Solvency II – Solvency and financial condition report of Poste Vita Group as of 31 December 2017

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Summary and objectives of this report

This “Solvency and financial condition report” is the annual public disclosure of the Poste Vita S.p.A. Group for 2017, within the scope of Solvency II, provided for by Chapter XII of Delegated Regulation (EU) no. 2015/35 and by IVASS Regulation no. 33 of 6 December 2016, which introduces supplementary provisions to the content of this report.

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

In addition, the report is accompanied by the reports of the auditing firm on the following information contained herein:

- Balance sheet at current market value, as represented by template “S.02.01.02 Balance sheet” (excluding the rows with the Risk Margin amounts) and related information in section “D Valuation for solvency purposes”;
- Own funds, as represented by template “S.23.01.22” (except the Solvency capital requirement and the Minimum consolidated capital requirement) and the related information in section “E.1 Own funds”.

The Board of Directors of the Poste Vita S.p.A. Group, in accordance with the provisions of the Supervision Authority, approved the appointment of PricewaterhouseCoopers S.p.A. as independent auditor.

Lastly, attached herewith are all the quantitative reporting templates provided for by article 4 of the Implementing Regulation (EU) 2015/2542.

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

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

- Section A illustrates the Group’s activity, its composition and the underwriting and investment performance for the year.
- Section B provides an overview of the system of governance, including the requirements of the management and control bodies, as well as a description of the Group’s Control Functions.
- Section C analyses the risks to which the Poste Vita Group is exposed, and the related assessment methods, with a description of the main mitigation techniques and the results of stress tests.
- Section D illustrates the valuation methods adopted to value assets and liabilities (including BEL and Risk Margin) for Solvency II purposes as opposed to local GAAP.

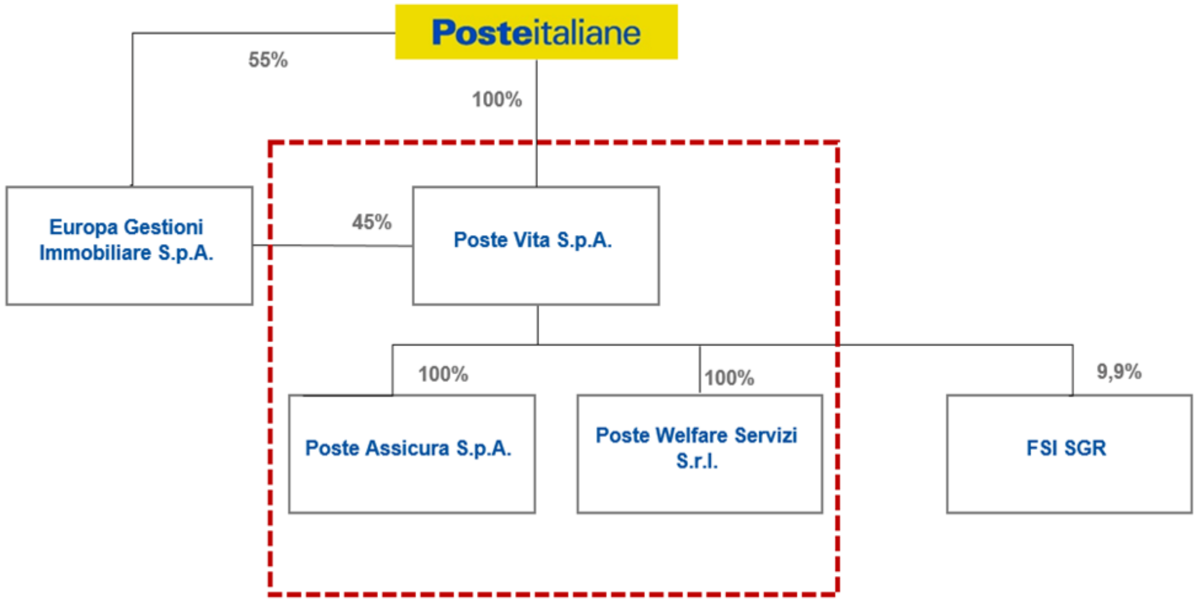
- Section E focuses on the representation of the Group's solvency, providing information on the composition and classification of own funds and on the single risk sub-modules of the Solvency Capital Requirement (SCR).

Pursuant to article 55, paragraph 2 of the Solvency II Directive, the "Solvency and financial condition report" of the Poste Vita S.p.A. Group has been approved by the company's Board of Directors on 30 May 2018.

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

A – BUSINESS AND PERFORMANCE

The Poste Vita Group operates in the life and non-life insurance sectors, and has a leading positioning in the life sector and a growth strategy in the non-life sector.
The insurance group's current structure and scope of consolidation are briefly described below:



The scope of consolidation includes Poste Assicura SpA, an insurance company wholly owned by the Parent Company, Poste Vita, founded in 2010 to provide non-life insurance, excluding motor insurance, the Group's 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 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 bases, but with the equity method.

Qualitative and quantitative information on significant intercompany transactions

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

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

Revenue refers mainly to recoveries for seconded employees (€145 thousand) and premiums for the Term Life Policy sold to Poste Italiane (€195 thousand).

Expenses concern mainly interest accrued on subordinated loans (€4,463 thousand), mail delivery services rendered by Poste Italiane (€6,423 thousand), Call Centre services (€1,310 thousand), software maintenance (€437 thousand), fees related to staff seconded to Poste Vita (€1,032 thousand), other employee expenses (€294 thousand) and costs related to commissions on insurance products placed by the network during the year (€460,423 thousand).

The Parent Company, Poste Vita, generated revenue from the subsidiary Poste Assicura S.p.A., on the bases of arm's length transactions, in relation to: i) recoveries for seconded staff in the amount of €647 thousand; ii) charge-back of costs related to the Supervisory Board for €4 thousand and costs of the Board of Directors (€33 thousand) and iii) recovery of costs for services rendered to Poste Assicura for €2,627 thousand and related mainly to:

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

The Parent Company, Poste Vita, incurred expenses with the subsidiary Poste Assicura S.p.A. for seconded staff in the amount of €591 thousand.

In addition to dealings with its own Parent Company, Poste Italiane, and Poste Assicura, Poste Vita had intercompany dealings with Poste Welfare Servizi, generating revenue, in particular with the recovery of costs related to the Board of Directors for €28 thousand, the recovery of costs for seconded staff in the amount of €155 thousand and the recovery of costs for services rendered for €443 thousand.

The Parent Company, Poste Vita, engages in intercompany dealings also with EGI, its associated company, with premiums collected for a Term Life Policy in the amount of approximately €0.3 thousand and costs of €224 thousand for electricity purchases.

In addition to dealings with its Parent Company and its Poste Assicura subsidiary, Poste Vita has dealings also with other Poste Italiane Group companies, with regards to:

- management of the Company's free capital and of part of the assets of separately managed accounts (Bancoposta Fondi SGR and Anima SGR);
- printing, enveloping and mail delivery through information systems; management of incoming mail, the dematerialization and filing of printed documentation (Postel);
- services related to network connections with Poste Italiane's post offices (Postecom)[1];
- mobile telephone services (Poste Mobile);
- consulting on obligations pertaining to occupational health and safety (Poste Tutela);
- Term Life Policies (Postel, Poste Mobile, Mistral Air, Poste Tributi and Bancoposta Fondi SGR).

Poste Assicura incurred expenses with Poste Welfare Servizi regarding the management of claim settlements for a total of €267 thousand and has dealings with Poste Italiane in relation to the placement and distribution of insurance products through post offices; activities related to postal current accounts; partial secondment of staff used by the Company and call centre services (Poste Italiane). In addition, it has dealings with other companies of the Poste Italiane Group, with special reference to:

- mailing, printing and information services (Postel);
- investment management (BancoPosta Fondi SGR);
- mobile telephony services (Poste Mobile);
- national shipping services (SDA);
- protection of workers' health and safety (Poste Tutela);
- non-life policies with Postel;

A.1 Business

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

[1] During the period, Postecom (with the exception of Postecom's investments in PatentiVia Poste and Consorzio Poste Motori) was merged with and into Poste Italiane with effect for legal, accounting and tax purposes from 1 April 2017.

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

The Poste Vita Insurance Group operates mainly in the Life insurance business and, to a lesser extent but at a growing pace, in Non-life insurance.
The scope of consolidation includes:

- Poste Assicura SpA, a corporation with a Sole Shareholder, is an insurance company with registered office in Viale Beethoven, 11 – 00144 Rome, Tax code, VAT code and registration number in the Rome Companies Register 07140521001 and economic and administrative index (REA) number 1013058. Poste Assicura was authorised to engage in insurance activities pursuant to ISVAP measure no. 2788 of 25 March 2010 and is entered in section I of the register of insurance undertakings no. 1.00174. The Company, which was established in 2010, operates in the non-life insurance business-, except motor insurance, is wholly owned by Poste Vita and is subject to the direction and coordination of Poste Vita SpA, parent company of the Poste Vita Insurance Group, which in turn is part of the Poste Italiane Group.
- Poste Welfare Servizi Srl is a limited liability company engaging mainly in the management of services and settlement of claims on behalf mainly of healthcare funds. Its registered office is in Viale Beethoven n. 11 – 00144 Roma and its tax code, VAT code and registration number in the Rome Companies Register 08516940585. The company is wholly owned by Poste Vita and is subject to the direction and coordination of Poste Vita SpA, which in turn is part of the Poste Italiane Group.

Moreover, Poste Vita holds a 45% interest in Europa Gestioni Immobiliari SpA in conjunction with Poste Italiane, which holds the remaining 55%. EGI SpA has its registered office in Italy and engages mainly in the management and maximisation of value of the portfolio of properties not used in operations that was transferred to it by Poste Italiane in 2001. This company is not consolidated on a line-by-line bases but is accounted for with the equity method under IAS/IFRS.

At the General Meeting of 29 April 2014, the Shareholders of the Parent Company, Poste Vita, approved the appointment as independent auditors of BDO SpA, a firm with registered office in Milan, Viale Abruzzi, 94, share capital of €1,000,000, fully paid-in, Tax code, VAT Code and Milan Companies Register no. 07722780967, and Milan economic and administrative index (REA) number 1977842, entered in the Auditor Register under no. 167911 with Ministerial Decree of 15 March 2013, Official Gazette no. 26 of 2 April 2013. BDO Italia SpA is a member of BDO International Limited, a company limited by guarantee organised under the laws of England and is part of the BDO international network, which is made up of independent companies.

Furthermore, in accordance with the provisions of the Supervision Authorities, the Board of Directors of Poste Vita, the Parent Company, has retained PricewaterhouseCoopers SpA – a firm with registered office in Milan, Via Monte Rosa 9, share capital of €6,890,000.00 fully paid-in, Tax code, VAT code and Milan Companies Register no. 12979220155 and entered in the Auditor Register under no. 119644 - to audit the following information contained in this report:

- Balance sheet at current market value, as represented by template "S.02.01.02 Balance sheet" (excluding the rows with the Risk Margin amounts – rows R0550, R0590, R0640, R0680 and R0720) and related information in section "D Valuation for solvency purposes";
- Own funds, as represented by template "S.23.01.22" (except the Solvency capital requirement – item R0680 - and the Minimum consolidated capital requirement – item R0610) and the related information in section "E.1 Own funds".

The Parent Company, Poste Vita, belongs to the Poste Italiane Group and is subject to the direction and coordination activities of Poste Italiane SpA. The Company is subject to the supervision of IVASS, the institute for insurance supervision, specialises in life insurance products and is authorised to engage in the following ministry-approved classes:

<u>Life business:</u>

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

<u>Non-life business:</u>

- Class I – Accidents;
- Class II – Medical.

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

The Company performs its activities in Italy.

As of the date of this report, there were no significant events related to the activity or of any other nature that had a substantial impact on the business.

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

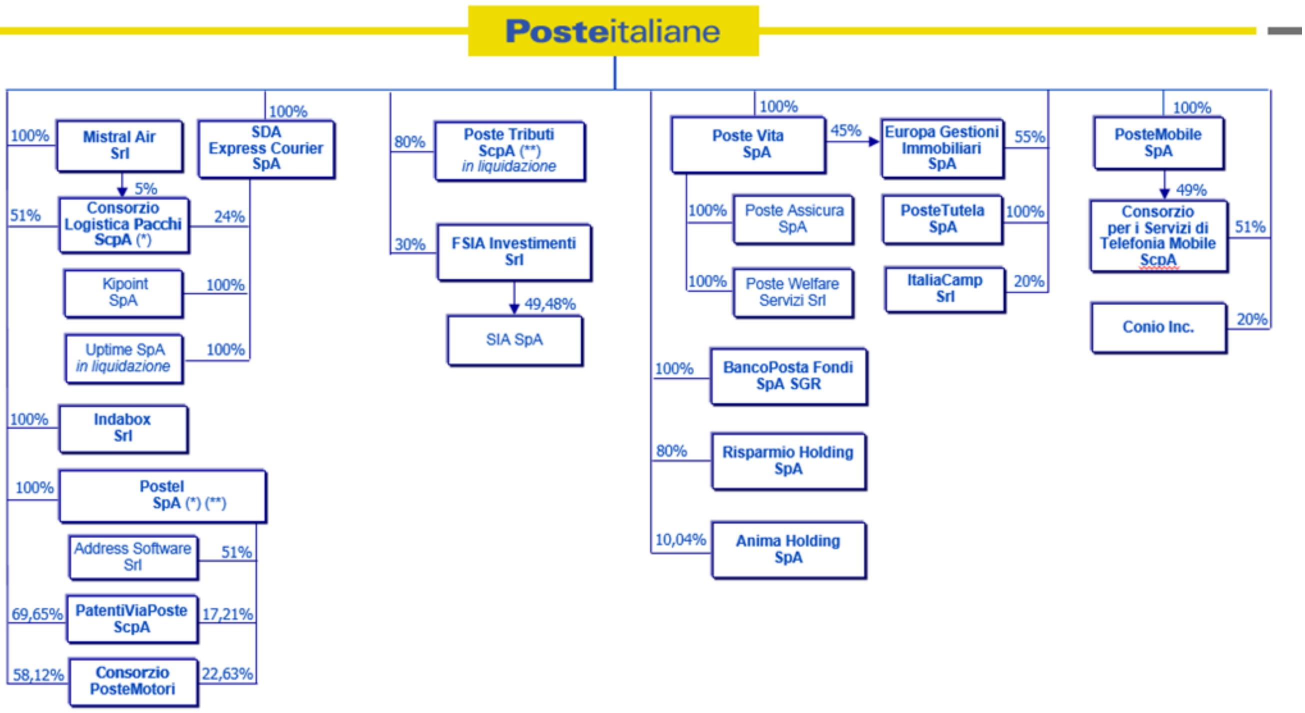
Poste Assicura, which is also supervised by IVASS, specialises in non-life products and is authorised (since March 2010) to engage in the following insurance classes:

- Class I – Accidents
- Class II – Medical
- Class VIII – Fire
- Class IX – Other property damage
- Class XIII – General TPL
- Class XVI – Financial loss
- Class XVII – Legal expense
- Class XVIII – Assistance

At their General Meeting of 22 April 2010, the Shareholders approved the appointment of PricewaterhouseCoopers SpA as independent auditors for the period 2010-2018.
Poste Assicura distributes its products through Poste Italiane SpA- Bancoposta RFC, an insurance intermediary entered in section D of the Single Register of Insurance Intermediaries (RUI) which, in addition to placement activities, trains salespeople, with support from the Company.
The Company performs its activity in Italy.
As of the date of this report there were no significant events related to the activity or of any other nature with a substantial impact on the business and the Company does not hold any equity interest in other companies.

Poste Welfare Servizi Srl, a company with registered office in Italy, engages in the provision of services and payments on behalf, among others, of private healthcare funds, supplying supplementary health insurance, engaging in the design, development and maintenance of software products and rendering professional IT services.
The Company performs its activity in Italy.
As of the date of this report there were no significant events related to the activity or of any other nature with a substantial impact on the business and the Company does not hold any equity interest in other companies.
The chart below depicts the structure of the Poste Italiane Group at 31 December 2017.

PRINCIPAL DIRECT AND INDIRECT INVESTMENTS HELD BY POSTE ITALIANE SPA AT 31 DECEMBER 2017



(*) The remaining 20% of *Consorzio Logistica Pacchi ScpA* is held by *Postel SpA*
(**) A 10% interest in *Poste Tributi ScpA* (in liquidation) is held by *Postel SpA*

A.2 Performance of underwriting activities

The results described below are contained in QRT S.05.01.02, where detailed information on premiums, claims and expenses by line of business (LoB) is provided, in accordance with Commission Delegated Regulation (EU) 2015/35, on the bases of local GAAP.
Regarding the **Life business**, in a market environment that recorded a decline in new life business of approximately 5.2% at 31 December 2017, the Poste Vita Insurance Group produced satisfactory commercial results in 2017, partly thanks to a constant focus on products, strengthened support for the distribution network and growing customer loyalty. Total premium revenue was €20.3 billion, slightly up on the €19.8 billion for 2016. The Group focused almost exclusively on the sale of Class I and V investment and savings products (traditional separately managed accounts), with **total premium revenue** of approximately €19.8 billion (€19.3 billion in 2016). In contrast, total revenue from the sale of Class III products remained marginal at €537 million, substantially in line with the €474 million recorded at the end of the fourth quarter of 2016. In this regard, a new unit-linked product, offering a form of long-term savings plan (an individual savings plan, or PIR - *Piano individuale di Risparmio*)[1] was launched on 27 June 2017. Premium revenue from this product amounts to €225.1 million at the end of 2017.

[1] **Individual savings plans (Piani Individuali di Risparmio** or **PIR**) are the new form of investment product introduced by the government in the 2017 budget law, with the aim of supporting Italian SMEs. These products offer significant **tax breaks** for investors.

The table below shows premium revenue by LoB for 2017 and 2016, reflecting significant increases in pure risk (up 17.6% on 2016) and medical (up 49.9% on 2016) products and a moderate rise (up 13.2% on 2016) of index-linked and unit-linked products and (up 1.9% on 2016) savings products.

(€/000)

Line of Business	2017	2016	change
Insurance with profit participation	19,657,213	19,290,043	1.9%
Index-linked and unit-linked insurance	537,221	474,635	13.2%
Other life insurance	52,128	44,326	17.6%
Health insurance (direct business)	16,800	11,206	49.9%
Total	**20,263,362**	**19,820,210**	**2.2%**

Claims paid in 2017, before reinsurance cession, amount to €10.8 billion, up on the €8.6 billion of 2016, due mainly to an increase in class III claims determined by expirations of index-linked products, as can be seen from the table below:

(€/000)

Line of Business	2017	2016	change
Insurance with profit participation	6,810,132	7,617,571	-10.6%
Index-linked and unit-linked insurance	4,005,466	983,371	307.3%
Other life insurance	15,749	27,912	-43.6%
Health insurance (direct business)	- 824	1,790	-146.0%
Total	**10,830,523**	**8,630,645**	**25.5%**

Surrender costs stood at 2.9% of initial provisions (in line with 2016) and was well below the average market figure of 6.89% at 31 December 2017 (latest figure published on ANIA's website).

Total expenses by LoB in 2017, still with reference to the figures reported in the QRT S.05.01, rose by 1.6% on 2016, as shown in the following table:

(€/000)

Line of Business	2017	2016	change
Insurance with profit participation	458,707	514,130	-10.8%
Index-linked and unit-linked insurance	95,586	24,915	283.7%
Other life insurance	1435	8,207	-82.5%
Health insurance (direct business)	462	202	129.0%
Total	**556,190**	**547,454**	**1.6%**

The table below provides an expense breakdown:

(€/000)

	2017	2016	change
Administrative expenses	40,331	43,995	-8.3%
Investment management expenses	42,967	43,950	-2.2%
Claims management expenses	9,792	10,358	-5.5%
Acquisition costs	446,878	449,151	-0.5%
Overhead expenses	16,222	-	
Total	**556,190**	**547,454**	**1.6%**

Indication of effectiveness of risk mitigation techniques

From time to time, the Parent Company, Poste Vita, tests the effectiveness of reinsurance techniques for profitability and need.

The tests performed are based on statistical and probabilistic methods, depending on the business to which they refer.

Through these tests the Parent Company determines constantly any amount to be ceded to reinsurance.

The analysis performed at the end of 2017 on the retail treaties still in place led the Parent Company, Poste Vita, not to renew the expiring treaties (LTC and life insurance of the Da Grande product) and to cancel those that are automatically renewed (loan and mortgage CPI). For CPI policies, in fact, as shown by simulations, the Company ceded to reinsurance profits and premiums for more than necessary to mitigate risks.

To evaluate the cession in reinsurance of LTC, a more recent product that the Company had decided to cede in reinsurance as it did not have available its own demographic statistics, the Company simulated the performance of the product for the next 40 years, using the morbidity rates provided by the reinsurer. In the absence of further time series on LTC claims, assumptions on the duration of the annuity were made on the bases of the life tables of a non-self-sufficient person. A simulation was made also to compare claim trends, assuming that the Company will pay to each policyholder an annuity for at least 10 years (Poste Vita has an even more conservative assumption).

The results for both simulations showed that, also 40 years from now, in the absence of cession in reinsurance, the Poste Vita margin would still be positive, thanks to the good pricing set internally by the Company. Hence, the decision not to renew the treaty.

The analysis of the 2017 technical indicators shows:

- The continuing growth of premium revenue for the business as a whole, which was up 19% on the previous year;
- The decrease of the overall Loss Ratio by about 14 percentage points, from 39% in 2016 to 25% in 2017.

As to the **non-life business**, at 31 December 2017 gross written premiums amounted to approximately €141.3 million (up 19% on 2016). The table below shows gross written premiums by line of business:

(€000)

Line of business	GWP 31 December 2017	% dist.	GWP 31 December 2016	% dist.	Change	% change
Property and asset protection	32,668	23.1%	28,941	24.4%	3,726	12.9%
Personal protection	73,405	52.0%	62,400	52.5%	11,006	17.6%
Credit protection	29,916	21.2%	26,992	22.7%	2,925	10.8%
Professional indemnity	5,260	3.7%	439	0.4%	4,821	1098.0%
Total	**141,250**	**100.0%**	**118,772**	**100.0%**	**22,478**	**18.9%**

It is noted that the premium volumes related to the Personal Protection line rose by 18% on the previous year, thanks to the good performance of modular products for health and prevention, *PosteProtezione Innova Salute* e *PosteProtezione Innova Infortuni*. Attention is called also to the development in 2017 of the Employee benefits business. In fact, during the year the first collective contracts were entered into to cover Death and Permanent Disability, injury and illness risks and the reimbursement of medical expenses.

The table below shows the premium distribution by line of business. As can be seen, Income Protection accounts for 50% of total premiums while the Miscellaneous Financial Loss line of business declined as a share of the total. The Income Protection line of business includes obligations to provide compensation following illness, injury or disability while the Miscellaneous Financial Loss line of business includes obligations arising from unemployment, insufficient income or loss of income.

(€000)

Line of Business	31 December 2017	% dist.	31 December 2016	% dist.	Change	% change
1 Medical expenses	26,725	18.9%	18,771	15.8%	7,953	42.4%
2 Income protection	70,130	49.6%	57,669	48.6%	12,461	21.6%
3 Workers' compensation	0	0.0%	2	0.0%	-2	-94.5%
7 Fire and other damage	12,778	9.0%	11,304	9.5%	1,473	13.0%
8 General Liab	16,253	11.5%	14,374	12.1%	1,880	13.1%
10 Legal expenses	2,826	2.0%	2,632	2.2%	194	7.4%
11 Assistance	494	0.3%	574	0.5%	-80	-13.9%
12 Miscellaneous	12,043	8.5%	13,446	11.3%	-1,403	-10.4%
Total	**141,250**	**100.0%**	**118,772**	**100.0%**	**22,478**	**18.9%**

Total commissions paid for distribution and collection activities in 2017 amounted to approximately €21.7 million, with a 9.4% increase on 2016, due mainly to the increase of in personal insurance products, given the growth in gross premiums.

(€/000)

Fees			
Line of Business	**31 December 2017**	**31 December 2016**	**Change**
1 Medical expenses	2,536	2,236	13.4%
2 Income protection	10,994	8,904	23.5%
3 Workers' compensation	0	0	-90.7%
7 Fire and other damage	2,191	1,859	17.9%
8 General Liab	3,013	2,445	23.2%
10 Legal expenses	498	518	-4.0%
11 Assistance	18	29	-36.2%
12 Miscellaneous	2,392	3,832	-37.6%
Total	**21,643**	**19,823**	**9.2%**

The table below shows, by line, a list of retail products sold in 2017 related to the non-life business.

Line	Retail products
Home and other assets	Posteprotezione Innova Casa Più *(launched on 28 June 2017, replacing Innova Casa)* Postaprotezione Piccola Impresa Postaprotezione Albo Più *(launched on 25 September 2017, replacing Albo New)* Postaprotezione Riparti Più Postaprotezione MultiRC
Personal	Posteprotezione Innova Infortuni Postaprotezione Infortuni Senior Postaprotezione DalMondo Prontoposte Protezione Infortuni *(exclusively through the telephone channel)* Posteprotezione Innova Salute Più *(launched on 24 October 2016)*
Credit	Posteprotezione Prestito *(launched on 24 February 2016, replacing Postaprotezione Prestito ante Lettera IVASS-BI)* Posteprotezione Prestito Flessibile *(launched on 24 July 2017)* Posteprotezione Mutuo *(launched on 24 February 2016, replacing Postaprotezione Mutuo ante Lettera IVASS-BI)*

Main evidence

Poste Assicura revised its offering of “Home and other assets” products to:

- simplify the structure of the product;
- optimise the mix of guarantees and expand the coverage offered;
- enhance the technological service component linked to the policy (electronic device).

The reasons for the restyling of the previous product (which was launched in May 2015) derive mainly considerations and evidence on:

- internal portfolio analyses;
- comparisons with best market players and positioning of the Company;
- improvement of own competitive positioning in the market, in terms of both coverage and pricing;
- changes in market context;
- interaction with internal departments (e.g. marketing, claims and complaints).

Still within the line Home and other assets, the year under review saw a review of the products offered to professionals.
With the Reform of the Professions of August 2013, Italian professional practitioners are required to buy professional liability insurance.
To this end, Poste Assicura chose to improve its products with a restyling of the PostaProtezione Albo (launched in October 2012) by introducing PostaProtezione Albo New (which was launched on 12 March 2014).
Over the years, legislative developments followed which prompted the Company to adapt its offering. In particular, starting on 1 January 2015 the Company raised the maximum coverage for the certification of compliance by Accountants and Labour Consultants from €1,033,000 to €3,000,000.

Eventually, with the publication of the Decree of the Ministry of Justice of 22 September 2016, the essential terms and conditions and the minimum maximum coverage for professional liability and for injuries incurred while practicing as attorney. This adjustment was incorporated in in the new PostaProtezione Albo Più product.

With reference to Credit Protection products, the year under review saw the launch of the new PosteProtezione Prestito Flessibile product, which can be purchased in relation to flexible BancoPosta personal loans provided by Findomestic which, as of 15 June 2015, started providing flexible loans.

The CPI Prestito Flessibile product adopted, in terms of coverage, the same structure as the current CPI offering launched in February 2016, in keeping with the provisions of the joint Letter to the market dated 26 August 2015 by IVASS and Bank of Italy. In addition, the new CPI product features greater flexibility, as it allows to reduce the amount of the loan instalment and/or to skip it, by deferring its payment until maturity.

Regarding the corporate segment, in relation to Employee Benefits, in 2017 the Insurance Group sold collective policies to cover the risk of Death and Permanent Disability, Injury/Illness and Reimbursement of Medical Expenses for employees of private companies, including Banca Popolare di Vicenza, Banca BNL and Alitalia, which stood out for the significant premium volume. It is also noted that the Company was awarded contracts in connection with tenders launched by such government authorities as the Foggia ASL and the Liguria Region, to cover their employees against the above risks.

Furthermore, the Company created ad hoc insurance plans for the *Poste Vita Fondo Salute* to supplement the current standard coverage plans.
Insurance coverage is provided in accordance with the sectorial National Labour Agreement and/or the Supplementary Company Agreement.

Claim performance

Claim expenses – which include the sufficiency of provisions for claims related to previous years, in the amount of €16.8 million (reflecting an increase on the sufficiency of €7.0 million of December 2016) - at the end of 2017 amounted to approximately €32.3 million, compared to €42.3 million in 2016. The table below shows the distribution of claim expenses by line of business at 31 December 2017:

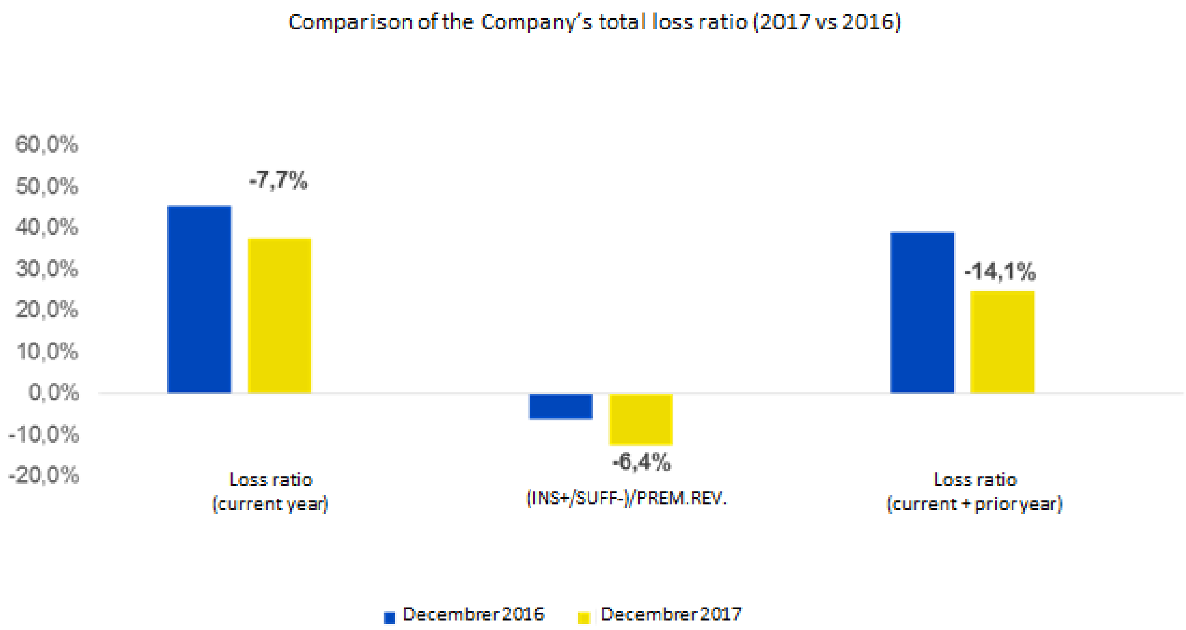
(€000)

	31 December 2017			31 December 2016		
Line of Business	Total claims	(Sufficiency)/ Insufficiency	Claims expenses	Total claims	(Sufficiency)/ Insufficiency	Claims expenses
1 Medical expenses	8,902	(3,325)	5,577	8,571	(1,511)	7,060
2 Income protection	25,269	(6,529)	18,740	21,639	(1,305)	20,335
3 Workers' compensation	0	0	0	0	0	0
7 Fire and other damage	4,005	(3,325)	679	8,093	(2,092)	6,001
8 General Liab	5,318	(2,252)	3,066	5,214	419	5,632
10 Legal expenses	777	(497)	279	880	(875)	5
11 Assistance	166	(108)	58	210	(208)	2
12 Miscellaneous	4,622	(726)	3,896	4,706	(1,396)	3,310
Total	**49,058**	**(16,764)**	**32,295**	**49,311**	**(6,967)**	**42,345**

Claims expenses for the period, defined as settlement costs and provisions for claims occurred in the year, inclusive of provisions for late lodgements, totals €49.1 million, with a decrease of 1% from the previous year. Provisions for claims occurred in previous years was approximately €16.8 million (up, compared to €7.0 million in 2016). These effects, and the 20% increase in earned premiums on December 2016, translated into a loss ratio of 25%, reflecting a decrease from the previous year (39%), The table below provides details by line of business.

	31 December 2017			31 December 2016			Change		
Line of Business	Current year loss ratio	Prior year loss ratio	Loss ratio (current + prior year)	Current year loss ratio	Prior year loss ratio	Loss ratio (current + prior year)	Current year	Prior year	TOTAL
1 Medical expenses	34.2%	-12.8%	21.4%	48.6%	-8.6%	40.1%	-14.4%	-4.2%	-18.6%
2 Income protection	42.0%	-10.8%	31.1%	44.1%	-2.7%	41.5%	-2.2%	-8.2%	-10.4%
3 Workers' compensation	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
7 Fire and other damage	32.5%	-27.0%	5.5%	68.0%	-17.6%	50.4%	-35.6%	-9.4%	-44.9%
8 General Liab	33.4%	-14.1%	19.2%	37.1%	3.0%	40.0%	-3.7%	-17.1%	-20.8%
10 Legal expenses	27.7%	-17.8%	10.0%	34.0%	-33.8%	0.2%	-6.2%	16.0%	9.8%
11 Assistance	32.4%	-21.1%	11.2%	33.9%	-33.6%	0.3%	-1.5%	12.4%	10.9%
12 Miscellaneous	35.2%	-5.5%	29.6%	35.1%	-10.4%	24.7%	0.1%	4.9%	5.0%
Total	**37.5%**	**-12.8%**	**24.7%**	**45.1%**	**-6.4%**	**38.8%**	**-7.7%**	**-6.4%**	**-14.1%**

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



Loss ratio (current + prior year)	December 2017	December 2016	Change
Loss ratio (current year)	37.5%	45.1%	-7.7%
INS+/SUFF-)/PREM. REV.	-12.8%	-6.4%	-6.4%
Loss ratio (current + prior year)	24.7%	38.8%	-14.1%

The decrease in the loss ratio is attributable both to the decrease related to the current generation, which stood at 37%, down from the corresponding ratio at the end of 2016 (45%), and the adequacy of provisions recorded for the previous generations.

Regarding claims for the current generation, it is stressed that the improvement of the claims made is attributable in part to the effect of the sales of the new Credit Protection products. In 2017, total policies sold rose by approximately 30% while the associated premiums increased on average by approximately 13%; claims incurred have not yet been reported (on average, claims related to these products are reported after approximately 1 year and 10 months). In addition, attention is called to the favourable performance of non-life products, particularly PosteProtezione Innova Infortuni which saw a decrease in the average cost of claims (down 30% compared to December 2016) and in the frequency of claims (down 14% compared to December 2016).

It is noted that the strong improvement of the underwriting performance of the Fire and other damage LoB is attributable to the existence in the IBNR provisions as of December 2016, of an extraordinary component set aside in light of the earthquakes occurred in Italy on 24 August 2016 and in October 2016.

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

- ✓ for approximately €8.5 million to the wind-down of the provisions for claims reported in previous years (down 6.8%); in particular, there was an extraordinary closing activity not followed by claims related to lines of business 1, 2 and 8;
- ✓ for approximately €8.6 million to the wind-down of IBNR claim provisions (down 6.6%). It is noted that no provisions were made for the remaining IBNR component set aside for the earthquakes occurred last year, which resulted in the wind-down of the provisions for approximately €2.0 million.

Information on any substantial risk mitigation techniques
Concerning risk mitigation, reinsurance follows the guidelines in force.
Accordingly, the reinsurance policy makes it possible to:

- mitigate unfavourable underwriting trends and risk arising from key exposures;
- mitigate risks, stabilising the variability of the results of insurance operations and ensuring the technical balance of the portfolio;
- strengthening financial soundness, where possible and/or necessary, allowing the best management in terms of capital allocation and optimisation;
- consolidate the trend of progressive reduction of the balance ceded to reinsurers, in line with a growing portfolio maturity, mitigating its risks overall and optimising reinsurance costs.

A.3 Performance of investment activities

Regarding investment management, during the period under review the Company's investment choices were informed by a prudential approach, in keeping with the strategic guidelines set out by the Board of Directors, with a portfolio invested mainly in government and corporate bonds. Moreover, in 2017, even though its risk appetite continued to be moderate, the Company continued to pursue a gradual investment diversification, through the simultaneous increase of equity-linked securities, particularly shares/units of open harmonised multi-asset UCITS. In line with the strategic asset allocation, investments continued to be made in property funds (targeting mainly retail and office buildings mainly in Europe).
At 31 December 2017 financial assets total €125,590,152 thousand, up €10,057,983 on 2016, given the positive inflows and the returns achieved in the period. Financial assets have been recognised at fair value, which reflects the market price in active markets, where available, and

is calculated with alternative methods, where no active market is available. The table below breaks down financial assets as of 31 December 2017 and 2016:

(€000)

	Solvency II value 2017	Solvency II value 2016	Delta
Equities	18,277	15,775	2,502
Government Bonds	81,414,839	73,293,593	8,121,246
Corporate Bonds	17,141,859	19,114,961	-1,973,103
Structured Bonds	567,200	551,323	15,877
Collateralised securities	74,683	74,202	480
Collective investments undertaking	22,836,113	15,508,562	7,327,551
Assets held for index - linked contacts	3,537,182	6,973,752	-3,436,569
Total	**125,590,152**	**115,532,168**	**10,057,983**

Equities, amounting to €18,277 at 31 December 2017, includes €17,980 thousand in listed shares, purchased for Class I products related to separately managed accounts.
Government bonds, amounting to €81,414,839 thousand (€73,239,593 thousand at 31 December 2016), refer mainly to listed fixed-income bonds issued by European States, with Italian government bonds accounting for 97% of the total. These investments rose by approximately €8,121,246 on 2016, given the positive inflows for the year.
Corporate bonds, amounting to €17,141,859 thousand, refer mainly to listed fixed-income bonds issued by primary European companies.
Structured bonds, totalling €567,200 thousand at year-end 2017, refer solely to financial instruments covering index-linked products.
Collateralised securities, amounting to €74,683 thousand, relate to a zero-coupon bond maturing on 10 February 2020, collateralised by government bonds and other securities maturing on the same date.
Regarding collective investment undertakings, which amounted to €22,836,113 thousand at year-end, the gradual diversification process of investments continued, though the simultaneous increase in equity-linked securities (which went for 13.4% to 18.2% of the total), particularly shares/units of open harmonised multi-asset UCITS. In line with the strategic asset allocation, investments continued to be made in property funds (targeting mainly retail and office buildings mainly in Europe)
Financial instruments purchased to cover index-linked or unit-linked policies, which are reported at the price prevailing on the last trading day of the year, amounted to €3,537,182 thousand at 31 December 2017 (€6,973,752 thousand at 31 December 2016).
The change from the beginning of the year was due to the expirations of class III products for the year. These are investments whose performance is linked to particular market indices.

The table below shows the change in the fair value of financial assets, except equity investments, occurred in 2017.

(€000)

	Solvency II value 2016	Purchases and sales 2017	Net Unrealized Gains 2017	P/M Amortised Cost 2017	Solvency II value 2017
Equities	15,775	308	2,194		18,277
Government Bonds	73,293,593	8,875,685	-886,900	132,461	81,414,839
Corporate Bonds	19,114,961	-2,029,901	56,798		17,141,859
Structured Bonds	551,323	22,544	-6,668		567,200
Collateralised securities	74,202		480		74,683
Collective investments undertaking	15,508,562	7,136,168	191,383		22,836,113
Assets held for index - linked contacts	6,973,752	-3,588,384	-25,574	177,389	3,537,183
Total	**115,532,168**	**10,416,420**	**-668,287**	**309,851**	**125,590,152**

The table below shows, instead, the returns generated by the above investments.

(€000)

	Net gains and losses	Interests/Dividends	Net Unrealized Gains	Total
Equities	2,118	766	2,194	5,078
Government Bonds	-150,475	1,797,471	-978,078	668,919
Corporate Bonds	2,364	407,322	56,252	465,938
Structured Bonds	3,800	15,823	-6,668	12,955
Collateralised securities	0	0	480	480
Collective investments undertaking	15,104	532,678	217,213	764,995
B - Call Options	40,445		38,164	78,609
Total	**-86,643**	**2,754,060**	**-670,442**	**1,996,975**

The equity investment, amounting to €106,768 at 31 December 2017, refers solely to the 45% interest held by the parent company, Poste Vita, in associated company Europa Gestioni Immobiliare S.p.A. (EGI), a company engaging in the management and value maximisation of the Parent Company's properties not used in operations.

A.4 Performance of other activities

With regard to organisational aspects, during 2017, work continued on a number of projects designed to support future growth and to achieve continuing functional/infrastructural improvements in key business support systems. The Poste Vita Group's organisational structure was also further strengthened to keep pace with its ongoing expansion in terms of size, volumes and new projects. As a result of the above, operating costs total €142,536 thousand, slightly up on €139,467 thousand for 2016, remaining low as a share of premiums and provisions vis-à-vis the market average.
The table below breaks down operating costs by category for 2017 and 2016.

(€000)

Category	Solvency II value 2017	Solvency II value 2016	change
Other administrative expenses	67,664	64,585	3,079
Claims expenses	14,538	12,895	1,642
Other acquisition expenses	42,518	45,312	-2,795
Investment management expenses	16,032	15,061	971
Other costs	1,785	1,613	172
Total	**142,536**	**139,467**	**3,069**

A.5 Any other disclosures

Related party transactions

In addition to other companies in the Poste Italiane Group, whose relationships have already been described in the previous paragraph, according to the provisions of IAS 24.9, related parties include the MEF (the Ministry of the Economy and Finance), Cassa Depositi e Prestiti SpA, entities controlled by the MEF and key management personnel of the Companies of the Poste Vita Insurance Group.

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.

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

Legal disputes

Litigation involving the Parent Company, Poste Vita, primarily regards 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.
The likely outcome of disputes is considered in calculating provisions for risks and charges.

Disputes involving the subsidiary, Poste Assicura, primarily regard contested claims on Home, Accident and Condominium policies.
The likely outcome of disputes is considered 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

IVASS – Institute for Insurance Supervision
On 20 March 2017 IVASS started an audit, which was completed on 28 June 2017, pursuant to art. 189 of the Private Insurance Code (Legislative Decree 209 of 7 September 2005). The focus of the inspection was "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 required documentation. On 27 September 2017, IVASS delivered to Poste Vita the findings of the audit performed with the Company.
Finding that the degree of implementation of the Solvency II framework was satisfactory overall, the Supervisor did not identify any specific shortcomings, merely making a number of observations and issuing a partially favourable opinion. On 25 October 2017 the Parent Company, Poste Vita, submitted to IVASS its considerations on the in-depth analyses and corrective actions required by the audit report, planning to implement the recommendations of the Supervision Authority. Today, the action plan prepared by Poste Vita is on schedule.

Bank of Italy – Financial Intelligence Unit (*UIF*)
The Bank of Italy's Financial Intelligence Unit (*UIF*) conducted a number of inspections of Poste Vita SpA 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 suspicious 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 €400,000.
Poste Vita has sent the Ministry of the Economy and Finance a defence memorandum and is awaiting a final decision.

Commissione di Vigilanza sui Fondi Pensione – COVIP (pension regulator)

With regard to the inspections carried out by the pensions regulator between October 2016 and July 2017, focusing on the *PostaPrevidenza Valore* individual pension plan, the Company has yet to receive any feedback from the regulator regarding the inspectors' findings.

Tax disputes

In 2009, the Regional Tax Office for Large Taxpayers (Agenzia delle Entrate - *Direzione Regionale del Lazio - Ufficio Grandi Contribuenti*) notified the Parent Company, Poste Vita, 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. 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. 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.

On 30 November 2016, the Parent Company was notified of a tax assessment notice containing one violation regarding the alleged erroneous computation of outstanding claims provisions for the tax years ended 31 December 2012 and 31 December 2013. Following the Board of Directors' approval of the tax authorities' proposed settlement on 21 March 2017, the Company paid the sums due on 27 March 2017. As the irregularity merely regarded a question of timing, the additional IRES and IRAP payable, amounting to approximately €357 thousand, will be recovered in the years in which the disputed amounts are paid to beneficiaries, with the company actually only incurring the penalties and interest, totalling approximately €258 thousand.

Atlante and Atlante II funds

In April 2016, the Parent Company, Poste Vita, decided to invest approximately €260 million in an alternative investment fund called “Atlante”, and, on 27 July 2016, invested approximately a further €200 million in the alternative investment fund named “Atlante II” (today, *Italian Recovery Fund*). Both funds, which are managed by Quaestio Capital Management, are closed-end funds restricted to institutional investors, investing in financial instruments issued by banks looking to strengthen their capital and/or in non-performing loans held by various Italian banks.
At 31 December 2017, the Atlante fund has called up €239.6 million, including €211.9 million allocated to the separately managed account, *PostaValorePiù*, and €27.7 million allocated to free capital. The Atlante II fund’s capital, subscribed and called up during the period under review, is entirely allocated by the company to the separately managed account, *PostaValorePiù*, and amounts to €101.9 million.
With particular regard to the Atlante fund, the Parent Company, Poste Vita, when preparing the financial statements for the year ended 31 December 2016, had already recognised an impairment loss on the investment of equal to approximately 50% (€106 million, of which approximately €93 million reflected in obligations towards policyholders).
Subsequently, in view of the value of the fund’s units at 30 June 2017, communicated by the management company, which has quantified the reduction in the nominal value of the investment as approximately 80%, the Parent Company, Poste Vita, recognised a further 50% write-down of the investment, with the exception of the investment in Atlante II.

Impairment charges for 2017 amount to €105 million (€106 million in 2016), including €93 million allocated to separately managed accounts and thus deducted from deferred liabilities due to policyholders and €12 million, relating to the Company’s free capital, recognised as financial expense. Overall, total impairment charges for 2016/2017 amount to €211 million; of this amount, the financial expense of PosteVita free capital amounts to €24 million.
As regards to the Atlante II fund, the value of the fund’s units, as announced by the management company at 30 June 2017 (latest figures available, reflects the historical cost of the investments).

Programma Dinamico

As the policies have now all expired, the process of winding up the company began in December 2016 and, on 28 April 2017, the ordinary general meeting of the company’s shareholders approved the final liquidation financial statements, the liquidator’s report and the plan for distribution. On 18 May 2017, Programma Dinamico SpA was struck off the Companies Register.

B – SYSTEM OF GOVERNANCE

B.1 General governance arrangements

The **Boards of Directors** of the individual companies in the Poste Vita Insurance Group have the broadest powers for their ordinary and extraordinary management, without limitations, with the authority to perform such acts as are deemed necessary or useful to achieve the corporate purpose, except such acts as are specifically reserved by law to the Shareholders.
These bodies meet regularly (usually at least once a month) to review, and adopt resolutions on strategies, operational trends, financial performance, proposals related to the organisational structure, strategic transactions and for any other obligation under the applicable sector rules and regulations. As such, they are central to setting the Group's strategic goals and the policies necessary to achieve them.
The Boards of Directors bear the ultimate responsibility for the internal control and risk management system, ensuring its constant completeness, functioning and effectiveness. To this end, every Board of Director performs, among others, the following tasks (in keeping with article 5 of Regulation 20/2008), each within its purview:

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

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

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

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

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

The **Board of Statutory Auditors of each company in the Poste Vita Insurance Group** oversees compliance with the law, the Articles of Association and best practices as well as the adequacy of the organisational, administrative and accounting set-up adopted by the Company and its functioning.
To that end, each such Board is responsible, among others, (in keeping with article 8 of Regulation 20/2008 for:

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

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

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

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

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

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

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

  - contributing to the formulation of the Risk Management Policy and the strategies, monitoring their implementation;

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

- acting as facilitator in the dissemination of the risk culture also through training delivered via workshops on specific themes;
- cooperating in setting the Risk Appetite Framework (RAF) and the relevant operational implementation, providing assistance to the Board of Directors and checking the established RAF at least once a year;
- defining the criteria and the relevant methodologies, with the identification and measurement, for each risk category, of exposures and concentrations and their mitigation, and checking, on an ongoing basis, both the risk assessment processes and consistency with the Companies' operations;
- performing control activities to maintain the risks to which the Companies are exposed at an acceptable level, consistent with their capital;
- performing – at least once a year (or otherwise whenever circumstances arise which change to a significant extent the risk profile) and in keeping with the "Own risk and solvency assessment" (ORSA) policy – the assessment of the risks to which the Companies are exposed, and defining its findings; these assessments, the methodologies utilised and the "most significant risks", including contingent risks, (i.e. risks that can undermine the company's solvency or represent a serious hurdle to the achievement of the company's objectives) are submitted to the Board of Directors;
- contributing, for the risks qualified as most significant on the bases of the assessments under the previous paragraph, to the performance of quantitative analyses (based on deterministic or stochastic models and carried out in keeping with the nature, scope and complexity of the risks associated with the Companies' activities);
- facilitating the process to define the methods to measure strategic and reputational risks, monitoring its results;
- submitting every year to the Board of Directors of each Company:
  - a plan of activities indicating the main risks to which the Company is exposed is identified and the proposals that it intends to make in relation to those risks (taking into account any deficiencies detected in previous checks and any new risks), in keeping with the principles laid down in Regulation ISVAP 20/2008 and with the Policy of the Risk Management function;
  - a report on the adequacy and effectiveness of the risk management system, the methods and models utilised to monitor risks; on the activities performed; on the assessments made; on the results and criticalities brought to light and on the implementation of the relevant improvement actions, if any.

- **Compliance** is responsible for evaluating the ability of the organisation and internal procedures of preventing the risk of incurring in judicial or administrative penalties, losses or reputational damage, as a result of breaches of laws, regulations, measures

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

- acting as advisor to the Boards of Directors of Poste Vita and Poste Assicura on compliance with laws, regulations and directly applicable EU rules, assessing any impact on the activities of changes in the regulatory framework and case law and identifying and evaluating non-compliance risk;
- identifying on an ongoing basis, possibly with support from the corporate functions concerned, the main non-compliance works to which the Companies and the Group are exposed;
- assessing the adequacy and effectiveness of the organisational measures adopted to prevent non-compliance risk, proposing promptly any organisational and procedure changes to ensure the effective monitoring of any non-compliance risk;
- monitoring the Companies' and the Group's compliance with regulatory obligations, evaluating the effectiveness of any recommended organisational changes;
- submitting every year to the Board of Directors of each Company:
  - a plan of activities indicating the main actions that it intends to take in relation to non-compliance risks (taking into account any deficiencies detected in previous checks and any new risks) in keeping with the principles laid down in Regulation ISVAP 20/2008 and with the Policy of the Compliance function;
  - a report on the adequacy and effectiveness of the safeguards adopted against non-compliance risk; on the activities performed; on the assessments made; on the results and criticalities brought to light and on the implementation of the relevant improvement actions, if any.

- **The Actuarial department** contributes to the application of the Risk Management System through the attribution of specific coordination, management and control responsibilities on technical provisions, the assessment of underwriting policies and reinsurance treaties.
  The Actuarial department is centralised at the Insurance Group level, from which it follows that the Actuarial Department of Poste Vita oversees the activities falling within

its purview also in Poste Assicura, which in turn nominated a key contact responsible for managing relationships with the Parent Company's Actuarial department, in accordance with the duties and responsibilities outlined in the applicable job description, who meets the fit and proper requirements for the position, as established by the Policy on the requirements to be fulfilled for the post in Poste Assicura.

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

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

Regarding the governance system of the Companies of the Insurance Group, it is noted that in 2017 Poste Vita appointed a General Manager to ensure a coherent management of the factors driving growth, with special reference to product innovation, marketing and sales processes and related operational and service processes.

Information on the remuneration policy and practices related to the board of directors

At the meetings of April 2017 the Boards of Directors of the single Companies approved the 2017 remuneration policies. These policies set, for certain parties identified unequivocally (executive and non-executive directors, General Manager, Heads of Internal Control Functions) and for other key employees identified on the bases of specific standards of reference (so-called risk takers), a number of remuneration mechanisms consistent with a sound and prudent risk management. Specifically, the policy in question allows the remuneration package of the above-mentioned parties to be composed of three components:

- Fixed pay, which reflects the complexity of the role and the responsibilities attributed, reflecting the skills required for each position;

- Short-term variable pay, which aims to reward the performance in view of the assigned objectives and the results achieved in the year of reference, on the bases of risk-related indicators and the achievement of effective and long-lasting results;
- Long-term variable pay, which is intended to focus employees' attention on long-term strategic success factors, linking incentives to performance actually achieved over the pre-established long-term horizon.

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

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

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

Information on substantial transactions entered into with shareholders, parties with significant influence over the company, directors, management and statutory auditors in the period of reference

On 20 December 2017 the General Meeting of Shareholders of Poste Vita S.p.A. approved the distribution to the sole shareholder, Poste Italiane S.p.A., a dividend of €470 million out of the revenue reserve balance as of 31 December 2016.
For the year ended 31 December 2017 no transaction of the kind was carried out with directors, statutory auditors and/or parties with significant influence over the Company.

Manners through which the fundamental functions are given the necessary powers, resources and functional independence from operational areas or units

In keeping with the single policies of the fundamental functions (i.e. the internal control functions), each such function is established as a specific organisational unit, different from and independent of the other Fundamental functions and the Operational Functions, without any authority and/or responsibility over the latter, ensuring compliance with the requirements laid down by the applicable regulations. These functions operate in accordance with the organisational principles set out by regulations as well as in keeping with the policies, procedures and principles of the Companies, cooperating with the Board of Statutory Auditors, the independent auditors, the Supervisory Board (under Legislative Decree 231/01) and with one another.

Every fundamental function should count, also by resorting to external consultants, on qualitative and quantitative resources adequate to activities falling within its purview and should be staffed by employees with appropriate and adequate competencies, who undergo regular training to upgrade their skills.

All employees of a fundamental function should:

(a) have a professional approach informed by the independence, authoritativeness and detachment necessary to allow their work to stay “above the fray”;
(b) refrain from undertaking any activity that might give rise to a conflict of interests or might undermine the possibility to perform their tasks in an impartial manner.

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

Manners through which coordination is achieved between board of directors and board of statutory auditors, on one side, and the risk management, compliance, internal audit and actuarial functions, on the other

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

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

- Collaboration and, where possible and appropriate, coordination to identify and update the respective annual activity plans, to ensure adequate oversight of the main risks to which the Companies are exposed and to make it possible, where possible, to operate synergistically and to identify and manage effectively overlapping areas, avoiding duplications and diseconomies;

- Regular interactions on risk assessments/measurement and the evaluation of control adequacy, through the exchange of information on the outcomes of own activities and the assessments of the weaknesses of the internal control and risk management system. Against this backdrop, sharing, in particular, any remedial actions suggested makes it possible to avoid duplications and inefficiencies and to create synergies by meeting the requirements indicated by different Fundamental Functions and/or the other functions and parties responsible for control activities and to fine-tune all control efforts.

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

Manners through which the fundamental functions inform and support the Board of Directors and the Board of Statutory Auditors

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

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

To ensure that the internal control and risk management system and the reporting procedures are performed consistently in all of the Group companies, and in keeping with article 27 of Regulation ISVAP no. 20/2008, Poste Vita, in its capacity as party that performs direction and coordination activities pursuant to ISVAP Regulation no. 15/2008, in 2017 updated the document “Guidelines for the Internal Control and Risk Management System” (hereinafter the “ICRMS Document”) applicable to the Insurance Group as a whole and the individual companies that are part of it, including Poste Assicura. To this end, on 20 December 2017 Poste Assicura, as a subsidiary of Poste Vita, adopted the ICRMS document, to the extent applicable to it, incorporating the Guidelines in its own modus operandi.

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

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

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

Regarding documents at "Group" level, the more important include the ones listed below, which have been approved by the Boards of Directors of the Parent Company and the Subsidiary[3]:

- Guidelines of the Internal Control and Risk Management System;
- Policy of the Internal Audit function;
- Policy of the Risk Management function;
- Policy of the Compliance function;
- Policy of the Actuarial department;
- Risk Management Policy;
- Risk Appetite document;
- Supervision Reporting Policy;
- Own risk and solvency assessment (ORSA);
- Capital management policy;
- Inside information management Policy;
- Internal Dealing Policy;
- Whistleblowing Policy;
- Quality Data management Policy[4];
- Risk Concentration Policy;
- Policy for the valuation of assets and liabilities other than technical provisions.

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

- Outsourcing and supplier selection Policy;
- Policy for the evaluation of the fit and proper requirements for the position, implementing article 5, paragraph 2, sub-paragraph l) of ISVAP Regulation no. 20/2008;
- Policy on Inter-Company Transactions;
- Policy on Complaint Management;
- Policy for managing Conflicts of Interests;
- Organisational Model pursuant to Legislative Decree no. 231/2001;
- Guidelines on investments, approved with Framework Resolution under IVASS Regulation no. 24/2016;

[3] These include the Policies provided for by article 5 of ISVAP Regulation no. 20/2008 (as amended by ISVAP Measure no. 17/2014 aimed, among others, at adapting the foregoing ISVAP Regulation to the criteria and rationales of the Solvency II prudential supervision regime).

[4] Non emanata dal Consiglio di Amministrazione.

as well as other documents that make up the set of procedures of the Companies, which are related with the system of controls that help to ensure the implementation of company policies and to check compliance with such policies (e.g. procedures to check investment limits, procedures on outsourcing and supplier selection, procedures intended to regulate administrative and accounting data flows and, in general, reporting procedures).
In particular, the documents drafted at the "single company" level, consistent with those prepared by the Parent Company, Poste Vita, comprise the specific processes/procedures defined in keeping with the Solvency II Directive, including, among others:

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

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

B.2 Fit and proper

On 24 November 2015 the Board of Directors of the Parent Company, Poste Vita, upgraded the Policy for the fit and proper assessment of members adopted by the Board in pursuance of article 5, paragraph 2, sub-paragraph l, of Isvap Regulation no. 20 of 26 March 2008, already approved in 13 November 2014.

This Policy sets out, among others, the list of key persons.

In particular, the Policy's addressees include: the members of the Board of Directors, the members of the Board of Statutory Auditors, the Heads of fundamental functions as defined therein and, in case these functions are outsourced either within or without the Group, the internal contact persons or the parties in charge of control over the outsourced activities.

Fundamental functions (defined as functions of special importance for the business, in light of its activity and organisation) include Internal Audit, Compliance, Risk Management and the Actuarial department. The Parent Company, Poste Vita, identifies any additional fundamental functions, if any.

In addition, the Policy applies to "key employees": the Manager responsible for financial reporting under article 154-bis of legislative decree no. 58/1998, consolidated law on finance; the Head of the Anti-Money-Laundering function and the Head of suspicious transaction reporting under articles 12 and 15 of ISVAP Regulation no. 41/2012; the members of the Supervisory Board established pursuant to Legislative Decree 231/01 as subsequently amended and other key employees identified by the Company, if any.

As mentioned in the preceding paragraph, Poste Vite adopted a policy with the aim of attracting fit and proper candidates, with utmost expertise and competency, for executive positions and for employment in the performance of fundamental functions, taking into account the Company's risk profile and organisation.

With that in mind, the Policy to evaluate fit and proper requirements adopted by the Company aims to establish the principles that it will follow in determining whether a candidate meets those requirements, as well as the procedures implemented to that end, in line with the applicable regulations.
In particular, said Policy, in keeping with the foregoing objectives, describes:

- the fit and proper requirements in terms of integrity, professionalism and independence set for the Policy's addressees;
- the procedure for the assessment of the requirements (both of the individual Addressees and, with specific reference to professionalism, to the Board of Directors as a whole) and for any notification to the Supervision Authority;
- the documents that can be used to evaluate the foregoing fit and proper requirements;
- the rules whereby the Policy is revised so as to ensure, on an ongoing basis, compliance with internal and external rules.

The review to determine the existence and continued possession of fit and proper requirements for the position covered by the Policy is carried out by the competent Body (i.e. Committee for internal control and related-party transactions) in the following cases:

- upon nomination of one of the Policy addressees;
- in the presence of reasons that suggest that the Addressees no longer meet one or more fit and proper requirements (including through reports by the Addressees or other knowledgeable party, whose anonymity is guaranteed);
- with specific reference to professionalism, in the presence of reasons suggesting - due to expiration of term of office, resignation or termination of one or more members – that the Board of Directors as a whole does not have adequate technical skills as per article 5, paragraph 2, sub-paragraph l) of Regulation 20;
- once a year.

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

The Board of Directors is responsible for adopting resolutions regarding the continued fulfilment of the fit and proper requirements by the Addressees and to take all the most important applicable decisions, convening, where necessary, the General Meeting of Shareholders for any pertinent resolution.

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

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

The Solvency II Directive requires companies and groups to have in place “an effective system of governance which provides for sound and prudent management of the business” that is proportionate to the nature, scale and complexity of current and prospective risks, setting the main requirements[5]. This system concerns the entire business process, with the objective of enabling the Group (hereinafter the Group) to optimise its risk-return profile, though improved profitability and maintenance over time of an adequate level of economic/regulatory capital, meeting, in the meantime, the expectations of shareholders and policyholders.
Such system has been adequately formalised and documented in the following policies approved by the Board of Directors in 2017:

- Risk Management Policy;
- Policy Risk Management;
- Risk Appetite Framework;
- ORSA Policy;
- Capital Management Policy;
- Risk Concentration Policy;
- Actuarial Department Policy.

Against that backdrop, the Group:

- promotes ethical values and a risk culture with executives and employees in general;
- integrates risk management into the business through:
    - the determination of the risk appetite and the mechanisms to check consistency between risk appetite and the effective risk profile;
    - the process for the current and prospective assessment of the risk profile, aligned with and integrated into the main decision-making processes (especially the process to formulate the strategic plan);
    - the outright consideration of the consistency between own business initiatives with the risk appetite and the impact of such initiatives on the risk profile.

Moreover, the objectives of managing risk and monitoring the main risk/return profiles are pursued through an organisational structure informed by the principles of segregation and autonomy between operational and control functions, as well as specific processes governing

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

risk underwriting, management and control, including through the progressive implementation of IT support tools.

The main factors that make up the risk management system adopted by the Group are shown in the following chart.

RAF-ORSA- Risk identification – Risk measurement/assessment- Risk monitoring and control- Reporting- Risk management and mitigation – Strategic choices

The system features risk-based decision-making processes in accordance with the domestic and European regulations in force and applies both to existing risks and risks that might materialise on existing or new businesses. The Risk Appetite Framework (RAF) and the own risk and solvency assessment (ORSA) are key factors of the Risk Management System, which in turn drives strategies toward the achievement of the risk, solvency and profitability objectives through risk identification, measurement/assessment, control, reporting and management/mitigation processes. The strategies underlying ORSA concern the development and design of new products, the choice of investments, as well as opening to new business areas with impacts mainly on the Strategic Plan and on the Group's ability to attain solvency and profitability levels in line with the expectations of shareholders and policyholders, as represented in the risk appetite framework (RAF).

The **Risk Appetite Framework or "RAF**", which takes a central role in risk-based approach to Group management, represents the framework of reference that includes the approach, the definitions, the methodologies and the processes necessary to implement the Risk Strategy, that is the strategy adopted in terms of risk underwriting and management, to achieve the business objectives.

Below a description is provided of the main elements that made up the Risk Management System; for a more detailed description, reference is made to the reports of the individual Group Companies:

- the risk identification process aims to identify, recognise and record the risks to which the Group is exposed in the short, medium and long run. This process concerns existing or potential risks associate with the business underwritten and under management, as well as risks deriving from new business;

- the risk measurement/assessment process is undertaken with a frequency varying from quarterly to annual, depending on the type of risk and assessment; its purpose is to determine the operational impact of such risks as well as to guide the relevant underwriting, reduction, mitigation transfer and elimination decisions;
- the control and monitoring process is intended mainly to monitor the development of the Group's risk profile and the effectiveness of the Risk Management System in pursuing corporate objectives, ensuring, in the meantime, consistency with the Risk Appetite framework and the relevant operational risk limits;
- the risk reporting process is intended, first of all, to provide evidence of the ability to manage the actual and potential risks to which the Group is exposed in the medium/long term (also with respect to outsourced activities) as well as to provide the main current and prospective information that might help to achieve the strategic objectives;
- the main addressees of the risk reporting system are:
    - the Board of Directors;
    - the Group's Management;
    - the Group's other Control Functions;
    - the Supervision Authority;
    - the Parent Company, Poste Italiane;
    - the rating agencies;
    - the public;
- the risk and mitigation management process unfolds in all the activities leading to the underwriting, reduction, elimination or transfer of risks (of both existing and new business) as well as in the evaluation of management choices, to understand whether such activities can generate new potential risks and whether the residual risk following their application is acceptable.

The ORSA and the Capital Management processes constitute together the "risk-based decision-making process" used to define the Group's strategic decisions. Such process can be seen as a "cyclical" process (see Figure 1.1) involving the processes to define the risk appetite, to prepare the Strategic (and the Strategic Asset Allocation process related to it) and Capital Management Plan as well as the own risk and solvency assessment (ORSA).

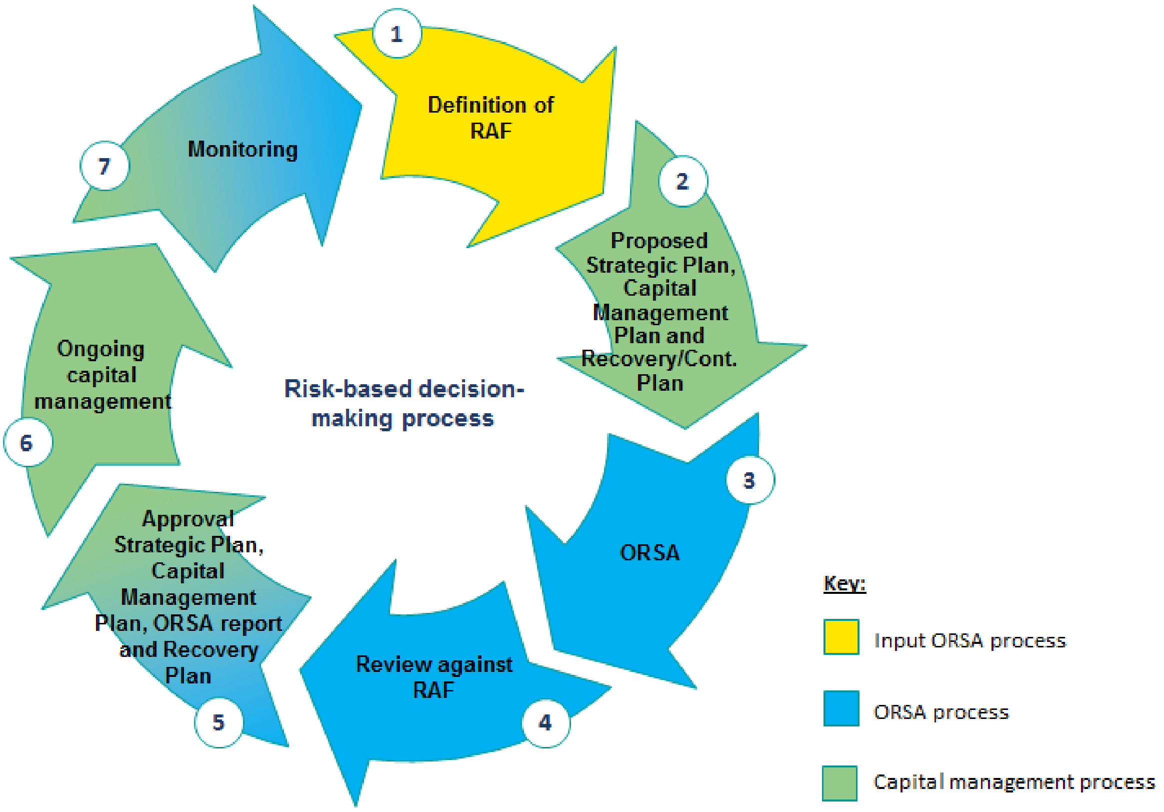


Fig. 1.1: Chart of the risk-based decision-making process

1 Definition of RAF; 2 Strategic plan, capital management plan and recovery/cont. plan proposal; 3 ORSA; 4 Review against RAF; 5 Approval of strategic plan, capital management plan, ORSA and recovery/cont. plan; 6 Ongoing capital management; 7 Monitoring.

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

1 Definition of the risk appetite framework (RAF)

The Risk Appetite Framework or RAF defines the Group's approach in setting its risk preference and its risk-exposure limits and in relation to the processes and monitoring of compliance with such limits.

In keeping with the business objectives outlined in the Strategic Plan and with the Risk Management Policy, the Risk Management Function, with help from the function responsible for operations planning and control and capital management, prepares a Risk Appetite Framework, to be submitted to the Boards of Directors of the single Group Companies.

2 Strategic Plan proposal, Capital management plan and Recovery/Contingency plan

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

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

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

In this phase, the corporate functions responsible for the operations planning and control processes prepare also the Recovery/Contingency plan proposal that, with the entry into force of Regulation 2, will be combined with the Reinforced Plan; in this Plan attention thresholds are established that – once they are reached – trigger business and/or financial actions designed to ensure an adequate capitalisation level also under stress conditions.

3 ORSA

ORSA, for which ultimate responsibility falls on the Board of Directors, is coordinated by the Risk Management function, with help from the Actuarial department, and is prepared through a process commensurate with the organisational structure and consistent with the Group's risk management system.

4 Review with the Risk Appetite Framework

In this context the Risk Management function checks the consistency of the findings of the ORSA against the risk appetite and the limits set by the RAF. If the results of the review are negative, the risk-based decision-making process is iterated.

5 Approval of Strategic Plan, Capital Management Plan, ORSA Report and Recovery/Contingency Plan

The Risk Management function reports the findings of the current and prospective assessment as well as the relevant solvency requirements in internal documentation, for use by the Group's Board of Directors, and in the report required by the Supervision Authority in accordance with the applicable regulations and the standards dictated by the Company's reporting policy.

The findings of the assessments approved by the Board of Directors are subsequently reported to Senior Management and the structures concerned together with the conclusions reached by the Board.

The paper trail that makes it possible to track the ORSA process is maintained, thereby ensuring the traceability of the opinions and information on which the process is founded, in keeping with the provisions of the applicable regulations.

Further documentation could be required by the operational functions involved in the process.

In this phase, the Board of Directors approves the Group's Strategic Plan, the Capital Management Plan, the Recovery/Contingency Plan and the ORSA report.

6 Ongoing capital management

With specific reference to capital management, the Group adopts an allocation process by segment and/or significant risk, to monitor the return on capital allocated to such segments and/or risks. This to meet, on an ongoing basis, capital and technical provision requirements under Solvency II, analysing any deviation of the assumptions underlying solvency capital requirements (SCR) from ORSA.

7 Monitoring

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

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

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

B.4 Internal control system

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

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

- the duties and responsibilities of the Governance Bodies, the Board Committees and the Risk Management, Compliance, Actuarial, and Internal Audit functions and the relevant reports as well as

- the links between the functions and the controlling bodies, pursuant to article 17 of Regulation 20 -

are described in the “Guidelines on the Internal Control and Risk Management System”, approved by the Parent Company’s Board of Directors on 20 December 2017.

It is a well-known fact that ISVAP Regulation no. 20/2008 requires insurance companies to adopt specific safeguards to prevent non-compliance risk “at every pertinent corporate level”.
In this context, the function responsible for verifying compliance is established as an independent function, designed essentially to evaluate “whether the organisation and the internal procedures are adequate to prevent non-compliance risks” and whether it is part, within the scope of its duties, with specific reference to the risk falling within its purview, of the overall risk management system as a second-level control function.
In the specific case, the Compliance Function of the Parent Company, Poste Vita, performs – pursuant to articles 23 and 25 of ISVAP regulation no. 20/2008 – the activities for the entire Poste Vita Insurance Group at the central level.
In accordance with the regulatory framework of reference, the Parent Company’s Compliance Function is established by the Board of Directors as a specific organisational unit - different from and independent of the other control functions and the operational functions – that cooperates with the Board of Statutory Auditors, the independent auditors, the Supervisory Board (contemplated by Legislative Decree 231/01) and the other control functions.
The Board of Directors appoints also the head of the Function, who meets the fit and proper requirements for the position in terms of integrity and professionalism laid down by the company policy implementing article 5, paragraph 2, sub-paragraph I of ISVAP Regulation no. 20/2008.
The Function operates in accordance with the operational principles laid down by law and in keeping with corporate policies, procedures and principles. In this context, particularly important is the Policy of the Poste Vita Group’s Compliance Function – which is approved at least once a year by the Boards of Directors of Poste Vita, the Parent Company, and Poste Assicura, within the scope of the review of Company policies on internal control – whose aim is to describe and provide for:

- the activities of Poste Vita’s Compliance Function within the scope of the Group’s internal control and risk management system in relation to non-compliance risk;
- the definition of responsibilities, tasks, operational procedures of the Compliance Function as well as the characteristics of reporting to the Governance Bodies and the other functions concerned, in keeping, among others, with the guidelines on the Internal Control and Risk Management System of the Poste Vita Insurance Group.

The activities performed by the Compliance Function of the Parent Company, Poste Vita, can be described as follows:

<u>Study of regulations and identification of the organisational impacts</u>: The Compliance Function of Poste Vita, within the scope of its own activity to study and interpret the regulations applicable to the company, cooperates with the other company functions regarding the identification of

impacts on the organisation and corporate processes. To this end, Poste Vita's Compliance Function monitors international, community and national rules (including secondary legislation) that govern the insurance business and their development over time. Thus, the individual measures are analysed in view of the Company's operations to identify the processes, procedures and functions impacted from time to time as well as the deadlines of any filings. In this context, advice is given to the Board of Directors on the legislative, regulatory and administrative provisions adopted.

<u>Ex-ante review of non-compliance risk</u>: Poste Vita's Compliance Function performs ex-ante reviews (thus prior to the start of company initiatives), especially with respect to issues where non-compliance risk plays a major role. Suffice to think, for example, of consumer protection and, more specifically, the transparency and fairness with policyholders and claimants, pre-contractual and contractual information, the proper fulfilment of contracts, especially with respect to claim management. The objective of this activity is to go from the hypothetical depiction of potential risks associated with a certain initiative to the identification of the actual risks and the possible solutions, to keep risks within an acceptable tolerance level. Main areas of action include the launch of new products, personnel training, advertising campaigns, issue of corporate guidelines and policies, etc.

<u>Ex-post review of non-compliance risk</u>: In this area, the Function performs Compliance Risk Assessments to evaluate the status of mitigants put in place with respect to specific non-compliance risks as well as to ensure that the business functions involved in a given context take into due consideration Compliance issues, knowing and implementing the operational and control protocols intended to limit such risks. Any criticalities detected and the improvement actions considered effective are then shared with the owner corporate functions in view of the development of common plans, to be monitored over time in their implementation phase.

<u>Ongoing monitoring</u>: Poste Vita's Compliance function also performs monitoring activities, on an ongoing basis, on specific issues, including through the preparation of indicators intended to evaluate the effectiveness of existing safeguards. This activity may be carried out, for example, in relation to conflicts of interests and adequacy of contracts offered to customers.

With reference to the foregoing areas, Poste Vita's Compliance Function operates on the bases of an Activity Plan that outline the steps that it intends to take in relation to non-compliance for the year (taking into account any flaws detected in previous reviews as well as any new risks arising also from the development of new products or innovative projects), in keeping with the principles set out by ISVAP Regulation no. 20/2008 and the provisions of the Compliance Policy. The Activity Plan – submitted to the Board of Directors – defines also the frequency of the checks and takes due account of the national and European regulations.

B.5 Internal audit function

The Audit function is centralised at the Poste Vita Insurance Group level and performs audit activities for both Poste Vita and Poste Assicura.

The audit function checks, within the scope of the Corporate Governance System, the Internal Control and Risk Management System, whose activities are defined by the Board of Directors in keeping with the Poste Vita Insurance Group's strategy and risk appetite and taking due account of the Poste Italiane Group's organisation (hereinafter also ICS), as outlined in specific policies.

With the centralisation, in line with regulatory provisions, Poste Assicura appointed a contact person responsible for managing relationships with the Head of the audit function of Poste Vita, the Parent Company and, among others, for monitoring the centralised activity, also by checking compliance with the Service Level Agreement entered into with the Parent Company.

The Head of the Parent Company's audit function and the Poste Assicura's Contact Person meet the fit and proper requirements for their respective positions in terms of integrity and professionalism.

The Function assists the Poste Vita Group in the pursuit of its objectives through an independent and objective assurance[6] activity intended to improve control, risk management and corporate governance processes. Moreover, it advances the dissemination of ethical values and principles within the organisation, without taking any management responsibilities.

The Function, with a systematic and risk-based professional approach, monitors and evaluates the effectiveness of the ICS and, more generally, of the governance system through audit activities. Such activities are performed on the bases of an annual plan, as approved based on a long-term view by the Boards of Directors of both Insurance Companies. Audit planning activities take into account the nature, the size and the complexity of current and prospective risks related to the Poste Vita Group, as well as any addition made by Poste Italiane's Internal Control function in preparing the Audit Plan of the Poste Italiane Group.
The Internal Audit function interfaces constantly, on behalf of Poste Vita and Poste Assicura, with all the Bodies/functions/parties involved in control activities (other fundamental functions, Head of Individual Pension Plan, independent audit firm), submitting specific reports on issues of interest also to the Supervisory Board under Legislative Decree 231/01 and to the Manager responsible for financial reporting under Law 265/05.

To ensure a coherent and integrated overview of the governance system, the ICS and the risk management process, all the players involved in control activities fulfil their responsibilities in

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

accordance with an approach based on cooperation, coordination and the reciprocal exchange of information.
Regarding the reports among the control functions, in particular, Compliance, Risk Management, the Actuarial Department and Internal Audit send regularly reports on the activities performed to one another, as well as specific memorandums on any malfunction/inefficiencies detected in the respective areas of responsibility, coordinating the activities scheduled in their annual plans.

In addition, management and all employees are responsible for reporting any significant event occurred in their area of responsibility to Internal Audit, to allow this function to fulfil its obligations. Lastly, upon the audit Function's request, management is required to submit reports, also of a regular nature.

The Parent Company's audit function is independent and autonomous, has no decision-making authority and/or responsibility over the audited activities and/or the staff involved in such activities and does not perform operational duties.

The Function depends on the Board of Directors, which sets out its duties and responsibilities. The Chairman of the Board of Directors supervises the Function, so as to coordinate its activities with those of the Board.

As their evaluation choices and their professional and behavioural style are informed by principles of objectiveness, the Head and the employees of the Function (hereinafter referred to also as the "auditors") perform their activities in an autonomous and independent manner. The Function operates in accordance with international principles and standards applicable to Internal Auditing professional practices, with rules and regulations of the insurance industry and with the Code of Ethics of Poste Italiane, the Code of Ethics of the Institute of Internal Auditors and the Group's rules and regulations.

Moreover, the Head and the auditors refrains from undertaking any action that might give rise to a conflict of interests or might undermine the possibility to perform their tasks impartially, with the obligation of reporting the potential conflict. Against that backdrop, any employees coming from internal operational functions do not audit activities or functions where they were involved previously, until a reasonable amount of time has lapsed (at least one year). In case a personal potential conflict of interest, the Head of the function is required to report it immediately to the Chairman or the Board of Directors while the other auditors are required to report it to the Head of the Function.

The Head of Internal Audit acts for the constant improvement of the quality of the Function's activity, which must be adequate, in terms of human resources and technology, to the nature, size and complexity of the Group's activities.

The Head of the function and the auditors must have adequate specialised capabilities, knowledge and skills, underpinned by constant professional training.

B.6 Actuarial department

The Actuarial Department is centralised at the Insurance Group level. Accordingly, the Actuarial Department of Poste Vita, the Parent Company, oversees also the corresponding activities of Poste Assicura which, in turn, has appointed a contact person responsible for liaising with the Head of the Parent Company’s Actuarial Department, in accordance with the duties and responsibilities outlined in the applicable job description, who meets the fit and proper requirements in terms of integrity and professionalism, as established by the Policy for assessment of the requirements for the position in Poste Assicura.
Poste Vita’s Actuarial Department, which reports to Poste Vita’s Risk Office, is independent of operational functions and performs control activities autonomously with broad powers to act so as to prevent, among others, conflicts of interests.
The Head of Poste Vita’s Actuarial Department has no responsibility over operational activities and does not report, hierarchically, to persons in charge of operational activities. Such manager is appointed and terminated by the Board of Directors of Poste Vita (with the prior opinion of the Committee for Internal Control and Related-Party Transactions) and meets the fit and proper requirements in terms of integrity and professionalism, as established by the Policy for the evaluation of the requirements for the position.
Poste Vita’s Actuarial Department is staffed with human resources, and is able to use external consultants in keeping with the Company’s policies, and is equipped with modern technologies that enable it to perform on an ongoing basis the reviews, analyses and all the other tasks necessary to carry out the activities. The employees of Poste Vita’s Actuarial Department, and its Head in particular, have the knowledge and experience to meet the requirements of the Solvency II Directive.
To be able to carry out the relevant activities, the employees of Poste Vita’s Actuarial Department have free access to pertinent Company data and information.
Poste Vita’s Actuarial department prepares, at least once a year, a report for the Board of Directors, describing the tasks performed and the relevant results, identifying areas of improvement and making any recommendations.

B.7 Outsourcing

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

a) selection must take place, where the market allows it, through a comparison of three or more suppliers. In addition, in case of outsourcing of Fundamental functions, these suppliers must have their registered office in the European Economic Area[7] (E.E.A.);

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

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

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

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

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

d) strategic importance of the activities to be outsourced;

e) corporate know-how related to the activity to be outsourced;

f) cost-benefit analysis of outsourcing;

g) risk arising from any outsourcing.

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

Moreover, to determine whether an outsourced activity is "essential or important", also to activate the outsourcing authorisation process, the Company considers as "essential" or "important" functions or activities that, when they are not executed or are executed poorly, as such as to seriously jeopardise: (a) the company's ability to meet the conditions required to maintain the insurance licence or (b) the financial results, the stability of the company or the continuity and quality of services to policyholders (article 2, ISVAP Regulation no. 20/2008).
In addition, for the purposes of the foregoing assessment, the Company takes also account of the following factors:

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

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

B. 8 Any other disclosures

In light of the description of the Governance system in section B.1, the Board of Directors feels that the Group's organisational structure is fit to ensure, in accordance with the applicable regulations, an adequate governance system, in keeping with the nature, size and complexity of the risks related to the activity, as well as a complete, functional and effective internal control and risk management system and that such system is consistent with the overall strategy and the risk appetite.
With special reference to the activities carried out by the internal control functions, their placement in the organisation chart – which is intended to ensure their autonomy and independence – and the possibility to access pertinent company information are all factors that suggest that the internal control and risk management system is effective. Moreover, with respect to these functions, attention is called to their reports to the Board of Directors and the existence of adequate processes and procedure to guarantee an effective reporting system[8].

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

Furthermore, as of 31 December 2017 there is no further information to be provided on the governance system.

C – RISK PROFILE

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

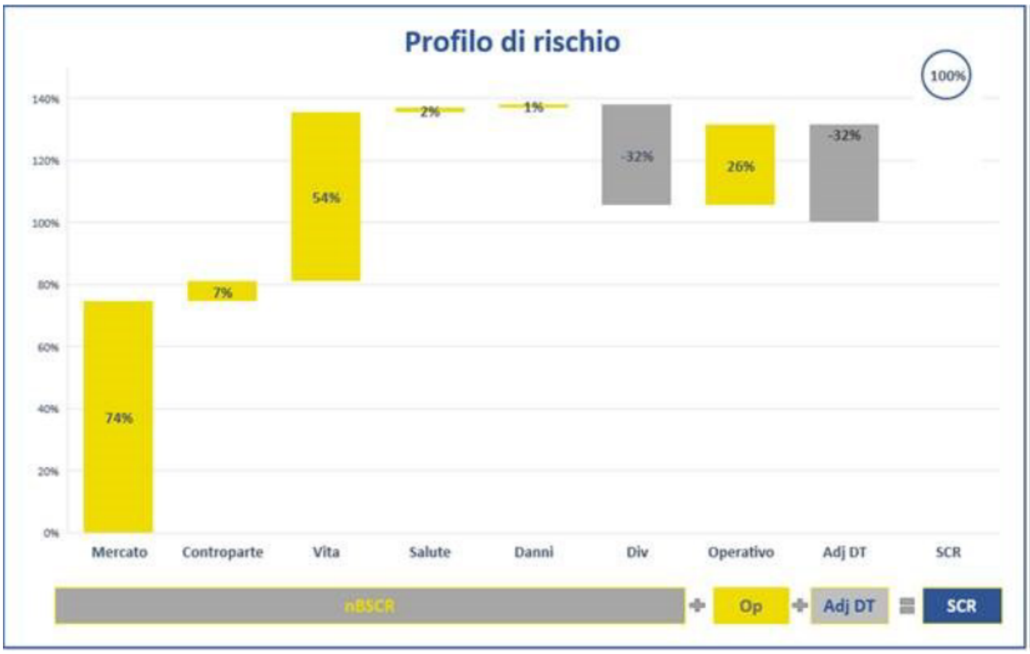
- Life, non-life and health Underwriting risk;
- Market risk;
- Credit risk;
- Liquidity risk;
- Operational risk;
- Other material risks.

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

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

Below, the Group's risk profile at 31 December 2017 is shown, as determined according to the Standard Formula, where the weighs in percentage terms of the single risk modules are determined in terms of total capital requirements, as adjusted for the diversification effect (Div) and the absorption ability of deferred taxes (DT), but considering the absorption ability of technical provisions (Adj TP – equal all together to €2,895 million).

Risk Profile



The Group's main risks are market risk, life underwriting risk, operational risk and counterparty risk while non-life and health underwriting risk are still marginal.
The benefit arising from risk diversification reduces capital requirements by approximately 32% and the adjustment for deferred taxes reduces them by an additional 32%.

The composition of the Group's asset portfolio at 31 December 2017 is in keeping with the investment limits set according to the prudent person rule and outlined in the Investment policy prepared pursuant to IVASS Regulation no. 24.

C.1 Underwriting risk

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

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

In the risk underwriting phase the Group should endeavour to ensure that the premiums collected are enough to cover future commitments with policyholders and contract management and acquisition expenses, developing the skills and professionalism of the parties involved in product design, risk underwriting and, more generally, of all the parties participating in underwriting.
Moreover, the Group should ensure increasing quality standards in the management of underwriting activities, to avoid reputational losses and adverse selection and/or moral hazard events.
The underwriting policy is intended to strengthen the Group's market position, increasing market share in the different insurance segments in which it operates by developing a profitable risk portfolio.

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

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

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

At 31 December 2017, life was the greater underwriting risk, accounting for approximately 54% of the total capital requirement [9] while non-life and health risks were still negligible.

[9] After adjusting for the diversification effect and the absorption ability of deferred taxes, but considering the absorption ability of technical provisions.

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

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

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

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

Lapse in the life business is the only significant risk within the underwriting risk module. Regarding this risk, the Group performed a stress test over the 2018-2022 plan horizon by combining an Italian Sovereign Crisis with a 50% reduction of New Business and a 100% increase of lapse rates. In this economic scenario, spreads for Italian government bonds at 31 December 2018 were assumed to be equal to the levels reached in November 2011 (the spread between the BTP and the 7y Euroswap was at a 10-year high) and the corresponding euroswap rate level.
The economic shock propagates gradually in 2018 and recedes progressively in 2019, with risk factors reverting to pre-shock levels starting from 31 December 2019. Stress assumptions on

new business and surrenders are applied instead over the entire plan horizon. The combined effect of the stress factors is the strong reduction of the Solvency Ratio in 2018. However, the solvency level is in line with the MCR ratio levels established by regulations and, starting from 2019, and for the entire plan horizon, the Solvency ratio is constantly higher than the risk appetite set by the Group, with solvency levels higher than in the base scenario, due to lower business volumes managed.

It is noted that Poste Assicura's portfolio was not subject to stress, given the low material impact on the Group's solvency.

Moreover, it is specified that, to date, the Group does not transfer, nor does it expect to transfer, risks to vehicles.

C.2 Market risk

The Group's market risk is assessed in accordance with article 164 of Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 (Delegated Acts) as subsequently amended.
The financial instruments held refer mainly to investments made to cover contractual obligations with policyholders, in relation to traditional with-profit life policies, pension products and index- and unit-linked products.
Additional investments in financial instruments refer to the deployment of the Group's free capital.
Class I and Class V life policies refer to products where a portion of the premium is invested, generating a return equal to that of the separate accounts PostaValorePiù and PostaPensione. On these products, the Group provides a guaranteed non-consolidated minimum return payable on policy expiration or in case of surrender or death of the policyholder. It follows that the economic impact of the investment financial risks can be absorbed in whole or in part by the related financial liabilities.
The sustainability of minimum returns is analysed regularly by the Parent Company with an ALM actuarial model that calculates the market value of financial assets and the best estimate of insurance liabilities under a "central scenario" (based on the best estimate of financial and actuarial assumptions) and under stressed scenarios.
Class III unit-linked products refer instead to policies where the premium paid is invested in Italian government bonds equity/inflation warrants (index-linked) or in mutual funds (unit-linked). For unit-linked policies the Parent Company does not capital or minimum-return guarantees and, as such, financial risks are borne entirely by the policyholder while the return is linked to matched assets.
For index-linked policies the Group bears the insolvency risk of the issuer of the matching financial instruments.
With respect to market risk, investment strategies and guidelines are set through specific resolutions of the Board of Directors.

The investment process involves also a governance system reinforced by bodies acting in an advisory capacity and making recommendations to Senior Management (for further details, reference is made to section B).
Over the past few years the Group began diversifying its investments and reducing the amount of government bonds held in portfolio, given the persistence of particularly low interest rates and a slow global recovery while maintaining, however, a moderate risk appetite.
In particular, the Group, in line with the Strategic Asset Allocation (SAA), put greater focus on liquid multi-asset, property fund and private market – mainly private debt and infrastructure equity strategies – strategies.
In the area of market risk, attention is called to the following risk sub-categories:

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

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

The Group performed sensitivity analyses on the spread risk of government and corporate bonds, assessing the impact on the solvency ratio, over the 2017-2022 plan horizon, of an instantaneous 100 bps. increase of Italian and European government spreads and of European and non-European corporate spreads for every projected year. The instantaneous increase of 100 bps. for Italian and European government spreads did not reveal any particular criticalities along the horizon plan, showing a Solvency Ratio constantly higher than the risk tolerance level set for the Group. The instantaneous 100 bps. increase of European and non-European corporate spreads did not always show a solvency level higher than the base projection.

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

The equity risk module includes shares, mutual funds and the equity investments in Poste Welfare Servizi S.r.l., a subsidiary, and Europa Gestioni Immobiliari S.p.A., an associated company.

Property risk arises from the Group's investments in a number of property funds. At 31 December 2017 this risk was low, as it amounted to €84 million.

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

Lastly, at 31 December 2017 the capital requirement to face concentration risk was nil.

<u>Concentration and risk mitigation</u>

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

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

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

With respect to concentration risk. Within the market risk module, at 31 December 2017 the Group identified the following exposures:

- Government bonds, mainly Italian;
- Bonds issued by Cassa Depositi e Prestiti S.p.A.

C.3 Credit risk

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

- Type 1:
  - Exposures deriving from reinsurance treaties; in particular, consideration is given to recoveries from reinsurers for premiums and claims for the same amount as the best estimates of premium and claim provisions;
  - Sums due to reinsurers other than those in the preceding paragraph;
  - Bank current accounts.
- Type 2:
  - Sums due from brokers;
  - Sums due from contracting parties.

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

Lastly, the Group did not, nor does it expect to, start a lending operation.

C.4 Liquidity risk

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

Liquidity management takes place by monitoring the liquidity risk represented by the possibility that the obligations with policyholders and other creditors might not be met, or that might be met only at exorbitant market and/or credit conditions or through the disposal of investments below cost or for less than the carrying amount, with negative effects on the financial condition, operating results and cash flows.
In managing its liquidity, the Group ensures that:

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

Expected cash flows are monitored through the development of cash flows of asset portfolios and liabilities, thus comparing inflows and outflows on a monthly basis.
Regarding the separate accounts, the Group monitors its liquidity profile on a quarterly basis, through its short- and medium-term Liquidity Coverage Ratio (LCR).

Lastly, the level of liquid assets is monitored on a monthly basis by the investment area, whose activities are checked regularly by Risk Management, on the bases of the procedures, methodologies and parameters indicated in the fair Value Policy.

Regarding the "expected profits included in future premiums", these are calculated as the difference between the best estimate in the base scenario and the best estimate in the scenario where recurring single premium policy have a renewal frequency of zero, thus removing in fact all future premiums and, in the meantime, all the obligations arising from these payments. At 31 December 2017, "expected profits included in future premiums" for the life and non-life businesses amounted to €1,002 million and €12 million, respectively, for a total of €1,014 million.

C.5 Operational risk

Operational risk is the risk of losses arising from the inadequacy or malfunction of internal procedures, human resources or systems, or from exogenous events.

According to article 101, paragraph 4, of Directive 2009/138/EC, operational risk includes legal risks and excludes strategic and reputational risks.
At 31 December 2017, operational risk, as assessed with the Standard Formula, was the Group's third largest risk, totalling €796 million. The slight increase of the capital requirement, compared to 31 December 2016, was due mainly to higher volumes, thus to an increase in premiums and expenses related to unit-linked products.
In addition, the Group evaluates its exposure to contingent operational risks through the risk self-assessment, where each risk owner provides a prospective self-assessment of the Group's operational risk events.
In particular, the risk self-assessment considers the following aspects:

- identification of extreme and hypothetical, though predictable, events also thanks to the risk owner's experience;
- frequency with which such events can take place, so as to grasp potential risks that never materialised in the past;
- estimate of the potential operating impact on risk events;
- estimate of the degree of effectiveness of the safeguards put in place to face the identified risk.

The self-assessment process determines the maximum potential loss associated with operational risk, the areas that are most exposed to operational risk and a corrective action plan.
In the 2017 risk self-assessment exercise, the predominant risk is that for events determined by errors and unintentional delays in managing operational and support activities.
Furthermore, the Group has implemented a loss data collection methodology which calls for the collection and survey of the information related to the operational events recognised in the income statement for the period, so as to identify the main risk factors that had an effective impact on the Group and any mitigation actions to be implemented. Accordingly, functions responsible for reporting operational events were identified and a validation process for the events detected during the quarter of reference was defined.
Moreover, Risk Management established quality controls to ensure the consistency of data gathered with the model data.
Lastly, Risk Management monitors the implementation of the Business Continuity Plan and the action plans of Disaster Recovery by the information systems.
The Group evaluates the indirect effects on the capital requirement deriving from the shocks on risk factors on which the Standard Formula depends in relation to operational risks (premiums, technical provisions, Gross Basic SCR and expenses related to unit-linked products).
The risk is well managed, as the Group performs analyses to check, mitigate and monitor operational risks.

C.6 Other material risks

Besides the above risks, the Group identified a number of additional risks which are measured through the Standard Formula.

Reputational risk

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

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

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

Strategic risk

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

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

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

The Group's strategic risk is monitored by Risk Management in keeping with the model defined by Poste Italiane for identifying, assessing, addressing and monitoring the Group's strategic risks. This is done through a coordinated set of principles, rules, procedures, methodologies, tools and organisational structures the introduce into company operations safeguards capable of checking effectively and efficiently risks identified as strategic, generating in the meantime constant reporting to support decision-making processes. In particular, Risk Management, with support from Poste Italiane Group's Risk Management, coordinates the risk owners in the risk assessment phase, to identify the Group's main reputational and strategic risks and to evaluate their relevance.

In addition, regarding the mitigants of strategic risk, the Risk Management function is involved in the strategic planning and budgeting process with the objective to evaluate ex ante the potential impacts in terms of capital adequacy of the main strategic plan assumptions.
March 2018 saw the formalisation and approval of the Risk Appetite Framework by the Board of Directors, which calls for the definition of risk appetite objectives, risk tolerance thresholds and risk capacity limits consistent with the strategic plan, allowing the Company's governance bodies to perform effective and constant monitoring over the effective risk vis-à-vis expected risk.

Non-compliance risk

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

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

Concentration risk

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

Risks related to being part of the Group

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

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

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

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

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

Risk related to intangible assets

This is the risk deriving from unexpected changes in value of the intangible assets. Intangible assets amount to €26 million and their value is quite stable over time. Accordingly, this risk is considered immaterial.

C.7 Other material risks

At 31 December 2017 there were no further information to be reported other than the above.

D – VALUATION FOR SOLVENCY PURPOSES

The valuation methodology adopted to prepare the Market Value Balance Sheet are consistent with article 75 of directive 2009/138/EC and the provisions of the Delegated Acts 2015/35 of 10 October 2014, particularly the provisions of article 9 of said delegated regulation, which contemplate the following:

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

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

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

Article 10(3) of the Regulation or alternative valuation methods in accordance with Article 10(5) of the Regulation.

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

The consolidated financial statements include the accounts of the parent company and the subsidiaries Poste Assicura and Poste Welfare Servizi Srl, which are wholly owned by Poste Vita and consolidated on a line-by-line basis.
In line-by-line consolidation, the carrying amount of equity investments has been eliminated against the corresponding equity portion while all the assets and liabilities, including contingent liabilities, of the subsidiaries are fully consolidated.
In particular, the criteria for the line-by-line consolidation of the subsidiaries are as follows:

- assets, liabilities, costs and revenue of the subsidiaries are fully consolidated, line by line;
- elimination of costs, revenue, receivables and payables arising from intercompany transactions.

The Parent Company holds a non-controlling interest in Europa Gestioni Immobiliari S.p.A., which is accounted for with the equity method.

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

(€000)	**Solvency II value**	**Consolidated IAS/IFRS**
Assets		
Goodwill	0	17.823
Deferred acquisition costs	0	61.785
Intangible assets	0	25.539
Deferred tax assets	716.818	12.906
Property, plant & equipment held for own use	8.794	8.794
Investments (other than assets held for index-linked and unit-linked contracts)	**122.159.737,476**	**122.159.737,476**
Holdings in related undertakings, including participations	106.768	106.768
Equities	18.277	18.277
Equities - listed	*17.980*	*17.980*
Equities - unlisted	*297*	*297*
Bonds	99.198.580	99.198.580
Government Bonds	*81.414.839*	*81.414.839*
Corporate Bonds	*17.141.859*	*17.141.859*
Structured notes	*567.200*	*567.200*
Collateralised securities	*74.683*	*74.683*
Collective Investment Undertakings	22.836.113	22.836.113
Derivatives		
Assets held for index-linked and unit-linked contracts	3.537.182	3.537.182
Reinsurance recoverables from:	**18.181**	**71.243**
Non-life and health similar to non-life	32.051	34.903
Non-life excluding health	*18.827*	-
Health similar to non-life	*13.225*	*34.903*
Life and health similar to life, excluding health and index-linked and unit-linked	-13.871	36.340
Health similar to life	*-21.152*	0
Life excluding health and index-linked and unit-linked	*7.282*	*36.340*
Insurance and intermediaries receivables	44.880	44.880
Reinsurance receivables	3.601	3.601
Receivables (trade, not insurance)	9.927	9.927
Cash and cash equivalents	908.338	908.338
Any other assets, not elsewhere shown	2.170.775	2.170.775
TOTAL ASSETS	**129.578.234**	**129.032.532**

Liabilities		
Technical provisions - non-life	**116.447**	**160.005**
Technical provisions - non-life (excluding health)	**50.505**	**0**
Best estimate	*45.747*	*0*
Risk margin	*4.758*	*0*
Technical provisions - health (similar to non-life)	**65.942**	**0**
Best estimate	*59.148*	*0*
Risk margin	*6.794*	*0*
TP - life (excluding index-linked and unit-linked)	**113.712.660**	**119.960.326**
Technical provisions - health (similar to life)	**-21.712**	**0**
Best estimate	-29.124	0
Risk margin	*7.412*	*0*
TP - life (excluding health and index-linked and unit-linked)	**113.734.372**	**0**
Best estimate	*112.617.664*	*0*
Risk margin	*1.116.708*	*0*
TP - index-linked and unit-linked	**3.657.602**	**3.530.093**
Best estimate	*3.631.786*	*0*
Risk margin	*25.816*	*0*
Contingent liabilities	11.393	11.393
Pension benefit obligations	3.627	3.627
Deferred tax liabilities	2.756.730	202.182
Debts owed to credit institutions	10	10
Insurance & intermediaries payables	144.235	144.235
Reinsurance payables	2.587	2.587
Payables (trade, not insurance)	51.393	51.393
Subordinated liabilities	**1.054.425**	**1.011.675**
Subordinated liabilities not in BOF	*13.600*	*11.675*
Subordinated liabilities in BOF	*1.040.825*	*1.000.000*
Any other liabilities, not elsewhere shown	585.712	585.675
TOTAL LIABILITIES	**122.096.822**	**125.663.201**
Excess of assets over liabilities	**7.481.412**	**3.369.331**

D.1 Assets

The following notes describe, for the main assets, the amount calculated according to the Solvency II methodology and that calculated with the amount reported in the IAS/IFRS Consolidated Financial Statements.

Goodwill

The Group reported goodwill in the amount of €17,823 thousand, an amount representing the difference of the cost incurred to acquire 100% of Poste Welfare Servizi on 4 November 2015 and the fair value of the reported assets and liabilities (as of the date of acquisition).
For Solvency II purposes, in accordance with article 12 of the Delegated Acts, this item has a zero amount.

Intangible assets and deferred acquisition costs (dac)

The Group reported in its consolidated balance sheet intangible assets for €25,539 thousand, reflecting mainly unamortized long-term software programme licenses and capitalised costs incurred for software still under development at year-end.
Deferred acquisition costs (DAC) amount to €61,785 thousand at the end of the period (€60,789 at 31 December 2016). They include €61,750 thousand in unamortised deferred management fees attributable to individual pension plans (*FIP - Forme Individuali di Previdenza*) and €35 thousand in unamortised fees paid in advance to Poste Italiane on sales of non-life policies.

For Solvency II purposes, in keeping with article 12 of the Delegated Regulation, these components have been valued at zero, as there is no possibility for a separate sale of these assets or a reference for a market value for similar assets.

Participations (€106,768 thousand)

This item refers solely to the equity interest in Europa Gestioni Immobiliare SpA (EGI) – primarily a real estate company, 45% owned by the Group and tasked with the management and development of the Parent's properties no longer used in operations. In addition, following the merger of Posta Energia with and into it, in 2015 the company started operating in the electric energy market as a specifically licensed "wholesale" buyer, thus continuing with the activities that the acquired company performed to meet the Poste Italiane Group's energy requirements.
For Solvency II purposes, the investment in EGI SpA reflects the IAS/IFRS equity amount, which is considered adequate for non-insurance investments in light of Solvency II principles.

Financial assets (€125,590.152 thousand)

Financial assets have been recognised at their fair value by reference to prices quoted in active markets, where available, at the end of the period; where no active market was available, fair value was determined with alternative methods.
The table below shows the composition of financial assets at 31 December 2017:

(€000)

Financial investments	31 December 2017	31 December 2016	Change
Equities	18,277	15,775	2,502
Governmet Bonds	81,414,839	73,293,592	8,121,247
Corporate Bonds	17,141,859	19,114,961	-1,973,102
Structured Bonds	567,200	551,323	15,877
Collateralised securities	74,683	74,202	481
Collective investment undertakings	22,836,113	15,508,562	7,327,551
Assets held for index - linked and unit-linked contracts	3,537,182	6,973,752	-3,436,570
Total	**125,590,152**	**115,532,168**	**10,057,984**

Equity instruments, totalling €18,277 thousand, include €17,980 thousand in listed shares related to Class I products linked to separately managed accounts.
Government bonds, amounting to €81,414,839, refer mainly to fixed-income instruments issued by European governments, of which about 97% by the Italian State.
Corporate bonds, in the amount of €17,141,859 thousand, relate mainly to fixed income instruments issued by prime European companies.
Structured bonds, amounting to €567,200 thousand at the end of the period, are used solely to cover Index-Linked products
Collateralised securities, totalling €74,683 thousand, refer to a zero-coupon bond maturing on 10 February 2020 secured by government bonds and financial assets maturing on the same date.
The year just ended continued to see the gradual investment diversification process, through the simultaneous increase of investments in mutual funds (for a total of €22,836,113 thousand at the end of 2017, representing 18.2% of the total portfolio, compared to 13.4% at the end of 2016), particularly open harmonised multi-asset UCITS. Moreover, in line with the strategic asset allocation, investments continued to be made in property funds (targeting retail and office properties), mainly in Europe.
The financial instruments purchased to match index-linked and unit-linked policies are measured on the last trading day of the year and amount to €3,537,182 thousand. The return on these investments is linked to particular market indices.

Receivables from policyholders and agents (€44,880 thousand)

This item reflects mainly amounts due from policyholders for uncollected premiums, from agents and from insurance companies. Receivables are recognised at fair value and are subsequently measured at their realisable value[10]. At the end of 2017 this item amounts to €44,880 thousand and consists of:

- amounts due from policyholders for premiums for this and the previous year, for a total of €6.087 thousand at the end of the period and paid in the early months of 2018;

[10] All the receivables in question are due within 12 months.

- amounts due from agents for €38,524 thousand at 31 December 2017, relating to premiums that even though they had been collected by the agents, were paid to the Poste Vita Insurance Group in the early days of January 2018;
- receivables from co-insurance agreements, amounting to €270 thousand, relate to the co-insurance agreement with Eurizon Vita SpA. These are amounts owed by this company to Poste Vita in its capacity as lead agent for products placed before 30 September 2004.

Deferred tax assets (€716,818 thousand)
Deferred tax assets are equal to the sum of the deferred tax assets reported in the Market Value Balance Sheet (Solvency II) of Poste Vita and the subsidiaries Poste Assicura and Poste Welfare Servizi.
These amounts result from the measurement difference between assets and liabilities for Solvency II purposes and the corresponding amounts calculated according to Italian GAAP, by applying the tax rates in force as of 31 December 2017. Accordingly, based on the valuation methodology laid down in the Solvency II regulation, deferred tax assets amount to a total of €716,818 thousand.
Among the main components, attention is called to the deferred tax assets recognised following elimination of intangible assets and deferred acquisition costs for €32,407 thousand.

Cash and cash equivalents (€908,338 thousand)
This item reflects short-term bank and post office deposits, as well as cash and revenue stamps on hand, recognised at their nominal value. The year-end amount of €908,338 thousand is allocated among bank deposits, current post office accounts, cash and cash equivalents.

Difference between the valuation method under Solvency II and that under IAS/IFRS
The table below summarises the valuation methods adopted for Solvency II purposes and those for consolidated reporting purposes:

Significant asset categories	Solvency II valuation method	IAS/IFRS measurement method
Intangible Assets and deferred acquisition costs	Eliminated and not recognised	This item includes: Deferred acquisition costs, related to the acquisition of certain insurance contracts. As provided for by IFRS 4, these costs are accounted for in accordance with local GAAP. Goodwill arising from the difference between the cost of all the shares outstanding of Poste Welfare Servizi, purchased on 4 November 2015, and the fair value of the assets and liabiities recognised on the acquisition date. • Software amortised in 3 years • Set-up and expansion costs amortised in 5 years.
Participations	IAS/IFRS equity method	Equity method as per IAS 28
Financial Investments	Fair Value	Financial assets are measured and recognised in accordance with IAS 39
Deferred tax assets	Deferred tax assets are equal to the sum of the deferred tax assets reported in the Market Value Balance Sheet (Solvency II) of Poste Vita and the subsidiaries Poste Assicura and Poste Welfare Servizi. These amounts result from the measurement difference between assets and liabilities for Solvency II purposes and the corresponding amounts calculated according to local GAAP, based on applicable tax rates.	Deferred tax assets are recognised on the basis of deductible temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases.
Insurance and intermediaries receivables	Receivables are recognised at fair value and subsequently are measured at their expected realisable value.	Receivables are recognised at fair value and subsequently are measured at their expected realisable value.
Cash and cash equivalents	These items are recognised at their nominal value.	These items are recognised at their nominal value.

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

(€000)

Significant asset categories	Solvency II value	IAS/IFRS value	Change
Goodwill		17,823	-17,823
Deferred Acquisition Costs		61,785	-61,785
Intangible Assets		25,539	-25,539
Partecipations	106,768	106,768	0
Financial Investments	125,590,152	125,590,152	0
Deferred tax assets	716,818	12,906	703,912
Insurance and intermediaries receivables	44,880	44,880	0
Cash and cash equivalents	908,338	908,338	0

D.2 Technical provisions

The table below summarises the technical provisions after reinsurance cessions of the Poste Vita Group at 31 December 2017:

(€000)

Net Technical provisions	Life business	Non-life business	Total
Best Estimates Liabilities	116,220,326	104,896	116,325,222
Risk margin	1,149,936	11,552	1,161,488
Recoverables	-13,871	32,051	18,181
Total	**117,384,133**	**84,396**	**117,468,529**

Technical provisions are measured according to article 77 of the Solvency II Directive, whereby the value of the technical provisions is equal to the sum of a best estimate and a risk margin. Regarding the **life business**, at 31 December 2017 the value of the technical provisions by line of business and by component is as follows:

(€000)

Line of Business	BEL	Risk margin	Recoverables
Insurance with profit participation	112,628,028	1,092,519	
Index-linked and unit-linked insurance	3,631,786	25,816	
Other life insurance	-10,364	24,189	7,282
Health insurance (direct business)	-29,124	7,412	-21,152
Total	**116,220,327**	**1,149,936**	**-13,870**

Technical provisions are calculated for nearly the entire portfolio with an ALM (Asset Liability Management) approach. Best estimated include provisions for sums to be paid as of 31 December 2017.

Compared to the valuation at 31 December 2016, after updating the assumptions underlying calculations, the change in methodology related to the age at expiration of individual pension plans (PIP), set at 67 years, to align with the applicable regulations, and the introduction of costs in percentage terms of expected future premiums on contracts in force.
The best estimate of the liabilities is obtained the probability-weighted average of future cash-flows, taking account of the time value of money (expected present value of future cash-flows), using the risk-free interest rate term structure at 31 December 2017, as observed in the market and announced officially by EIOPA.
The calculation of the best estimate can take place through deterministic or stochastic approaches, depending on the characteristics of the liability portfolios.
In particular:

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

To calculate the best estimate of the Company’s obligations, the model was configured by line of business, each with its own assets and liabilities.
Projections are handled at the level of single funds. For separately managed accounts, in particular, in an ALM framework, consideration is taken of the dynamic interaction existing between assets and liabilities, such as management changes, the return on investments are calculated, all management actions are evaluated and al investment strategies are simulated.
Regarding the management actions, the Company did not take any action that would change its asset allocation, preferring instead a constant asset allocation.
Financial assumptions are parametrized in keeping with asset allocation criteria defined and agreed upon at Company level.

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

Regarding the liability portfolio, for the purposes of a proper valuation, as per articles 17 and 18 of Commission Delegated Regulation (EU) 2015/35, all the obligations within the boundaries of the contract have been recognised and all the extinguished, fulfilled and expired obligations were cancelled.

In the best estimate valuation, consideration was given to all the obligation of the existing portfolio, especially those arising from single premium policies, annual premiums, recurring single premiums as well as additional premiums and single-year insurance coverage until expiration.

In the configuration of the model, variables are parametrized on the bases of assumptions that might represent in the best way their future pattern.

In the cash flow projections, as defined in article 28 of the delegated regulation (EU) 2015/35, cash outflows include all the benefits and expenses arising from the contract through the definition of assumptions that determine their future value.

In particular, three types of assumption can be defined:

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

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

Demographic assumptions

Process of identification of death probability distribution by sex and age, for the different sub-portfolios and line of product:

- The mortality rate by age is the ratio of the number of observed deaths to the average number of those exposed to the risk, as identified with the average duration method.
- The final probabilities are calculated by weighting the mortality curves observed in the different years, as smoother by the moving average of ages.
- Lastly, the result is represented through an appropriate discount on the census mortality rate of reference for the product,

Financial assumptions

Investment returns and technical provisions are calculated in accordance with the applicable regulations (Delegated Regulation 2015/35 of 10 October 2014 as subsequently amended).

In particular, for the projections of the financial instruments in accordance with risk neutrality principles, use is made of the risk-free interest rate term structure with application of volatility adjustment, as published monthly by the EIOPA.

In calibrating the models to generate stochastic scenarios, the targeted volatility is the market volatility at the date of valuation of every asset considered:

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

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

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

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

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

The scenarios include modelling the indices necessary to value asset classes/investment funds whose aim is to generate a specific estimated target volatility for each such investment or for homogeneous investment cluster.
The curves of the nominal rates utilised in the generation process at the valuation date are the same as those provided by EIOPA. These curves include the following corrections: credit risk adjustment and volatility adjustment.
Furthermore, the curves undergo a Smith-Wilson interpolation and extrapolation process that includes a level of ultimate forward rate (4.20%) where the scenario converges, with some leeway, in the period between the last rate considered liquid (20 years) and 60 years.
The level of inflation at the valuation date is obtained from information providers and coincides with the EUSWI curve.
The volatility surface used to calibrate the rate model is included in the calibration provided by a prime rating agency.
This calibration comes with accompanying documentation, which contains market volatility levels (implied volatility of swaptions) and the goodness of fit obtained from the models used.
As such, the goodness of fit of volatility ensures the consistency between the starting curve, provided by EIOPA, and the market volatility used to produce the scenario.
The projection model for equities is calibrated on the implied volatility of the EUROSTOXX50.
The scenarios produced then undergo validation tests distributed by the supplier before being used as inputs in the ALM model, so that the risk neutrality of such inputs and the consistency with the valuation model are verified.

<u>Non-financial assumptions</u>

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

b. Process to determine the frequency of partial surrenders:
    - The phenomenon is observed by policy age since issue and for different lines of product;
    - For every policy generation month and for every payment month, partial surrenders are calculated as the ration of partial surrenders to the number of policies exposed to the risk at the start of the period for every policy generation month;
    - The single frequencies are aggregated by policy year, so as to constitute a double entry matrix, with issue years on the rows and policy age since issue on the columns;
    - Starting from the matrix of the annual rates, aggregating with respect to columns yields the vector of the partial surrender rates by policy age since issue;
    - Aggregation is carried out through weighted averages which place greater weight on complete and more recent observations;
    - The average amount of insured capital requested with the partial surrenders by line of product is calculated as the ratio of average partial surrender to the average insured capital in the same observation period;
    - The average amount of capital obtained as per above is applied, in relation to the distinct lines of product, to each partial surrender frequency, so as to obtain the (percentage) share of insured capital shed, by policy age since issue, due to partial surrenders.

c. Process to determine the frequency of renewals for single recurring premium products:
    - The average premiums paid by policyholders are determined – by month in which the policy takes effect and by policy age since issue – as the sum of the premiums paid for each monthly generation and the number of policies in portfolio, relating to that generation and still in force at that policy age;

- Raw renewal rates are determined as the ratio of successive average premiums to adjacent; these are then aggregated in terms of consecutive annual policy rates and weighted by the generation numbers;
- The final vector is the result of mechanical smoothing or is driven by expert judgment.

d. Process to determine the amounts of additional policies:

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

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

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

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

- At the initial stage, when accounts are prepared, the analytical recognition of costs to be allocated to the macro-categories related to the technical accounts and the financial accounts:
    1. Other acquisition costs (Acquisition);
    2. Investment management costs (Finance);
    3. Claim expenses (Payments);
    4. Other administrative expenses (Administration);
    5. Other expenses (financial accounts);
- In the following phase costs are allocated through specific technical indicators by business-product (product macro-lines) to estimate average policy costs by line and by policy age since issue (acquisition costs -> for the issue year/management expenses -> for subsequent years).
- To estimate average policy costs at 31 December 2017, the starting point was the running costs incurred in 2017 after recoveries for seconded staff and intercompany services.

  Moreover, in determining average policy costs account was taken of so-called non-recurring costs and the amortisation period for capitalised costs (relating mainly to the implementation and/or evolutionary maintenance of company software) was revised in view of the expected useful life of the software (approximately 5 years).

The Company considered also, in the cash flow projection phase, investment management expenses and, for the first time, expenses related to the expected future premium of the existing portfolio at the valuation date.

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

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

The Company considered the possibility to introduce into the BEL calculation the application of dynamic surrenders through a study aimed at identifying a functional relation between historical surrender trends and a spread between a benchmark return and the return on separately managed accounts. The results of this exercise did not bring to light the need to include in the BEL calculation dynamic surrenders or any other type of customer behaviour. The application of dynamic surrenders showed an immaterial impact on the BEL.

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

With the stochastic approach the liability portfolio is projected in view of a set of properly generated economic scenarios, starting from the risk-free yield curve prevailing on the valuation date under volatility assumptions, as determined in keeping with market conditions on such date.
The nominal rate curves utilised in the generation process at the valuation date are those provided by EIOPA and reflect a credit risk adjustment and a volatility adjustment.
The volatility adjustment applied at 31 December 2017 is 4 bps.

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

(€000)

Line of Business	TP (with VA)	TP (no VA)	difference
Insurance with profit participation	113,720,547	113,877,321	-156,774
Index-linked and unit-linked insurance	3,657,602	3,658,045	-443
Other life insurance	13,825	13,796	29
Health insurance (direct business)	-21,712	-21,631	-80

The valuation model projects cash flows with a runoff approach, that is until all liabilities are extinguished over a time horizon assumed to be 40 years. For the best estimate to take account of the contracts still in force at the last projection date, a terminal value is included in the exercise (Present value of the total reserve at the end of the projection period is zero).
For every setoff results produced, the market consistency if the cash flow (assets and liabilities) is validated through the Leakage and Martingale tests, after calibrating the assets at the initial market value in keeping with the risk-neutral interest rate term structure, assuming the absence of arbitrage opportunities.
The cash flows are considered without deducting the amounts recoverable from reinsurance treaties. This amount is calculated outside the model and is equal to the present value of the difference between cash inflows and cash outflows of the items covered by the reinsurance treaty.
The recoverable reinsurance amounts are subsequently adjusted for the probability of default of the reinsurance counterparty.

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

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

where:

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

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

(€000)

Line of Business	Recoverables
Insurance with profit participation	-
Index-linked and unit-linked insurance	-
Other life insurance	7,282
Health insurance (direct business)	- 21,152

In the process to implement and estimate the parameters of the model, account is taken of the materiality of errors that any approximations might entail.
The main sources of uncertainty in determining the BEL are summarised in the following notes.

Process uncertainty related to cash flows: A certain level of uncertainty may be associated with the parameters, assumptions, calculation model and financial instruments used to calculate technical provisions that try to replicate future cash inflows and outflows and, in particular, their timing. The calculation platform assumes that premium collections take place early in the month, claim and surrender outflows take place at mid-month and that expirations occur at the end of the month.
As non-economic assumptions (mortality, surrenders and expenses) are determined on time series, they do not always reflect the actual portfolio patterns and may differ from those observed empirically.

Uncertainties related to the approximations adopted: The calculation model features simplifications where the Company's management regarded the modeling of certain components as costly and immaterial:

- Model Point: the optimal set of the Model points is determined in view of the trade-offs between the accuracy of aggregations and the numerosity of the Model Points, which determines the processing time of the calculation engine. Furthermore, the goodness of the aggregations is compared with the deterministic results by single policy to check result variances.
- Modelling certain financial assets – e.g. callable bonds - is often very complex, owing to approximations which are considered substantial.

Model uncertainty: The Company values technical provisions with a stochastic approach, through the simulation of scenarios with the Monte Carlo method. The model's market consistency is verified through the leakage and martingale tests, which give a measure of the goodness of the non-convergence of scenarios.

Uncertainty related to historical data: The database for the calculation of the estimators necessary for actuarial projections is not always sufficient to calculate estimators of maximum likelihood. The valuation of technical provisions requires the collection, classification and grouping of qualitative and, particularly, quantitative information. To build robust estimators it is necessary to have available solid time series but the time series available to the Company are not always adequate. In these cases, parameters are modeled with estimators considered consistent with the Company's business characteristics.

The principles of the Solvency II regulation to value technical provisions for solvency purposes require the use of technical bases and actuarial methods different from those uses to prepare financial statements on the bases of local GAAP.
The table below shows the value of Technical Provisions calculated with both valuation methods.

(€000)

	SII value	Local GAAP value	difference
Technical provisions	117,370,262	115,265,368	2,104,894

The differences are due to different methodological approaches in relation to the assumptions adopted for the calculation and the risks considered:

a. Under local GAAP reporting technical reserves are calculated with traditional actuarial methodologies (retrospective method) and with first-order technical bases (life tables, interest rate, market value of the assets underlying class III policies, etc.), as defined when pure premium rates are quantified. In addition, Italian regulations permit the recognition of additional provisions, including the additional reserves to cover financial and underwriting risks;
b. The Solvency II regulation requires the valuation of technical reserves at market value. Consequently, to forecast future cash flows, underlying the valuation of the best estimate (BEL), use is made of realistic and market consistent (financial and otherwise) available at the time of valuation. In addition, consideration is given to possible policyholder behaviours, such as propensity to surrender, discontinuation or premium payments.

The difference between the technical provisions reported in local GAAP financial statements and the Solvency II BEL does reflect the present value of future profits and the attribution to policyholders of the unrealised gains/losses for with-profit products, of which account is taken in Solvency II.

Risk margin

The Group's risk margin is the sum of the risk margins of the single Companies, as per article 77 of the Solvency II Directive.
At 31 December 2017, in line with last year, use was made of a simplified methodology to calculate the risk margin of the Group's single Companies, as provided for by paragraph 2,

article 60 of IVASS Regulation no. 18/2016. In particular, after ensuring that the assumptions concerning the business's risk profile might be considered unchanged over time, the Group selected the hierarchy 2 method proposed by the above-mentioned Regulation. The Group thinks that this method, based on the runoff of bonds less reinsurance, reflects in a proportionate manner the nature, size and complexity of the underlying risks and the commitments made by the company of reference.

The table below shows the Group's risk margin:

(€000)

	31 December 2016	31 December 2017	difference
Risk Margin	463,448	1,161,488	151%

The increase in the risk margin is due to:

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

The table below shows the value of the technical provisions relating to the **non-life business**, including the amount of the best estimate and the risk margin.

(€000)

	31 December 2017					
Line of Business	Premium provisions	Claims provisions	Risk margin	TP - total	Recoverable from reinsurance	TP minus recoverables from reinsurance
1 Medical expenses	(797)	10,086	1,666	10,955	1,215	9,740
2 Income protection	12,281	37,578	5,128	54,988	12,010	42,977
3 Workers' compensation	0	0	0	0	0	0
7 Fire and other damage	(878)	7,536	657	7,316	3,451	3,865
8 General Liab	(644)	14,895	1,500	15,751	5,757	9,994
10 Legal expenses	(159)	1,376	89	1,305	1,061	244
11 Assistance	49	191	18	257	159	99
12 Miscellaneous	18,128	5,253	2,494	25,876	8,399	17,477
Total	27,980	76,916	11,552	116,447	32,051	84,396

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

For solvency purposes technical provisions are determined in accordance with Chapter III (Rules relating to technical provisions) of Delegated Regulation (EU) 2015/35 as transposed into Chapter II (Calculation of technical provisions) of Legislative Decree 209/2005 as updated,

for the solvency themes, by Legislative Decree 74/2015 and as supplemented by IVASS Regulation no. 18 of 15 March 2016.
The value of technical provisions (TP) corresponds to the amount that an insurance or reinsurance undertaking should have paid if it had transferred immediately its contractual rights and obligations to another company. The value of technical reserves is the sum of the Best Estimate Liabilities (BEL) of premium provision, claim provision and risk margin (RM).

Best Estimate Premium Provision

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

Best Estimate Claims Provision

The best estimate claim provision was calculated starting from the time series of claim provisions and payments made by the competent offices. This information is monitored through the implementation of statistical analyses and accompanies by statistical and actuarial assessments.
Before performing any actuarial valuation, the company prepares a number of reports that include claim indicators. These indicators are observed on a monthly basis and checked against the comparable year-earlier indicators.
The analysis of the changes in the indicators over time is used to identify claim trends, with reference in particular to the changes in the costs of each generation and their trend over time.
For Solvency II valuation purposes, the following statistical and actuarial methods have been implemented:

- Paid Loss Development Method
- Incurred Loss Development Method

No statistical and actuarial methods were applied to the lines of business that, at the valuation date, showed a claim provision inclusive of reinsurance lower than €1 million. In this case the best estimate claims provision has been obtained starting from the provision calculated with local GAAP at the valuation date, as broken down and discounted to present value. Assistance was the only line of business that underwent this simplified valuation process.
Estimated future cash flows were discounted at the rate provided by EIOPA without volatility adjustment.

Risk Margin

The Company's risk margin at 31 December 2017 was calculated with the simplified hierarchy 2 method, as provided for by Annex 4 to IVASS Regulation no. 18/2016. The hierarchy 1 method was considered too onerous and complex, as it was excessive in relation to the objective of reflecting in a proportionate manner the nature, size and complexity of the risks underlying the commitments made.

Method 2 determines the projected solvency capital requirement of the Reference Undertaking, in the different future years, in proportion to the best estimate technical provisions in each future year after the valuation date.

Also, in light of the proportionality principle for the calculation method of the technical provisions under article 56 of the Delegated Acts, the Company thought that this methodology, based on the runoff of the obligations less reinsurance, is such as to best represent the nature, size and complexity of the underlying risks.

Below, the conclusions are shown of the assessments performed to test the analyses and to demonstrate the unchanged risk profile of the Company over time:

- underwriting risk is the predominant component of solvency risk;
- market risk is not substantial;
- according to the standard formula, operational risk is mainly a function of underwriting variables (technical provisions, premiums, basic solvency capital requirements) and, in the valuations performed, turned out to be a function of just technical provisions;
- counterparty risk, which is totally marginal, is also mainly a function of variables of a technical nature (recoveries of technical provisions attributable to reinsurers in case of default);
- there are no negative values in the best estimate technical provisions at the valuation date or on any subsequent date.

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

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

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

Best Estimate Premium Provision

- Accounting standards on Provisions for premium fractions: Decrease of Provisions for premium fraction on the bases of the underwriting result (Loss Ratio);
- Profit from future premiums: Underwriting profit deducted from expected future premiums considered on the bases of the methodology defined for the best estimate premium provision;

- Premium reimbursements: Provisions for premium fractions returned to the policyholders following early surrender;
- Expenses on provisions for premium fractions: Future operating expenses paid out of the Provisions for premium fractions on the bases of the methodology defined for the best estimate premium provision;
- Expenses on future premiums: Future operating expenses paid out of expected future premiums on the bases of the methodology defined for the best estimate premium provision;
- Investment expenses: Expenses incurred in connection with investments;
- Discount effect: Discounting to present value required by regulations.

Best Estimate Claims Provision

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

Amounts recoverable from reinsurance contracts

On the reinsurance side there are no significant differences between the assumptions used for Solvency II purposes and those used for financial reporting purposes.
It is noted that the valuations for solvency purposes do not consider recoveries for non-proportional treaties and income flowing to the Company from profit participations on Medical expense insurance (Assistance), Legal expenses insurance and Assistance risks.
There are no significant changes in the reinsurance assumptions compared to the previous reference period.
Below, the main simplifications used in calculating the main provisions ceded are outlined:

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

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

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

where:

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

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

The table below provides the details of recoverables from reinsurers for the best estimate premium provision.

(€000)

Line of business	Best Estimate Premium Provision Gross of Reins.	Best Estimate Premium Provision Net of Reins.	Recoverables with Adjustment
1 Medical expenses	-797	-830	33
2 Income protection	12,281	7,340	4,941
3 Workers' compensation	0	0	0
7 Fire and other damage	-878	-811	-67
8 General Liability	-644	-643	-1
10 Legal Expenses	-159	-186	27
11 Assistance	49	24	25
12 Miscellaneous	18,128	12,065	6,063
Total	**27,980**	**16,958**	**11,023**

Total post-adjustment recoverables from reinsurers, relating to the best estimate premium provision, amount to €11,023 thousand. The best estimate premium provision, net of reinsurance, amounts to €16,958 thousand, reflecting a 39% decrease from the gross estimate.

The recoverables obtained are consistent with the assumptions adopted in the projected best estimate gross of reinsurance and the reinsurance strategy in place in 2017. The table below provides details of the recoveries from reinsurers for the best estimate claim provision:

(€000)

Line of business	Best Estimate Claims Provision Gross of Reins.	Best Estimate Claims Provision Net of Reins.	Recoverables with Adjustment
1 Medical expenses	10,086	8,904	1,182
2 Income protection	37,578	30,509	7,069
3 Workers' compensation	0	0	0
7 Fire and other damage	7,536	4,019	3,517
8 General Liability	14,895	9,137	5,758
10 Legal Expenses	1,376	342	1,034
11 Assistance	191	57	134
12 Miscellaneous	5,253	2,918	2,335
Total	**76,916**	**55,887**	**21,029**

Total post-adjustment recoverables, related to the best estimate claim provision, amount to €21,029 thousand. The best estimate claim provision net of reinsurance is €55,887 thousand, reflecting a 27% from the gross estimate. The recoverables obtained are consistent with the reinsurance strategy in place in 2017.

D.3 Other liabilities

Below, the amounts of the most significant liabilities as of 31 December 2017 are shown as calculated in accordance with Solvency II criteria and as reported in the IAS/IFRS consolidated financial statements.

Subordinated loans, amounting to €1,054,425 thousand, regard:

- €795,026 thousand relating to the market value of a subordinated bond issued by the Parent Company in May 2014, including accrued interest on the bonds and the issue discount;
- €259,399 thousand relating to the market value of a subordinated loan obtained by Poste Vita from its Parent Company, Poste Italiane, including accrued interest (and entered into at arm's length).

Contingent liabilities (€11,393 thousand)

Contingent liabilities are recognised in view of losses and expenses of a specific nature that are certain or likely but whose amount and/or date of occurrence, however, cannot be determined.

This item includes liabilities defined and provided for by IAS 37 and are determined as prescribed by this standard.
Provisions are recognised as soon as an obligation arises for the Insurance Group as a result of a past event and it is likely that the Group will be asked to fulfil it.
Contingent liabilities at 31 December 2017 amount to €11,393 thousand.

Pension benefit obligations (€3,627 thousand)
This item reflects the amount due to employees on termination of employment which, on 31 December 2017, totalled €3,627 thousand. This amount has been calculated in accordance with IAS 19.

Deferred tax liabilities (€2,756,730 thousand)
Deferred tax liabilities are equal to the sum of the amounts reported in the Market Value Balance Sheet (Solvency II) of the Parent Company, Poste Vita, and its subsidiaries, Poste Assicura and Poste Welfare Servizi Srl. These amounts have been calculated – with reference to the different valuation methods of assets and liabilities adopted for Solvency II purposes and for reporting purposes under local GAAP – by applying the tax rates at 31 December 2017.

Difference between the valuation methods adopted for Solvency II purposes and those adopted to prepare the consolidated financial statements in accordance with IAS/IFRS
The table below summarises the different criteria adopted to calculate liabilities for Solvency II purposes and for financial reporting purposes:

Lialiblities	Solvency II valuation method	IAS/IFRS valuation method
Contingent liabilities	Significant liabilities are measured pursuant to IAS 37 – Provisions, Contingent Liabilities and Contingent Assets	Significant liabilities are measured pursuant to IAS 37 – Provisions, Contingent Liabilities and Contingent Assets
Pension benefit obligations	Amount calculated according to IAS 19	Amount calculated according to IAS 19
Deferred tax liabilities	Deferred tax liabilities are equal to the sum of the amounts reported in the Market Value Balance Sheet (Solvency II) of the Parent Company, Poste Vita, and its subsidiaries, Poste Assicura and PW. These amounts have been calculated – with reference to the different valuation methods of assets and liabilities adopted for Solvency II purposes and for reporting purposes under local GAAP – on the bases of the applicable tax rates.	Deferred tax liabilities are recognised on the bases of deductible temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases.
Subordinated liabilities	These are recognised at their fair value, including accrued interest	These are recognised at their amortised cost, including accrued interest.

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

(€000)

Lialiblities	Solvency II value	IAS/IFRS value	Change
Contingent liabilities	11,393	11,393	0
Pension benefit obligations	3,627	3,627	0
Deferred tax liabilities	2,756,730	202,182	2,554,548
Subordinated liabilities	1,054,425	1,011,675	42,750

D.4 Alternative measurement methods

This information is not provided as at 31 December 2017 the Insurance Group did not utilise any measurement methods as an alternative to those described.

D.5 Any other disclosures

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

E – CAPITAL MANAGEMENT

E.1 Own funds

The Group's own funds comprise solely basic own funds, as the Company has no ancillary own funds[11].
Basic own funds reflect the excess of assets over liabilities, valued in accordance with article 75 of directive 2009/138/EC. Poste Vita does not hold any treasury shares.
The Group's own funds correspond to the equity reported in the Market Value Balance Sheet of Poste Vita S.p.A., as the equity of Poste Assicura and Poste Welfare Servizi (wholly-owned subsidiaries consolidated on a line-by-line bases) have been eliminated against the relevant equity investments.
Basic own funds of the Poste Vita Group amount overall to €8,522,237 thousand and are comprised of:

- Share capital for €1,216,608 thousand, under local GAAP;
- Reconciliation Reserve for €6,264,804 thousand;
- Subordinated loans for €1,040,825 thousand.

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

BASIC own funds	TOTAL	TIER 1 - unrestricted	TIER 2
Ordinary share capital (gross of own shares)	1,216,608	1,216,608	
Share premium account related to ordinary share capital			
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings			
Subordinated mutual members accounts			
Surplus funds			
Preferences Shares			
Share premium account related to preference shares			
Reconciliation reserve	6,264,804	6,264,804	
Subordinated liabilities	1,040,825		1,040,825
An amount equal to the value of net deferred tax assets			
Other Items approvede by supervisory authority as basic own funds not specified above			
Total available own funds to meet the SCR	8,522,237	7,481,412	1,040,825

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

Own funds of the Poste Vita Insurance Group are fully eligible for SCR coverage as they comply with the provisions of article 82 of the Delegated Regulation, particularly Tier 1 and Tier 2. Accordingly, as shown in the table below, own funds available to meet the SCR and the MCR amount to €8,522,237 thousand; at 31 December 2017, own funds eligible to meet the SCR and the MCR amounted to €8,522,237 thousand and €7,759737 thousand, respectively.

(€000)

BASIC own funds -Tier	Total	Tier 1 - unrestricted	Tier 2
Total available own funds to meet the SCR	8,522,237	7,481,412	1,040,825
Total available own funds to meet the MCR	8,522,237	7,481,412	1,040,825
Total eligible own funds to meet the SCR	8,522,237	7,481,412	1,040,825
Total eligible own funds to meet the MCR	7,759,737	7,481,412	278,325

Regarding the foregoing, and considering that the4 SCR and the MCR amount to €3,050,385 thousand and €1,371,624 thousand, the SCR ratio at the end of 2017 was 279.38% while the MCR ratio was 557.60%.

(€000)

Coverage Ratio	Total
SCR	3,050,385
MCR	1,391,624
Ratio of Eligible own funds to SCR	279.38%
Ratio of Eligible own funds to MCR	557.60%

Differences between equity and own funds of the Poste Vita Group

The difference between consolidated equity under IAS/IFRS and own funds under Solvency II of the Poste Vita Group is summarised as follows:

(€000)

Available Funds	Amount
Ordinary share capital (gross of own shares) **(A)**	1,216,608
Retained earnings - Reconciliation Reserve **(B)**	2,152,723
IAS/IFRS equity	**3,369,331**
Reconciliation reserve base **(C)**	4,112,081
Excess of Asset over Liabilities (A+B+C)	**7,481,412**
Subordinated liabilities **(D)**	1,040,825
Total basic own funds (A+B+C+D)	**8,522,237**
Forseeable dividends and distributions - Tier 1	

The difference between consolidated equity under IAS/IFRS and excess assets over liabilities under Solvency II amounts to €4,112,081 and constitutes the basic reconciliation reserve.
This reserve reflects the effect of the different measurements performed with IAS/IFRS, on one side, and Solvency II rules, on the other.
The table below provides details of the reconciliation reserve, through the analytical reconstruction pf the valuation effects determined by the application of Solvency II principles on the assets and liabilities of the Market Value Balance Sheet.

(€000)

Adjustment	Amount
Assets	
Deferred acquisition costs	-61,785
Intangible assets	-43,363
Investments	0
Reinsurance recoverables	-53,062
Deferred tax assets	703,912
Other	0
Total Adjustment Assets	**545,702**
Liabilities	
Technical provisions	-6,163,714
Deferred tax liabilities	2,554,548
Subordinated liabilities	42,750
Other	36
Total Adjustment Liabilities	**-3,566,379**
Reconciliation Reserve base	4,112,081
Retained earnings - Reconciliation Reserve	2,152,723
Total Reconciliation reserve	**6,264,804**

Moreover, as indicated previously in paragraph B.1, at the General Meeting of 20 December 2017, the Shareholders of Poste Vita S.p.A. approved the distribution, to the sole shareholder, Poste Italiane, of dividends in the amount of €470 million out of retained earnings. No further dividend distributions have been resolved. Moreover, in February 2018, the Parent Company's Board of Directors approved the 2018-2022 plan, outlining the commercial, financial and operational strategies aimed at pursuing medium- and long-term profitability objectives, in keeping with the shareholder's risk profile and the customer target.

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

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

	(€m)
Riconciliation Own Funds at 31 December 2017	
Own Funds Statutory Account Value Poste Vita	**2,906**
Intangible assets	(78)
Partecipations	34
Financial investments	8,856
Net technical provisions	(2,155)
Subordinated liabilities	(43)
Net deferred tax assets	(2,038)
Other	(0.0)
Own Funds SII Value Poste Vita	**7,481**
Partecipations	(134)
Financial investments	233
Net technical provisions	(84)
Net deferred tax assets	(6)
Other	(9)
Own Funds SII Value Poste Vita Group	**7,481**
Intangible assets	105
Net technical provisions	(6,111)
Net deferred tax assets	1,851
Subordinated liabilities	43
Other	0
Own Funds IAS/IFRS Value Poste Vita Group	**3,369**

As can be seen from the above statement, the lower amount of consolidated Own Funds under IAS/IFRS of the Poste Vita Group, vis-à-vis the comparable amount calculated for Solvency II purposes, is mainly due to technical provisions for €6,111 million. In fact, in the IAS/IFRS consolidated financial statements, the portion of available-for-sale financial assets attributable to policyholders are allocated to insurance liabilities through the application of shadow accounting [12].

Changes in own funds for the period

At 31 December 2017 the Poste Vita Group's own funds amounted to €8,522,237 thousand, reflecting an increase of €459,279 thousand on the comparable opening balance for the year. The changes in the period are due mainly to: i) profit for the period of €546,193 thousand; ii) the distribution of dividends to Poste Italiane for a total of €470,000, pursuant to the shareholder resolution dated 20 December 2017; and iii) the increase of the reconciliation reserve for €369,506 thousand.

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

(€000)

Own funds	Solvency II value 2017	Solvency II value 2016	change
Ordinary share capital (gross of own shares)	1,216,608	1,216,608	-
Retained earnings and net profit/(loss) for period	2,152,723	2,085,344	67,379
Reconciliation Reserve base	4,112,081	3,742,576	369,506
Subordinated liabilities	1,040,825	1,018,430	22,395
Total	**8,522,237**	**8,062,958**	**459,279**

E.2 Solvency capital requirement and minimum capital requirement

The Group calculates its capital requirement in accordance with method 1 in article 230 of Directive 2009/138/EC.
The table below shows the composition of the Poste Vita Group's consolidated SCR for the years ended 31 December 2016 and 2017, as calculated with the standard formula, in keeping with directive 2009/138/EC and with the criteria laid down by the Delegated Acts. Each risk module is considered net of the adjustments for the ability of technical provisions to absorb losses for €2,8707 million.
It is noted that the Group does not use simplified calculations to determine any risk sub-module.

(€/thousand)

Composition SCR	31 December 2016	31 December 2017	% change
Market risk	2,351,535	2,270,212	-3%
Counterparty default risk	140,208	202,901	45%
Life underwriting risk	978,603	1,654,481	69%
Health underwriting risk	43,912	49,699	13%
Non-life underwriting risk	25,690	27,599	7%
Diversification	-710,868	-987,557	39%
Intangible asset risk	0	0	-
Basic Solvency Capital Requirement	**2,829,080**	**3,217,334**	**14%**
Total capital requirement for operational risk	780,256	796,329	2%
Loss-absorbing capacity of deferred taxes	-866,241	-963,278	11%
Solvency capital requirement	**2,743,095**	**3,050,385**	**11%**

Compared to the previous year, at 31 December 2017:

- the requirement to face market risks decreased due to a de-risking activity and to interest rate trends;
- the requirement to face life underwriting risks rose;
- a counterparty's capital increase.

The current risk distribution generates greater diversification benefits compared to December 2016.

The table below provides details of the SCR Market Risk and the SCR Underwriting Risk (life, non-life, illness) at 31 December 2017. Each risk sub-module is considered net of the adjustment for the ability of technical provisions to absorb losses.

(€/thousand)

Composition SCR Market	31 December 2016	31 December 2017	% change
Interest rate risk	418,267	577,744	38%
Equity risk	345,712	519,257	50%
Property risk	52,780	84,461	60%
Spread risk	1,767,466	1,341,171	-24%
Market risk concentrations	53,499	0	-100%
Currency risk	115,455	260,953	126%
Diversification within market risk module	-401,644	-513,375	28%
Total market risk	**2,351,535**	**2,270,212**	**-3%**

The capital requirement for market risk decreases due to the investment policy adopted by the Group, involving in particular the de-risking activities on multi-asset funds carried out in the first half of 2017 and portfolio diversification.
This resulted in:

- a lower spread risk;
- greater diversification benefits among sub-modules.

(€/thousand)

Composition SCR Life underwriting	31 December 2016	31 December 2017	% change
Mortality risk	26,007	61,700	137%
Longevity risk	45,921	49,251	7%
Disability-morbidity risk	0	0	-
Lapse risk	883,020	1,540,200	74%
Life expense risk	138,879	169,426	22%
Revision risk	0	0	-
Life catastrophe risk	15,860	25,676	62%
Diversification within life underwriting risk module	-131,084	-191,770	46%
Total life underwriting risk	**978,603**	**1,654,481**	**69%**

The SCR for life underwriting risk rose mainly as a result of the higher requirement necessary to face a lapse risk determined by the decrease in unrealised gains determined by market conditions.

(€/thousand)

Composition SCR Non-Life underwriting	31 December 2016	31 December 2017	% change
Non-life premium and reserve risk	20,386	23,298	14%
Non-Life lapse risk	4,010	4,788	19%
Non-life catastrophe risk	10,850	9,338	-14%
Diversification within non - life underwriting risk module	-9,556	-9,825	3%
Total non-life underwriting risk	**25,690**	**27,599**	**7%**

(€/thousand)

Composition SCR Health underwriting risk	31 December 2016	31 December 2017	% change
Total SLT health underwriting risk	6,221	11,144	79%
Total NSLT health underwriting risk	37,275	37,335	0%
Total health catastrophe risk	8,784	14,009	59%
Diversification within health underwriting risk module	-8,369	-12,789	53%
Total health underwriting risk	**43,912**	**49,699**	**13%**

The consolidated risk sub-module with the greatest diversification effect is market risk; however, diversification had effects also on the health module. The other consolidated modules include counterparty risk and operational risk.

For details of the capital absorptions of Poste Vita and Poste Assicura, reference is made to the corresponding Company reports.

The Group determines its minimum capital requirement (MCR) as the sum of the MCRs of the single Group insurance companies (Poste Vita and Poste Assicura), as per article 248 of the Delegated Acts.

The Group's MCR, which at 31 December 2017 amounts to €1,392 million, is determined in accordance with article 248 of the Delegated Acts.

(€/thousand)

MCR	31 December 2016	31 December 2017	% change
Minimum consolidated Group SCR	1,250,265	1,391,624	11%

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

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

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

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

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

At 31 December 2017 this exercise was not applicable to the Group.

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

At 31 December 2017 this exercise was not applicable to the Group.

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

At 31 December 2017 this exercise was not applicable to the Group.

E.6 Any other disclosures

At 31 December 2017 there were no disclosures other than the above.

F – ANNEXES

Regarding article 4 of Implementing Regulation 2015/2452, the Group's quantitative reporting templates listed below are shown as of 31 December 2017 and with amounts in thousands of euros.

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

S.02.01.02 - Balance Sheet

	Solvency II value
Assets	
Intangible assets	
Deferred tax assets	716.818
Pension benefit surplus	
Property, plant & equipment held for own use	8.794
Investments (other than assets held for index-linked and unit-linked contracts)	**122.159.737**
Property (other than for own use)	
Holdings in related undertakings, including participations	106.768
Equities	*18.277*
Equities - listed	17.980
Equities - unlisted	297
Bonds	*99.198.580*
Government Bonds	81.414.839
Corporate Bonds	17.141.859
Structured notes	567.200
Collateralised securities	74.683
Collective Investments Undertakings	22.836.113
Derivatives	
Deposits other than cash equivalents	
Other investments	
Assets held for index-linked and unit-linked contracts	3.537.182
Loans and mortgages	
Loans on policies	
Loans and mortgages to individuals	
Other loans and mortgages	
Reinsurance recoverables from:	**18.181**
Non-life and health similar to non-life	32.051
Non-life excluding health	18.827
Health similar to non-life	13.225
Life and health similar to life, excluding health and index-linked and unit-linked	**-13.871**
Health similar to life	-21.152
Life excluding health and index-linked and unit-linked	7.282
Life index-linked and unit-linked	
Deposits to cedants	
Insurance and intermediaries receivables	44.880
Reinsurance receivables	3.601
Receivables (trade, not insurance)	9.927
Own shares (held directly)	
Amounts due in respect of own fund items or initial fund called up but not yet paid in	
Cash and cash equivalents	908.338
Any other assets, not elsewhere shown	2.170.775
Total assets	**129.578.234**

Liabilities	
Technical provisions - non-life	116.447
Technical provisions - non-life (excluding health)	50.505
TP calculated as a whole	
Best estimate	45.747
Risk margin	4.758
Technical provisions - health (similar to non-life)	65.942
TP calculated as a whole	
Best estimate	59.148
Risk margin	6.794
TP - life (excluding index-linked and unit-linked)	**113.712.660**
Technical provisions - health (similar to life)	**-21.712**
TP calculated as a whole	
Best estimate	-29.124
Risk margin	7.412
TP - life (excluding health and index-linked and unit-linked)	**113.734.372**
TP calculated as a whole	
Best estimate	112.617.664
Risk margin	1.116.708
TP - index-linked and unit-linked	**3.657.602**
TP calculated as a whole	
Best estimate	3.631.786
Risk margin	25.816
Contingent liabilities	11.393
Provisions other than technical provisions	0
Pension benefit obligations	3.627
Deposits from reinsurers	
Deferred tax liabilities	2.756.730
Derivatives	
Debts owed to credit institutions	10
Financial liabilities other than debts owed to credit institutions	
Insurance & intermediaries payables	144.235
Reinsurance payables	2.587
Payables (trade, not insurance)	51.393
Subordinated liabilities	**1.054.425**
Subordinated liabilities not in BOF	13.600
Subordinated liabilities in BOF	1.040.825
Any other liabilities, not elsewhere shown	585.712
Total liabilities	**122.096.822**

Excess of assets over liabilities	**7.481.412**

S.05.01.02 - Premiums, claims and expenses by line of business

	Medical expense insurance	Income protection insurance	Workers' compensation	Fire and other damage to property insurance	General liability insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Total
Premiums written									
Gross - Direct Business	26.725	70.130	0	12.778	16.253	2.826	494	12.043	141.250
Gross - Proportional reinsurance accepted									0
Gross - Non-proportional reinsurance									0
Reinsurers' share	10.852	8.132	0	5.269	5.169	1.815	305	2.754	34.297
Net	15.873	61.998	0	7.509	11.084	1.012	188	9.289	106.952
Premiums earned									
Gross - Direct Business	26.020	60.227	0	12.331	15.933	2.800	512	13.141	130.966
Gross - Proportional reinsurance accepted									0
Gross - Non-proportional reinsurance									0
Reinsurers' share	10.938	7.119	0	5.202	5.212	1.825	299	1.733	32.329
Net	15.083	53.107	0	7.129	10.722	975	213	11.408	98.637
Claims incurred									
Gross - Direct Business	4.218	17.751		166	2.353	281	85	3.956	28.809
Gross - Proportional reinsurance accepted									0
Gross - Non-proportional reinsurance									0
Reinsurers' share	976	3.488		-144	277	74	47	1.931	6.648
Net	3.242	14.263		310	2.077	207	38	2.024	22.161
Changes in other technical provisions									
Gross - Direct Business		42		-58					-15
Gross - Proportional reinsurance accepted									0
Gross - Non-proportional reinsurance									0
Reinsurers' share				-23					-23
Net		42		-35					8
Expenses incurred	4.445	25.230	0	1.967	4.261	181	-59	4.483	40.507
Other expenses									
Total expenses									40.507

	Line of Business for: life insurance obligations				
	Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Total
Premiums written					
Gross	16.800	19.657.213	537.221	52.128	**20.263.362**
Reinsurers' share	7.243			12.508	**19.751**
Net	**9.558**	**19.657.213**	**537.221**	**39.620**	**20.243.612**
Premiums earned					
Gross	16.800	19.657.213	537.221	52.128	**20.263.362**
Reinsurers' share	7.243	0	0	12.508	**19.751**
Net	**9.558**	**19.657.213**	**537.221**	**39.620**	**20.243.612**
Claims incurred					
Gross	-824	6.810.132	4.005.466	15.749	**10.830.523**
Reinsurers' share	169	0	0	7.844	**8.013**
Net	**-993**	**6.810.132**	**4.005.466**	**7.905**	**10.822.510**
Changes in other technical provisions					
Gross	-17.006	-14.665.444	3.360.033	-11.987	**-11.334.404**
Reinsurers' share	2.834	0	0	1.390	**4.224**
Net	**-19.839**	**-14.665.444**	**3.360.033**	**-13.377**	**-11.338.627**
Expenses incurred	**377**	**458.707**	**95.586**	**-360**	**554.311**
Other expenses					
Total expenses					**554.311**

S.22.01.22 - Impact of long term guarantees measures and transitionals

	Amount with Long Term Guarantee measures and transitionals	Impact of transitional on technical provisions	Impact of transitional on interest rate	Impact of volatility adjustment set to zero	Impact of matching adjustment set to zero
Technical provisions	117.486.710	0		40.820	
Basic own funds	8.522.237	0		-108.798	
Eligible own funds to meet Solvency Capital Requirement	8.522.237	0		-108.798	
Solvency Capital Requirement	3.050.385	0		14.023	

S.23.01.22 - Own funds

	Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
Basic own funds before deduction for participations in other financial sector					
Ordinary share capital (gross of own shares)	**1.216.608**	1.216.608			
Non-available called but not paid in ordinary share capital at group level					
Share premium account related to ordinary share capital					
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings					
Subordinated mutual member accounts					
Non-available subordinated mutual member accounts at group level					
Surplus funds					
Non-available surplus funds at group level					
Preference shares					
Non-available preference shares at group level					
Share premium account related to preference shares					
Non-available share premium account related to preference shares at group level					
Reconciliation reserve	**6.264.804**	6.264.804			
Subordinated liabilities	**1.040.825**			1.040.825	
Non-available subordinated liabilities at group level					
An amount equal to the value of net deferred tax assets					
The amount equal to the value of net deferred tax assets not available at the group level					
Other items approved by supervisory authority as basic own funds not specified above					
Non available own funds related to other own funds items approved by supervisory authority					
Minority interests (if not reported as part of a specific own fund item)					
Non-available minority interests at group level					
Own funds from the financial statements that shall not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds					
Own funds from the financial statements that shall not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds					
Deductions					
Deductions for participations in other financial undertakings, including non-regulated undertakings carrying out financial activities					
whereof deducted according to art 228 of the Directive 2009/138/EC					
Deductions for participations where there is non-availability of information (Article 229)					
Deduction for participations included by using D&A when a combination of methods is used					
Total of non-available own fund items					
Total deductions					
Total basic own funds after deductions	**8.522.237**	**7.481.412**		**1.040.825**	

Ancillary own funds					
Unpaid and uncalled ordinary share capital callable on demand					
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand					
Unpaid and uncalled preference shares callable on demand					
A legally binding commitment to subscribe and pay for subordinated liabilities on demand					
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC					
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC					
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC					
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC					
Non available ancillary own funds at group level					
Total ancillary own funds					

	Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
Total available own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)	**8.522.237**	7.481.412		1.040.825	
Total available own funds to meet the minimum consolidated group SCR	**8.522.237**	7.481.412		1.040.825	
Total eligible own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)	**8.522.237**	7.481.412		1.040.825	
Total eligible own funds to meet the minimum consolidated group SCR	**7.759.737**	7.481.412		278.325	
Minimum consolidated Group SCR	**1.391.624**				
Ratio of Eligible own funds to Minimum Consolidated Group SCR	**557,60%**				
Total eligible own funds to meet the group SCR (including own funds from other financial sector and from the undertakings included via D&A)	**8.522.237**	7.481.412			
Group SCR	**3.050.385**				
Ratio of Eligible own funds to group SCR including other financial sectors and the undertakings included via D&A	**279,38%**				

Reconciliation reserve		
Excess of assets over liabilities	**7.481.412**	
Own shares (included as assets on the balance sheet)		
Foreseeable dividends, distributions and charges		
Other basic own fund items	**1.216.608**	
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds		
Other non available own funds		
Reconciliation reserve before deduction for participations in other financial sector	**6.264.804**	

Expected profits		
Expected profits included in future premiums (EPIFP) - Life Business	1.001.594	
Expected profits included in future premiums (EPIFP) - Non- life business	11.760	
Total Expected profits included in future premiums (EPIFP)	**1.013.354**	

S.25.01.22 - Solvency Capital Requirement - for undertakings on Standard Formula

	Gross solvency capital requirement	USP	Simplifications
Market risk	5.485.296		
Counterparty default risk	202.901		
Life underwriting risk	1.285.550		
Health underwriting risk	49.699		
Non-life underwriting risk	27.599		
Diversification	-1.030.014		
Intangible asset risk	0		
Basic Solvency Capital Requirement	**6.021.031**		

Calculation of Solvency Capital Requirement

Operational risk	796.329
Loss-absorbing capacity of technical provisions	-2.803.697
Loss-absorbing capacity of deferred taxes	-963.278
2003/41/EC	
Solvency capital requirement excluding capital add-on	3.050.385
Capital add-on already set	
Solvency capital requirement	3.050.385
Other information on SCR	
Capital requirement for duration-based equity risk sub-module	
Total amount of Notional Solvency Capital Requirements for remaining part	
Total amount of Notional Solvency Capital Requirements for ring fenced funds	
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	
Diversification effects due to RFF nSCR aggregation for article 304	
Minimum consolidated group solvency capital requirement	1.391.624
Information on other entities	
Capital requirement for other financial sectors (Non-insurance capital requirements)	
Credit institutions, investment firms and financial institutions, alternative investment	
Institutions for occupational retirement provisions	
Capital requirement for other financial sectors (Non-insurance capital requirements) - Capital requirement for non- regulated entities carrying out financial activities	
Capital requirement for non-controlled participation requirements	
Capital requirement for residual undertakings	
Overall SCR	
SCR for undertakings included via D and A	
Solvency capital requirement	3.050.385

S.32.01.22 - Undertakings in the scope of the group

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

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