CONSOLIDATED ANNUAL REPORT 2018

CONTENTS

BOARD OF DIRECTORS[1]

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

GENERAL MANAGER	Maurizio Cappiello

BOARD OF STATUTORY AUDITORS [1]

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

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

SUPERVISORY BOARD(2)

Chairman	Francesco Alfonso
Member	Franco Cornacchia
Member	Marianna Calise

INDEPENDENT AUDITORS(3)	BDO Italia SpA

INTERNAL AUDIT AND RELATED PARTY TRANSACTIONS COMMITTEE(4)

Chairman	Vladimiro Ceci
Member	Maria Cristina Vismara
Member	Gianluigi Baccolini

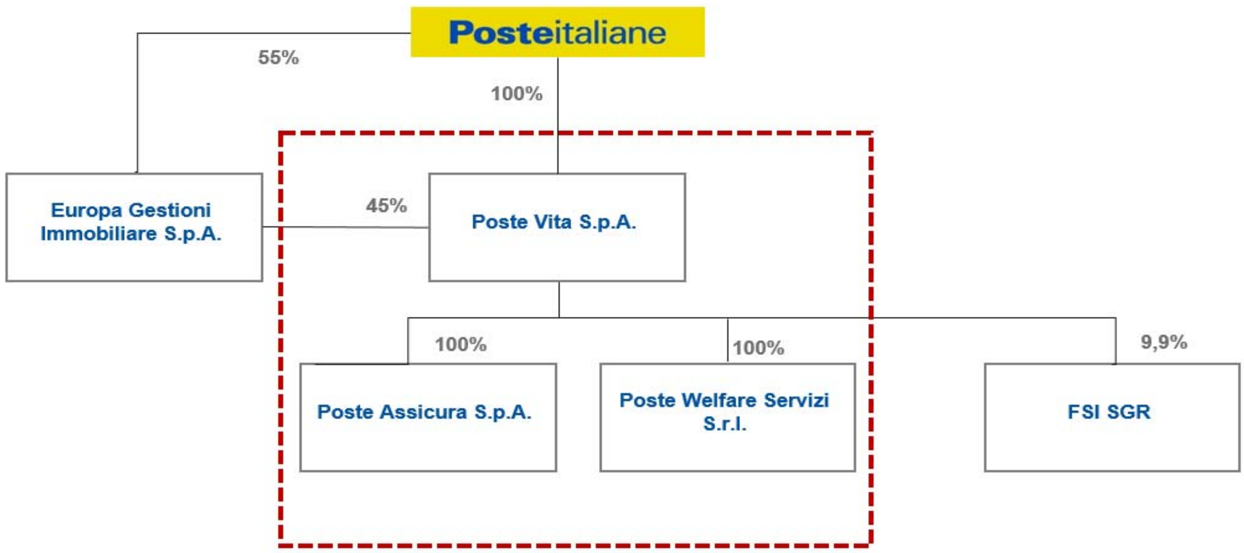
REMUNERATION COMMITTEE(4)

Chairwoman	Maria Guida Nola
Member	Maria Cristina Vismara
Member	Gianluigi Baccolini

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

Group structure

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



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

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

In addition, in the fourth quarter of 2016, the Parent Company, Poste Vita, acquired a 9.9% interest in FSI SGR from Cassa Depositi e Prestiti. The Company does not exercise either *de iure* or *de facto* control, whether on an individual or joint basis, or as a connected party with CDP and/or other shareholders of FSI SGR. This investment is measured at fair value through profit or loss.

EXECUTIVE SUMMARY

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Key performance indicators

A summary of the principal KPIs is shown below:

(€m)

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

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

*** including cash**

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

ECONOMIC AND MARKET ENVIRONMENT

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

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

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

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

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

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

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

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

Financial market trends

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

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

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

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

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

Life insurance market

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

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

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

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

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

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

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

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

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

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

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

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

Non-life insurance market

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

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

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

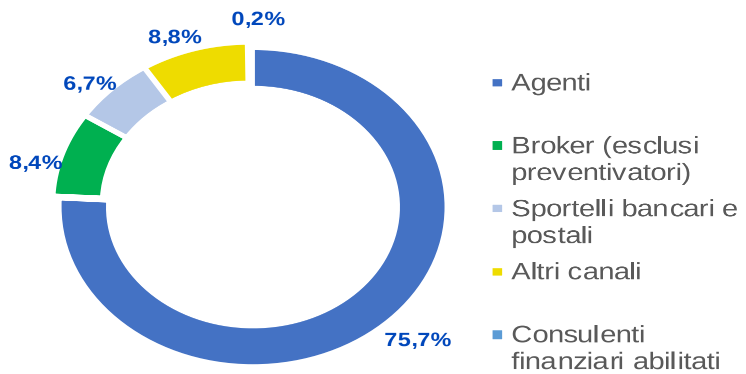
PREMI PORTAFOGLIO DIRETTO AL III TRIMESTRE 2018
Valori in milioni di euro

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

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

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

Distribuzione Premi portafoglio diretto Danni per canale distributivo (*)



Fonte: ANIA - dati aggiornati a settembre 2018

(*) Imprese italiane e reppresentanze imprese extra-UE

OPERATING REVIEW

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

(€m)

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

Life business

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

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

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

(€m)

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

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

(€m)

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

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

(€m)

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

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

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

Non-life business

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

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

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

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

(€m)

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

The following table shows the distribution of gross Non-life premium revenue by line of business, showing: i) the pre-eminence of Accident insurance, accounting for 40%; ii) growth of approximately 82% in Medical insurance compared with 2017, after the above-mentioned increase in revenue generated by the Employee Benefits business; and iii) growth in financial loss policies due, as noted previously, to an increase in revenue from payment protection insurance.

(€m)

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

Payments and change in technical provisions

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

(€m)

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

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

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

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

(€m)

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

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

(€m)

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

Technical provisions

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

(€m)

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

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

Deferred Policyholder Liability (DPL) provisions, amounting to €2,006.7 million at the end of 2018, are down compared with the beginning of the year (€8,225.0 million). This reflects a reduction in the fair value of the financial instruments covering the insurance liabilities linked to separately managed accounts, as a result of the less positive performance of financial markets compared with the end of the previous year.

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

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

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

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

Distribution

The Poste Vita Group distributes its products through the post offices of the parent, Poste Italiane SpA – BancoPosta RFC, duly registered under letter D in the single register of insurance intermediaries as per ISVAP Regulation 5 of 16 October 2006. The sales network consists of around 13,000 post offices throughout the country. Insurance contracts are signed in the post offices by qualified and suitably trained personnel. Training activity for personnel in charge of product sales is conducted according to regulatory guidelines. Professional training programmes focused both on new products and on general technical-insurance aspects (classroom or eLearning). These courses were accompanied by training in asset management (specific behavioural training), savings protection and training in provision of the guided consultancy service.

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

Reinsurance strategy

Life business

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

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

Non-life business

Briefly, the reinsurance structure applied in 2018 is based on the following:

- retention of 100% of gross premium revenue in the Accident class for retail products, with reference to new business, in addition to the adoption of excess-of-loss treaties for personal (Accident) insurance due to risk and/or event to protect against large losses. Quota share treaties continue to be valid in relation to the principal risks insured prior to 2013. These arrangements provide risk attaching coverage, with 50% of any losses covered. In this latter case, the excess-of-loss treaty for Accident policies covers the retained share;
- retention of 50% of the risk exposure for retail Medical products. The reinsurance strategy, applicable to all the risks attaching to new business, is in the form of a quota share treaty, with retrocession of a flat commission and on a loss occurring basis. The risks underlying policies in run-off, given that they are on a risk attaching basis, continue to be covered in the form of a quota share treaty with the ceded percentage based on pure premiums;
- retention of 75% of the risk exposure for property and liability products (Fire, Other Damage to Property, General Liability excluding professional liability and Financial Loss not deriving from Credit Protection products). The reinsurance treaty (Bouquet, Multi-line) is a proportional treaty with the ceded percentage based on commercial premiums and coverage of the retained share provided by excess-of-loss treaties per risk and/or event to protect against large losses. For catastrophe risk alone (e.g. earthquake), the proportional treaty is based on pure premiums. Professional Liability Insurance is covered solely by a quota share treaty where 90% of the risk is ceded with retrocession of a flat commission;
- retention of 100% of the risk exposure for new Credit Protection Insurance (CPI) business. For the risks linked to runoff credit protection policies (prior to 2018), the reinsurance policy continues in the form of a quota share treaty with a ceded percentage of 50%. The cession rate continues to be based on pure premiums, providing risk attaching coverage;
- retention of 65% of the risks associated with Assistance policies. The reinsurance structure has a quota share basis, with retrocession of a flat commission and profit sharing on a loss occurring basis;
- retention of 50% of the risk exposure for Legal Expenses policies. The reinsurance structure has a quota share basis, with retrocession of a flat commission and profit sharing on a loss occurring basis*;*
- adoption of a treaty covering the main standard collective, closed-group corporate accident policies. This reinsurance structure has a loss occurring basis and is based on a quota share treaty with commercial premiums, with a cession rate of 50% and sliding-scale reinsurance commissions depending on the loss ratio. A non-proportional excess-of-loss treaty covers the retained share, extended to cover all Class 1 corporate policies, including non-standard ones;

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

In view of the above reinsurance strategy and the operating performance, the degree of retained risk, in relation to the company's remaining exposure to claims following cessions to reinsurers, is equal to 69% (79% in the same period of 2017).

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

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

Complaints

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

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

FINANCIAL POSITION

Financial investments

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

(€m)

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

Investments of €107.0 million refer to the shareholding in the associate, EGI, which is accounted for using the equity method. The company, which is owned by Poste Vita SpA and Poste Italiane SpA with 45% and 55% equity interests, respectively, operates primarily in real estate and is tasked with the management and development of the parent's non-operating properties.

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

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

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

(€m)

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

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

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

(€m)

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

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

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

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

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

(€m)

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

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

(€m)

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

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

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

(€m)

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

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

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

€m

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

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

€m

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

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

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

EQUITY AND SOLVENCY MARGIN

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

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

Equity

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

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

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

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

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

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

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

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

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

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

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

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

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

OPERATING RESULTS

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

Life business

RECLASSIFIED INCOME STATEMENT

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

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

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

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

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

As a result of the above operating performance and the corresponding revaluation of insurance liabilities due to the positive financial performance, the matching **change in technical provisions for the life business**, after the portion ceded to reinsurers, amounts to €6,221.0 million at the end of 2018, compared with €11,496.3 million in 2017.

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

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

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

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

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

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

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

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

€m

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

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

Non-life business

RECLASSIFIED INCOME STATEMENT *(€m)*

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

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

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

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

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

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

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

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

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

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

ORGANISATION OF THE POSTE VITA GROUP

Corporate governance

This paragraph also represents the Report on Corporate Governance required by art. 123-*bis* of Legislative Decree 58/1998 (the Consolidated Law on Finance), as for as it extends to information required under paragraph 2, sub-paragraph b.

The governance model adopted by the Parent Company, Poste Vita, is "traditional", i.e. characterized by the traditional dichotomy between the Board of Directors and the Board of Statutory Auditors.

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

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

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

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

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

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

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

An Internal Audit and Related Party Transactions Committee has also been set up, with the role of assisting the Board of Directors in determining internal control system guidelines, in assessing the system's adequacy and effective functionality, and in identifying and managing the principal business risks.

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

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

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

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

Internal control system

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

- line controls, carried out during operational processes managed by individual operating units (this also includes hierarchical controls and controls "embedded" in procedures); the system of proxies and of powers of attorney; the operating units therefore represent a "first line of defence" and are responsible for effectively and efficiently managing the risks that fall within their purview.

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

The Board of Directors and senior management also participate in the above system, having been included in the model as a result of the role assigned to them by IVASS Regulation 38 with regard to determination, implementation, maintenance and monitoring of the corporate governance system. In particular:

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

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

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

Regarding the organisation of control functions, controls for the subsidiary, Poste Assicura, are conducted on a centralised basis by the Parent Company, Poste Vita.

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

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

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

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

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

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

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

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

IVASS Regulation 38

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

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

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

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

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

Organizational structure and personnel

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

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

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

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

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

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

RELATIONS WITH THE PARENT AND OTHER POSTE ITALIANE GROUP COMPANIES

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

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

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

Furthermore, at 31 December 2018, subordinated loan notes, totalling €250 million, issued by the Company, have been subscribed for by the parent. The notes provide a market rate of return reflecting the Company's creditworthiness. In November 2018, the Company entered into a refinancing agreement with the parent, Poste Italiane, for inclusion in its AOFs (ancillary own funds), formalised with Poste Italiane's signature of a Commitment Letter with a five-year term, committing the parent to subscribe for ordinary shares to be issued in future by Poste Vita.

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

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

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

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

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

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

OTHER INFORMATION

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

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

Related party transactions

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

At 31 December 2018, the Poste Vita Group holds bonds issued by Cassa Depositi e Prestiti with a total fair value of €1,653.5 million, acquired under market conditions. In addition, during the fourth quarter of 2016, the Parent Company, Poste Vita, acquired a 9.9% interest in FSI SGR from Cassa Depositi e Prestiti. The Company does not exercise either *de iure* or *de facto* control, whether on an individual or joint basis, or as a connected party with CDP and/or other shareholders of FSI SGR.

Research and development activities

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

Legal disputes

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

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

There has been an ongoing increase in the number of bankruptcy proceedings involving employers who have failed to make voluntary and mandatory payments of contributions (for *TFR*, or post-employment benefits) for members of the *PostaPrevidenza Valore* individual pension plan. The proceedings have been brought by the Parent Company, Poste Vita, in order to recover the amounts due, whilst covering the related expenses.

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

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

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

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

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

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

Principal proceedings pending and relations with the authorities

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

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

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

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

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

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

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

Tax disputes

In 2009, the Regional Tax Office for Large Taxpayers (*Agenzia delle Entrate - Direzione Regionale del Lazio - Ufficio Grandi Contribuenti*) notified the Parent Company, Poste Vita SpA, of an alleged violation of the VAT regulations in the 2004 tax year, resulting in fines of approximately €2.3 million for the alleged failure to pay VAT on invoices for service commissions. The Company appealed the above findings before the Provincial Tax Tribunal of Rome within the statutory deadline. In December 2010 and September 2011, the tax authorities sent notices of two further small fines for the same violation in fiscal years 2005 and 2006. These fines were also appealed. The Provincial Tax Tribunal of Rome has in every case found in the Company's favour, ruling that the tax authorities' allegations are without grounds. The tax authorities then appealed these rulings. The Regional Tax Tribunal of Rome has rejected all the appeals and confirmed the lack of grounds for the claims against Poste Vita. On 23 October 2015, the State Attorney's Office challenged the rulings regarding the disputes for 2004 and 2006 and summoned the Company to appear before the Court of Cassation. Counterclaims filed by Poste Vita before the Court of Cassation were served to the tax authorities on 3 December 2015 and subsequently entered in the Cassation's registry on 17 December 2015. Regarding, on the other hand, the disputes relating to 2005, the appeal before the Court of Cassation was notified to the company in November 2017. The counterclaim filed by Poste Vita was served to the tax authorities on 13 December 2017, and subsequently entered in the Cassation's registry on 29 December 2017. The likely outcome of this tax dispute continues to be taken into account in determining provisions for risks and charges.

Tax consolidation arrangement

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

Exemption from preparation of the Non-financial Statement

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

Regulatory developments

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

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

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

- On 19 February 2019, IVASS issued Regulation 43 – On 12 February 2019, IVASS published Regulation 43 concerning implementation of the provisions on the temporary suspension of capital losses on current securities, introduced by Law Decree 119 of 23 October 2018, converted into Law 136 of 17 December 2018. The measures introduced by this Decree provide for a temporary exemption from application of the norms contained in the Italian Civil Code. The exemption was introduced in response to turbulence in the financial markets during 2018. For the purposes of the preparation of Local GAAP financial statements for 2018, an entity that has elected to adopt the exemption measures its current securities on the basis of the carrying amount reported in its financial statements for 2017 or, in the case of securities not held at 31 December 2017, at cost, with the exception of permanent impairments.
- On 19 February 2019, IVASS issued Regulation 44 – This Regulation contains measures implementing Legislative Decree 231 of 21 November 2007, as amended by Legislative Decree 90 of 25 May 2017 implementing Directive (EU) 2015/849, concerning the organisation, procedures, internal controls and customer due diligence, and taking into account the Joint Guidelines of the European Supervisory Authorities on simplified and enhanced customer due diligence and the factors to be considered when assessing the money laundering and financing of terrorism risks associated with ongoing relationships and occasional transactions.
- On 14 February 2018, IVASS issued Ruling 68, containing amendments to ISVAP Regulation 38 of 3 June 2011, concerning the establishment and administration of separately managed accounts by life insurance undertakings pursuant to article 191, paragraph 1.e) of Legislative Decree 209 of 7 September 2005 – the private insurance code; amendments and additions to ISVAP Regulation 22 of 4 April 2008, concerning provisions and formats for the preparation of annual financial statements and half-year reports by insurance and reinsurance undertakings, as referred to in Title viii (financial statements and accounting records), Chapter i (general provisions on financial statements), Chapter ii (financial statements) and Chapter v (statutory audits of the accounts) in Legislative Decree 209 of 7 September 2005 – the private insurance code; containing amendments and additions to ISVAP Regulation 14 of 18 February 2008, concerning the definition of the procedures for the approval of changes to the articles of association and to the scheme of operations, for the authorisation of the portfolio transfers and mergers and demergers, as referred to in Chapter xiv of Legislative Decree 209 of 7 September 2005 – the Code.
- On 8 May 2018, IVASS issued Ruling 74, containing amendments to ISVAP Regulation 7 of 13 July 2007, concerning formats for the financial statements of insurance and reinsurance undertakings required to adopt international accounting standards, as referred to in Title viii (financial statements and accounting records), Chapter i (general provisions on financial statements), Chapter ii (financial statements), Chapter iii (consolidated financial statements) and Chapter v (statutory audits of the accounts) in Legislative Decree 209 of 7 September 2005 – the private insurance code, rendered necessary following the entry into effect of IFRS 9 (Financial instruments) which, from the financial statements for 2018, has replaced the previous IAS 39 (Financial Instruments).

New tax legislation

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

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

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

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

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

Accounting standards and interpretations soon to be effective

The following are applicable from 1 January 2019:

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

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

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

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

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

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

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

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

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

EVENTS AFTER 31 DECEMBER 2018

Composition of corporate bodies

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

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

The same Board of Directors' meeting also appointed:

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

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

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

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

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

Authorisation to use ancillary own funds

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

OUTLOOK

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

Rome, 29 March 2019

The Board of Directors