees and of external professionals. This resulted in **operating costs** of approximately €41.8 million in the first half of 2018, down from the €44.5 million of the first half of 2017.

The above performance has resulted in **EBITDA** for the period of €329.1 million, broadly in line with the €333.1 million of the same period of 2017.

As noted above, the **investment of free capital** generated net finance income of €43.4 million, primarily in the form of ordinary income. This is up on the figure for the same period of 2017 (€30.5 million) due to the recognition of higher unrealised losses in 2017, mainly in relation to the impairment loss of approximately €12.1 million on the investment in the Atlante fund.

€m

Income from free capital in the six months ended 30 June	**2018**	**2017**	**Increase/ (decrease)**
Ordinary income	38.7	39.0	(0.2)
Realised gains/losses	4.8	2.8	2.0
Unrealised gains/losses	(0.1)	(11.3)	11.1
Total	**43.4**	**30.5**	**12.9**

Interest expense on subordinated debt amounts to €15.1 million for the first half of 2018 (€13.6 million in the first half of 2017). This relates to interest paid during the period on subordinated loan notes subscribed for by the parent, totalling €2.7 million, and a further €11.4 million paid to the subscribers of subordinated bonds issued by the Company.

As a result, **pre-tax profit for the period** amounts to €357.4 million, up on the €350 million of the same period of 2017. After tax, **net profit** amounts to €228.6 million (€220.4 million for the first half of 2017).

Non-life business

RECLASSIFIED INCOME STATEMENT				(€m)
for the six months ended 30 June	Non-life business			
	2018	2017	Increase/(decrease)	
Net premium revenue	**61.7**	**49.0**	**12.7**	**26%**
Gross premium revenue	*81.6*	64.7	16.9	26%
Outward reinsurance premiums	*(19.9)*	(15.8)	(4.1)	26%
Net financial income from assets related to traditional products	**2.1**	**2.0**	**(1.4)**	**(73%)**
Net change in technical provisions	**(14.4)**	**(14.2)**	**(0.3)**	**2%**
Claims paid	*(17.5)*	(12.0)	*(5.5)*	*46%*
Change in technical provisions	*(5.6)*	(8.3)	*2.7*	(33%)
Share attributable to reinsurers	*8.6*	6.1	*2.5*	*41%*
Investment management expenses	**(0.2)**	**(0.2)**	**0.0**	**(7%)**
Acquisition and administrative costs	**(20.2)**	**(19.9)**	**(0.4)**	**2%**
Net commissions and other acquisition costs	*(9.3)*	(6.4)	*(3.0)*	*46%*
Operating costs	*(10.9)*	(13.5)	*2.6*	(19%)
Other revenues/(costs), net	**3.8**	**2.8**	**0.9**	**33%**
PROFIT BEFORE TAX	**32.7**	**19.5**	**11.6**	**59%**
Income tax expense	**(9.3)**	**(5.3)**	**(4.0)**	**76%**
NET PROFIT	**23.4**	**14.2**	**7.6**	**53%**

Gross premium revenue in the Non-life business, generated by policies sold in the period under review, totals approximately €81.6 million (up 26% on the figure for the same period of 2017). After outward reinsurance premiums, **net premium revenue** amounts to approximately €61.7 million, compared with €49 million in the same period of 2017.

During the period, **claims expenses**, inclusive of settlement costs and direct costs, amounted to €17.5 million, compared with the €12 million of the first half of 2017. The **change in technical provisions**, inclusive of provisions for late lodgements, totals €5.6 million for the period, compared with €8.3 million for the same period of 2017. As a result of the operating performance and the above trends relating to claims, the overall loss ratio is down from 31.3% in the first half of 2017 to the current 28.2%.

Considering the reinsurers' share of €8.6 million, the **net change in technical provisions** amounts to €14.4 million at the end of the period, compared with €14.2 million for the same period of 2017.

Commissions paid for distribution and collection activities amount to approximately €17.1 million. After commissions received from reinsurers and the impact of amortisation for the period, commissions amount to €9.3 million, up on the €6.4 million of the first six months of 2017 as a result of the growth in premium revenue.

Operating costs for the period amount to approximately €10.9 million, a reduction of 19% compared with the same period of 2017 (€13.5 million), primarily due to completion of the amortisation of the "PASS" operating system in November 2017. Operating costs primarily regard personnel expenses, commercial expenses and IT costs.

Net finance income, resulting from a prudent policy that aims to safeguard the Group's financial strength, amounts to €2.1 million despite less than favourable market conditions. This is slightly up on the figure for the first half of 2017 (€1.9 million) as a result of the growth of the portfolio and is almost entirely attributable to ordinary income.

Net other income of €3.8 million at the end of the first half of 2018 compares with €2.8 million for the first six months of 2017. This primarily consists of revenue from ordinary activities, totalling €5.1 million, generated by the subsidiary, Poste Welfare Servizi, during the period and the reversal of commissions for previous years, totalling €0.6 million, after the reversal of premium revenue for previous years, amounting to €2.0 million.

This performance has resulted in **EBITDA for the period** of €32.7 million, marking a significant increase compared with the €19.5 million of the first half of 2017. After tax, **net profit** of €23.4 million is up from €14.2 million for the first half of 2017.

ORGANISATION OF THE POSTE VITA GROUP

Corporate governance

This paragraph also represents the Report on Corporate Governance required by art. 123-*bis* of Legislative Decree 58/1998 (the Consolidated Law on Finance), as for as it extends to information required under paragraph 2, sub-paragraph b. The governance model adopted by the Parent Company, Poste Vita, is "traditional", i.e. characterized by the traditional dichotomy between the Board of Directors and the Board of Statutory Auditors. The Board of Directors, elected by the General Meeting of shareholders held on 19 June 2017, has a term of office of three years, which will expire on the date of approval of the financial statements for the year ended 31 December 2019. The Board has seven members, two of which are independent. It is currently necessary to elect a new Board member pursuant to art. 2386 of the Italian Civil Code, following the resignation of a Director.

The Board of Directors, as described above, meets periodically to review and adopt resolutions on strategy, operations, results, and proposals regarding the operational structure, strategic transactions and any other obligations under current industry legislation. This body thus has a central role in defining the strategic objectives and the policies needed to achieve them. The Board of Directors is responsible for managing corporate risks and approves the strategic plans and policies to be pursued. It promotes the culture of control and ensures its dissemination to the various levels within the organisation.

The Chairwoman is vested with the authority provided for by the articles of association and those conferred by the Board of Directors at the meeting of 19 June 2017. At the same meeting, the General Manager was appointed and vested with the relevant authority. Later, at the meeting held on 26 July 2017, it was decided to create a General Manager's Office to assume responsibility for the activities previously carried out by the Insurance Office, Marketing and Sales and the Operating Office. At the same Board of Directors' meeting, the Chief Executive Officer was appointed and vested with the authority to manage the Company, with the exception of the powers reserved for the Board of Directors. The Chief Executive Officer also has the power to represent the Company.

The Board of Directors has established a Remuneration Committee, the composition of which again changed following the re-election of Directors in June 2017. The Committee has an advisory role and makes recommendations to the Board regarding remuneration policies and and the remuneration of executive Directors. The Committee also assesses whether or not the remuneration paid to each executive Director is proportionate to that paid to other executive Directors and the Group's other personnel.

On 19 June 2017, the Internal Audit and Related Party Transactions Committee was also re-elected, with the role of assisting the Board of Directors in determining internal control system guidelines, in assessing the system's adequacy and effective functionality, and in identifying and managing the principal business risks.

The Board of Statutory Auditors, elected by the General Meeting of shareholders held on 19 June 2017, is made up of 3 standing members and 2 alternates appointed by the shareholders. Pursuant to art. 2403 of the Italian Civil Code, the Board of Statutory Auditors monitors compliance with the law and the articles of association and with good practices and, in particular, the adequacy of the organizational, administrative and accounting structure adopted by the Company and its functionality.

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

The Parent Company, Poste Vita, also has a system of procedural and technical rules that ensure consistent corporate governance through the coordinated management of the decision-making process regarding aspects, issues and activities of interest and/or of strategic importance, or that might give rise to significant risks for its assets. The governance system is further enhanced by a series of committees with the role of guiding and controlling corporate policies on strategic issues.

In particular, the following committees have been established: (i) an Executive Committee, with responsibility for overseeing the operating performance with respect to the budget, as well as progress in implementing the Group's key projects, and for assessing and discussing key, Group-wide issues in order to support the Chief Executive Officer's decision-making and provide guidance for the functions responsible for achieving the companies' objectives. A Solvency II Assessment Sub-committee has also been set up within the Executive Committee. The Sub-committee is responsible for analysing and evaluating the results produced by the assessment models and their performance, in order to provide support for business planning and capital and solvency management. Support for the Sub-committee is also provided by the Methodology, Assumptions and Scenarios Committee, which is responsible for analysing and proposing the methods, assumptions and criteria to be used in assessment processes; for scenario assessment and the stress tests to be carried out for the various purposes and for expert judgements where required; and for assessing compliance with Data Quality policies and procedures; (ii) an Insurance Products Committee, with responsibility for analysing proposals regarding insurance product offerings, the pricing of such products and the related technical and financial characteristics, assessing their ability to meet the needs of customers and the relevant market; assessing reinsurance strategies for new products based on an assessment of the related risk-return profile and degree of capital absorption; assessing the technical and profit performance and risk limits for product portfolios, analysing any critical issues and devising the necessary corrective action; and monitoring the sales performance and the characteristics of the products offered with respect to changes in the market; (iii) a Crisis Management Committee, responsible for managing crisis situations arising in connection with the Company's information system, to ensure business continuity in the event of unexpected, exceptional events. The Committee operates in accordance with the policies established for the areas of interest by the parent, Poste Italiane; (iv) an Investment Committee, which plays a role in defining the investment policy, the strategic and tactical asset allocation policy and its monitoring over time. Responsibility for issues regarding real estate investments, which also fall under the purview of the Investment Committee, has been assigned to a Real Estate Investment Committee with responsibility for providing a prior opinion on such issues; and finally (v) in the year under review, a Procurement Committee has been set up with responsibility for selecting suppliers for the provision of key goods and services with a value of over €100,000 per individual contract.

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

Internal control system

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

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

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

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

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

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

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

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

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

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

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

The Compliance unit guarantees organisational and procedural adequacy to prevent the risk of non-compliance with regulations, as per the Compliance Policy.

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

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

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

Organizational structure and personnel

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

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

The Poste Vita Insurance Group employs a total of 551 people at 30 June 2018, compared with 535 at 31 December 2017.

Workforce breakdown	At 30 June 2018	At 31 December 2017	Increase/ (decrease)
Executives	39	36	3
Middle managers	193	191	2
Operational staff	311	302	9
Personnel on fixed-term contracts	8	6	2
Direct employees	**551**	**535**	**16**

The programme launched in the second half of 2017, designed to exploit existing expertise within the Poste Italiane Group with the aim of encouraging internal mobility, was strengthened in the first half. The staff hired during the period were primarily recruited to provide support for the business and for new and ongoing projects, partly with a view to strengthening technical and specialist expertise and partly in order to boost governance.

In addition, the Poste Vita Group's staff and management training initiatives not only aimed to update and develop the technical skills of its staff, but also to enrich the Group's human capital.

In this sense, and in addition to obligatory training (Consolidated Law 81/08 on Occupational Safety, the new European Data Protection legislation or GDPR 2016/679), in the first half of the year, a total of 1,930 hours of training and refresher courses specialising in insurance matters was provided (focusing particularly on regulatory issues and on new Non-life and risk protection products and Life and Savings products). Finally, in line with previous years and with the support of the Corporate University, close attention was given to developing shared technical expertise (e.g. in relation to information technology) and management skills among the Group's personnel, with approximately

485 hours of training provided, including through innovative management training initiatives (e.g. a hackathon and mentoring).

RELATIONS WITH THE PARENT AND OTHER POSTE ITALIANE GROUP COMPANIES

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

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

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

Furthermore, at 30 June 2018, subordinated loan notes, totalling €250 million, issued by the Company, have been subscribed for by the parent, Poste Italiane SpA. The notes provide a market rate of return reflecting the Company's creditworthiness.

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

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

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

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

- management of the Company's free capital and of a part of the portfolio investments attributable to separately managed accounts (Bancoposta Fondi SGR, Anima SGR);
- printing, enveloping and mail delivery through information systems; management of incoming mail, the dematerialization and filing of printed documentation (Postel);

- mobile telephone services (Poste Mobile);
- advice on obligations pertaining to occupational health and safety (Poste Tutela);
- Term Life Insurance policies (Postel, EGI, Poste Mobile, Mistral Air, Poste Tributi and Bancoposta Fondi SGR);
- the supply of electricity (EGI).

These transactions are also conducted on an arm’s length basis.

OTHER INFORMATION

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

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

Related party transactions

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

At 30 June 2018, the Poste Vita Group holds bonds issued by Cassa Depositi e Prestiti with a total fair value of €1,643.0 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.

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

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.

Disputes involving the subsidiary, Poste Assicura, primarily regard contested claims on Home, Accident and Condominium policies.

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 serial claims on accident and home/householder insurance policies where fraud is suspected. The company is taking the appropriate initiatives.

Principal proceedings pending and relations with the authorities

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

On 20 March 2017, IVASS began an inspection of the Parent Company, Poste Vita, pursuant to art. 189 of the *Codice delle Assicurazioni Private* (the Private Insurance Code - Legislative Decree 209 of 7 September 2005). The inspection, which came to an end on 28 June 2017, regarded "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". Poste Vita provided the documentation requested. On 27 September 2017, IVASS sent the Parent Company, Poste Vita, the results of its inspection of the Company.

The regulator did not identify any specific shortcomings on the part of the Company, finding that the degree of implementation of the Solvency II framework was satisfactory overall and issuing a partially favourably opinion, making a number of points and observations. On 25 October 2017 the company submitted its considerations regarding the investigations and corrective measures required by the inspection report to IVASS, and planned a series of activities aimed at implementing the improvement initiatives recommended by the regulator. To date, Poste Vita's implementation of the planned actions is on schedule.

Two proceedings 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 claims beyond the term provided for in the related contracts, are pending at 30 June 2018.

In addition, an injunction obtained by IVASS in order to settle a proceeding was notified on 1 June 2018. The proceeding regarded the above violation of art. 183, paragraph 1.a) of the CAP.

In a Letter to the Market dated 29 December 2017, IVASS asked the boards of directors of undertakings to adopt an action plan designed to protect customers by 1 April 2018. The plan was to indicate initiatives to be put in place in order to reduce the number of potentially dormant policies. To this end, the regulator recommends a series of actions from which undertakings are required to select those to be included in their plan, based on the specific nature of their business and distribution structure. The plan was to be submitted to the regulator by 30 April 2018 and implemented by 30 September 2018.

In this regard, on 27 March 2018, the Board of Directors of the Parent Company, Poste Vita, approved an action plan (submitted to IVASS on 19 April 2018) and is in the process of implementing it, reporting on the initiatives that it intends to take in order to ascertain whether or not the insured person is alive or deceased and to identify any potential beneficiaries.

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 conducted in 2015 and 2016, in relation to money laundering prevention as per art. 47 and art. 53, paragraph 4, of Legislative Decree 231 of 2007. On 8 July 2016, the UIF sent Poste Vita a notice of assessment and violation, alleging the Company's failure to promptly report suspect transactions (regarding transactions relating to a single policy) pursuant to art. 41 of Legislative Decree 231/2007. The violation in question may result in a fine of up to €0.4 million.

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

b) 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 Poste Vita 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 have challenged such rulings by filing an appeal. The Regional Tax Tribunal of Rome has rejected all the appeals and confirmed the lack of grounds for the claims against Poste Vita. The litigation is currently pending before the Court of Cassation. 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.

Regulatory developments

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

- On 3 July 2018, IVASS issued Regulation 38 - This Regulation contains provisions regarding the corporate governance system for both undertakings and groups, in implementation of the articles from 29-*bis* to 30-*septies* and article 215-*bis* of Legislative Decree 209/2005, as amended by Legislative Decree 74/2015, implementing EU Directive 2009/138/EC (the Solvency II Directive) and articles 258-275 of Delegated Regulation (EU) 35/2015 (the "Delegated acts"). The new regulations implement the EIOPA guidelines on corporate governance and, where compatible with the new primary regulations, also apply the provisions of ISVAP Regulation 20 of 26 March 2008, containing provisions regarding internal controls, risk management, compliance and outsourcing, ISVAP Regulation 39 of 9 June 2011 regarding remuneration policies, and ISVAP Circular 574/2005 relating to passive reinsurance, which have therefore been repealed (from the date of entry into force of the Regulation, the above Circular applies only to the local undertakings referred to in Title IV, Chapter II of the Private Insurance Code). The provisions in the Regulation should be interpreted alongside the Letter to the Market dated 5 July 2018, in which the regulator puts forward the first concrete attempt to apply the principle of proportionality, in line with the Solvency II standards, which call for prudential provisions to be applied on the basis of the risk profile of the undertaking, determined with respect to the nature, significance and complexity of its business risks.
- On 2 August 2018, IVASS issued Regulation 39 - This Regulation redefines the procedure for imposing administrative sanctions by IVASS and follows on from an overall revision of the structure of sanctions in the Private Insurance Code (Title XVIII) contained in Legislative Decree 68 of 21 May 2018, issued in implementation of EU Directive 2016/97 on insurance distribution (the "IDD"), and Legislative Decree 90 of 25 May 2017, which amended Legislative Decree 231 of 21 November 2007, regarding measures designed to prevent use of the financial system for money laundering or to finance terrorism. The new regulations apply to violations committed from 1 October 2018. For violations committed before this date, the previous arrangements contained in IVASS regulations 1/2013 and 2/2013 (respectively regarding financial and disciplinary sanctions for intermediaries) will continue to apply.
- On 2 August 2018, IVASS issued Regulation 42 - This Regulation was issued in implementation of articles 47-*septies*, paragraphs 7 and 191, paragraph 1.b), points 2 and 3 of Legislative Decree 209 of 7 September 2005 containing the Private Insurance Code (the "Code"). It sets out the disclosures to be included in solvency and financial condition reports ("SFCRs") by undertakings and groups. The Regulation also establishes that the disclosures must be subject to an external audit by independent or statutory auditors and sets out the form that the audits must take. The above Regulation primarily aims to boost the confidence of potential users of the reports with regard to the quality and reliability of a major part of the disclosures contained in an SFCR.
- On 14 February 2018, IVASS issued Ruling 68, containing amendments to ISVAP Regulation 38 of 3 June 2011, concerning the establishment and administration of separately managed accounts by life insurance undertakings pursuant to article 191, paragraph 1.e) of Legislative

Decree 209 of 7 September 2005 – the private insurance code; amendments and additions to ISVAP Regulation 22 of 4 April 2008, concerning provisions and formats for the preparation of annual financial statements and half-year reports by insurance and reinsurance undertakings, as referred to in Title viii (financial statements and accounting records), Chapter i (general provisions on financial statements), Chapter ii (financial statements) and Chapter v (statutory audits of the accounts) in Legislative Decree 209 of 7 September 2005 – the private insurance code; containing amendments and additions to ISVAP Regulation 14 of 18 February 2008, concerning the definition of the procedures for the approval of changes to the articles of association and to the scheme of operations, for the authorisation of the portfolio transfers and mergers and demergers, as referred to in Chapter xiv of Legislative Decree 209 of 7 September 2005 – the Code.

- Letter to the market of 12 January 2018, concerning the outcome of comparative analysis of Own Risk and Solvency Assessment (ORSA) reports. In view of the significance of ORSA reports, IVASS has conducted a comparative analysis of the reports submitted, taking into account the additional disclosures required by the letter to the market of 21 April 2017, regarding the impact on capital and solvency ratios of low interest rates and increased credit spreads on financial assets. The key results of the analysis are set out in the document attached to the letter in question, together with areas for improvement and the regulator's expectations. In brief, whilst acknowledging qualitative improvements with respect to previous years, as well as the greater accuracy of the method used and increased awareness of the central importance of the ORSA process in the management of undertakings, the comparative analysis of the reports for 2016 have indicated a need for an overall strengthening of the ORSA for Solvency II purposes, considering it to be an essential management tool.
- Letter to the market of 19 March 2018 – In this Letter, IVASS announced, in connection with pillar 3 of the Solvency II Directive, the main requirements for insurance undertakings in relation to quarterly and annual filings. The Letter to the market of 28 March 2018 then announced the results of the regulator's comparative analysis of the new requirements for reporting to the regulator and the market introduced by the Solvency II framework. The latter also indicates aspects where the regulator expects to see an improvement, starting with the reports for 2017. The areas for improvement are broadly similar to those identified in the reports submitted by other European undertakings, as described in the comparative analyses conducted by EIOPA and other national regulators.
- Letter to the market of 5 June 2018 – In this Letter, IVASS announced the outcome of its study of the methods for calculating technical provisions for life insurance contracts (best estimates of liabilities). The study has highlighted the need to strengthen the processes underlying the application of both general principles and the application rules for the calculation of technical provisions.
- Letter to the market of 5 July 2018 - In line with the Solvency II standards, which call for prudential provisions to be applied on the basis of the risk profile of the undertaking or group, determined with respect to the nature, significance and complexity of its business risks, the regulator has identified the need to make the undertakings in question aware of its expectations regarding the structure of governance arrangements designed to ensure sound and prudent management. This letter to the market sets out the self-assessment process that IVASS expects undertakings to follow in identifying the most appropriate corporate governance system. An individual

undertaking's system may be "enhanced", "ordinary" or "simplified". The system adopted by Italian ultimate parents it may be "enhanced", "ordinary" or "simplified". In the case of Italian ultimate parents, given the complexity inherent in managing groups on an integrated basis, the corporate governance system may be either "enhanced" or "ordinary". The decisions made by undertakings on the basis of the process recommended in this letter must be reasoned, formalised and communicated to IVASS as part of the disclosures made to the regulator. Solvency and financial condition reports must also include information on the chosen governance system, with regard to the disclosures required by paragraphs 2, 3 and 4 of the letter.

Accounting standards and interpretations soon to be effective

The following are applicable from 1 January 2019:

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

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

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

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

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

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

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

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

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

- IFRS 17 - *Insurance Contracts*;
- Interpretation IFRIC 23 - *Uncertainty over Income Tax Treatments*;

- Amendments to IAS 28: *Long-term Interests in Associates and Joint Ventures*;
- Annual improvements cycle in relation to IFRS 2015 - 2017;
- Amendments to IAS 19: *Plan Amendment, Curtailment or Settlement*.
- Amendments to the *Conceptual Framework* for IFRS.

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

EVENTS AFTER 30 JUNE 2018

No material events have occurred after the end of the reporting period.

OUTLOOK

As indicated in the strategic plan for the five-year period (2018-2022), approved by the Board of Directors of the Parent Company, Poste Vita, on 14 February 2018, the Insurance Group intends to maintain its leadership in the life insurance business, by providing customers with the best products in the current economic and market environment, strengthening its pension fund offering, and continuing to develop private pension plans, an area in which the Group is already the market leader.

In the non-life sector, the objective will be to pursue rapid growth in the accident, welfare and non-vehicle non-life sectors.

In addition, the Group aims to achieve synergies with the full range of the Poste Italiane Group's products, enabling adoption of a strategic approach to financial services at Group level and the achievement of sustainable business growth, encompassing the prudent management of capital.

Income statement

for the six months ended 30 June

(€m)		2018	2017
1.1	Net premium revenue	8,876	11,098
1.1.1	Gross premium revenue	8,902	11,122
1.1.2	Outward reinsurance premiums	(27)	(25)
1.2	Fee and commission income	9	5
1.3	Net income (expenses) from financial assets at fair value through profit or loss	(513)	486
1.3 *bis*	Reclassification in accordance with overlay approach (*)	-	0
1.4	Income from investments in subsidiaries, associates and joint ventures	0	0
1.5	Income from other financial instruments and investment property	1,446	1,402
1.5.1	Interest income	1,275	1,222
1.5.2	Other income	-	11
1.5.3	Realised gains	165	169
1.5.4	Unrealised gains	6	0
1.6	Other income	7	7
1	**TOTAL REVENUE**	**9,824**	**12,997**
2.1	Net claims expenses	(9,086)	(12,180)
2.1.1	Claims paid and change in technical provisions	(9,098)	(12,194)
2.1.2	Share attributable to reinsurers	12	14
2.2	Commission expenses	(0)	0
2.3	Expenses arising from investments in subsidiaries, associates and joint ventures	-	0
2.4	Expenses arising from other financial instruments and investment property	(19)	(84)
2.4.1	Interest expense	(15)	(14)
2.4.2	Other expenses	(2)	(3)
2.4.3	Realised losses	(2)	(66)
2.4.4	Unrealised losses	-	0
2.5	Operating costs	(279)	(305)
2.5.1	Commissions and other acquisition costs	(225)	(253)
2.5.2	Investment management expenses	(22)	(20)
2.5.3	Other administrative expenses	(33)	(32)
2.6	Other costs	(49)	(59)
2	**TOTAL COSTS AND EXPENSES**	**(9,434)**	**(12,628)**
	PROFIT/(LOSS) BEFORE TAX	**390**	**369**
3	Income tax expense	(138)	(135)
	PROFIT/(LOSS) FOR THE PERIOD AFTER TAX	252	235
	PROFIT/(LOSS) FROM DISCONTINUED OPERATIONS	-	0
4	**CONSOLIDATED NET PROFIT/(LOSS)**	**252**	**235**
	of which attributable to owners of the Parent	252	235
	of which attributable to non-controlling interests	-	-

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

Rome, 24 September 2018

The Board of Directors